

Early Concept Document

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CONCEPT DOCUMENT



TEAM MEMBERS

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THE OPPORTUNITY

Startup entrepreneurs are forced in most circumstances to seek out assistance from unconventional sources when attempting to gain funding to launch their idea. These sources often include friends, relatives, and credit cards. Traditional sources of funding, such as banks and credit unions, shy away from extending help in the form of loans to this group due to the risk involved. This market, while risky, is severely underserved by traditional financial institutions. Once an idea has gained enough momentum, there is some chance of getting the attention of angel investors/venture capitalists, but that is the exception – not the rule. Getting at grant dollars is also cumbersome as it involves knowing where to find them and typically meeting certain criteria. All of those funding sources, while attractive and welcome, are not positioned to serve the entrepreneur throughout the lifecycle of their business. Credit unions are well positioned to do just that – not only due to the availability of business products and services, but also because, like them, credit unions are local organizations who understand the plight of the small business. Credit unions are based in their towns. Credit unions have a vested interest in seeing their respective communities succeed, which starts with the success of local businesses.

In listening to entrepreneurs extend advice to other entrepreneurs, it is also likely you'll hear discussion about their reliance on one another, because they won't get the help they need from a financial institution. Those that are able to "link up" rely on one another to propel each other's business forward because they can share expertise with one another. For example, an accountant looking to launch his business might not be the most tech-savvy, but when networked with a web designer who is clueless at reading financial statements, they can exchange services rather than money and mutually benefit from the relationship. Finding this network of entrepreneurs could be a significant key to the success of a new business.

THE SOLUTION

Getting funding to this group is a challenge due to the risk involved. To be able to fill the need, the risk must be mitigated in order for traditional lenders to be able to accommodate. Additionally, that initial injection of funds in and of itself will not sustain a business for long. Ongoing support should be found from within the bonds of a network. Our solution is CU@Soup – a subscription-based entrepreneurial incubator which culminates in an annual dinner event where grant dollars are awarded to one participant from within the incubator.

The incubator consists of a group of entrepreneurs who are able to make use of credit union resources, including, but not limited to office space and equipment, as well as business advice in the areas of accounting, technology, marketing and more. This group is not only able to call upon the credit union for help, but uses this opportunity to create bonds with other entrepreneurs to build their personal network and share resources.

The incubator is not offered as a free service to entrepreneurs. It is a subscription-based service that grants them access to these resources. The subscription fees are not for the purposes of being profit drivers to the credit union. These fees are actually serving to build a reserve so that the credit union may lend to an entrepreneur while simultaneously collecting insurance in the event of loan default, making it more secure and viable for credit unions to be able to extend business loans to this group. This insurance, combined with the incubator program, will serve as a strong foundational approach to building a successful business through a partnership between the credit union and the entrepreneur.

The dinner event would serve as a capstone to the incubator program, which would allow the most refined plans to be pitched in front of peers, potential investors, community grant organizations, and more who would be able to provide valuable feedback and potential capital to those presenting. Everyone in attendance at the event will pay a nominal fee for attendance and a meal at the event. One pitch will be selected as a

favorite by those in attendance. The winning pitch will win the entirety of the attendance fees for the evening, which will be pooled as a micro grant for the project.

TARGET MARKET

CU@Soup is primarily designed to give the start-up entrepreneur the opportunity to gain funding and traction on their idea or business venture. The target market is the newly unemployed, underemployed, and new start-ups that have a viable business opportunity and need funding and additional resources.

According to the SBA, over 50% of small businesses fail in the first five years. Reasons that contribute to failure are insufficient capital, poor inventory management, and over investments in fixed assets.

By incubating ideas with CU@Soup entrepreneurs will be given access to intangibles such as management and investment insight, technology and marketing advice, etc. Additionally, each entrepreneur will be able to gain valuable insight from a network of other entrepreneurs who are focused on the success of their business.

CONSUMER BENEFITS

- The opportunity for entrepreneurs to present their business idea to their community.
- Create a network of entrepreneurs which will allow them to gain insight on how to push their business forward.
- Allow the entrepreneurs the ability to incubate their ideas utilizing credit union resources for a nominal subscription fee.
- Access to funding those entrepreneurs may otherwise not receive through traditional channels such as banks.

CREDIT UNION BENEFITS

- Promote the successful contribution of resources to the community.
- Entrepreneurs with a viable business plan would be more apt to receiving a member business loan to further their business goals.
- The subscription fee would be used to offset potential losses against impaired loans.

PILOT RESULTS

The pilot, conducted on July 26, 2011, was completed by Christian Financial Credit Union in Roseville, Michigan. Christian Financial partnered with the city of Roseville's Economic Development Department as well as the Michigan Small Business & Technology Development Center (MI-SBTDC) to attract entrepreneurs who had been through an incubator-like program with MI-SBTDC to develop their business plans to pitch at the dinner event. The city of Roseville also had grant dollars available to businesses looking to operate within the city, provided by HUD (up to \$25,000), which were granted based on certain economic criteria and quality of the business plan.

The dinner event was open to Christian Financial members and people within the surrounding community. Each attendee paid \$8.00 and received a dinner consisting of a soup and salad. The dinner was hosted at a locally-owned restaurant within the city of Roseville who also conducts business with Christian Financial.

Three pitches were given by entrepreneurs, two of whom had been through the incubator program and one who had not, but was an existing Christian Financial member. Each presenter was given ten minutes to present and allotted five minutes for questions. In the end, the winner selected was Incredible Edibles, a custom cake and specialty dessert company started in October 2010 by Lynn Marie, a woman who had been laid off from a \$70,000/year job and accidentally stumbled upon a hidden talent when asked to make a cake for a friend's retirement party. Lynn's story, combined with the quality of her plan and product, helped clinch the win for her at the CU@Soup event.

With 62 people in attendance, Lynn walked away from the event with a \$496 micro grant for Incredible Edibles, and went on for further consideration for the Roseville grant dollars. She was given the additional grant dollars from the city of Roseville. Ultimately, Lynn's participation in the incubator program combined with the partnership between the MI-SBTDC, City of Roseville, and Christian Financial Credit Union, opened the door for Lynn's business to receive \$25,500 in start-up funding entirely in the form of grant dollars – which she does not have to pay back. With a capital injection of that size, lending to Incredible Edibles becomes much more viable. Christian Financial has since secured Lynn's business transactional accounts and hopes to extend business loans to her in the future.



A survey was conducted of those who attended the event to gauge the quality of the event and interest in future interest and participation in the program. The following results were gathered:

- 97% of attendees said they would attend a future CU@Soup event.
- 10 attendees indicated they would be interested in pitching at a future CU@Soup event.
- 48% of attendees were entrepreneurs.

Some additional comments included:

- “This was such a great idea! I would love to participate in the future. Please contact me for future CU@Soup events.”
- “This was an excellent opportunity to interface with entrepreneurs. Kudos to you!”
- “Very refreshing concept. Informative in a relaxed setting. Excellent idea for your company and the city of Roseville.”
- “Wonderful experience – can’t wait until you’re on TV!”
- “Incredible Edibles will be an asset to Roseville’s retail business. They offer a much needed product.”
- “I am a small business owner in Sterling Heights. Having one of these dinners in Sterling Heights with city reps would be very interesting to me.”
- “Great opportunity for new businesses.”

OPERATIONAL AND OTHER CONSIDERATIONS

Credit unions should strive for a program that allows companies to network together and share resources for the mutual benefit of the businesses involved. The program should also be a means to deliver the credit union to its local small business community as a source for financial services.

Participating credit unions would need to have adequate knowledge of small businesses and their banking needs. Credit unions would also need to tap in to their local small business community to encourage participation in the CU@Soup program. Credit unions should consider marketing to their current business members to make this program a success. A marketing budget would need to be in place to promote the event properly.

To host the CU@Soup event, the credit union would need to find an adequate place to host the event. Staff resources would be required. The credit union would also have to have a procedure in place to determine which ideas could be presented at the event.

FINANCIAL PRO-FORMA/ROI

		Year 1	Year 2	Year 3	Total
Total Accounts	25				
Subscription Fee	\$50 per month	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00	\$ 45,000.00
Interest Income		\$ 17,253.25	\$ 10,836.25	\$ 3,940.75	\$ 32,030.25
Allowance for Loss		\$ 7,500.00	\$ 5,200.00	\$ 3,000.00	\$ 15,700.00
CU Resource Expense	\$1,000 per month	\$ 12,000.00	\$ 12,000.00	\$ 12,000.00	\$ 36,000.00
Net Income		\$ 12,753.25	\$ 8,636.25	\$ 3,940.75	\$ 25,330.25

Assumptions

- 25 entrepreneurs take part in the program.
- Loan balance to start at \$10,000 at 7.99% over 36 months. Resulting in an aggregate loan balance of \$250,000 in Year 1.
- Loan amortized is simple interest. 30 day payments.
- Historical loss ratio used at 3.00% for allowance for loss.

RESOURCES

Survey results were gathered from attendees at the first CU@Soup event in Roseville, Michigan.

The group worked with the City of Roseville to provide the opportunity for additional grant dollars and the MI-SBTDC to find viable entrepreneurial candidates for pitching at the CU@Soup event.

Group members spoke with Steve Portigal and Julie Norvaisas from Portigal Consulting. Portigal helped the group further develop CU@Soup and was instrumental in the creation of the incubator network component.

GETTING STARTED

- Determine who your community partners will be and what assets they could bring to the program (grant access, business expertise, valuable networking opportunities, etc.)
- Determine the resources your credit union is able to invest (money, time, space, etc.)
- Determine program curriculum/outline
- Develop advertising aimed at entrepreneurs and circulate a “Call for Entrepreneurs” to membership, community, partners, etc. for participation in the incubator program.
- Develop resources to maintain network connection between credit union, community partners, and entrepreneurs within the incubator program.
- Conduct incubator.
- Plan details of dinner and invite community, investors, etc.
- Select entrepreneurs from within incubator to pitch at dinner event.
- Host dinner and determine grant award winner.
- Capitalize on publicity to grow program.