

# cultivate

## CONCEPT DOCUMENT

# Cultivate

### TEAM MEMBERS

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## PROBLEM DEFINITION

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With growing opportunities for self-employment, the entrepreneurial spirit is certainly on the rise and, thankfully, the credit union business model lends well to serving small businesses - namely startups, sole proprietorships and small limited liability corporations (LLCs).<sup>1</sup> However, business services at credit unions vary throughout the nation depending on size, market, strategy and partnerships, amongst other factors. While a lack of resources or awareness of such services may lead credit union members to use their own finances to support their passions and small startup businesses, our preliminary research found a recurring demographic seeing a large disparity, not only in access to capital and financing for businesses, but in financial capability in general.<sup>2</sup> That group is women.

Here's what we found:

- Women-led and owned businesses are quickly growing.<sup>3</sup>
- Women entrepreneurs start their businesses with 50% less capital than their male counterparts.<sup>4</sup>
- Women borrow an extremely small percentage of all business loans, accounting for only 4% of the market.<sup>5</sup>
- However, women may be less likely to take on debt or need as much capital to operate their business.<sup>6</sup>

Our research did not result in a conclusion as to the most impactful causation or reasoning behind this drastic gender gap. However, there are business resources<sup>7</sup> and financing opportunities, including those offered by financial institutions and fintech startups<sup>8</sup>, available to women entrepreneurs, all of which are striving to be the solution to this problem.

One need we did identify as not yet being met was in the startup and pre-startup financing phase. Recent analysis of retail banking suggests that, as a whole, financial institutions need to get more creative with lending options for small businesses, while focusing on education and easing up the application process.<sup>9</sup> Our team recognized there is a lack of opportunities available to financially assist these entrepreneurs as an idea or passion is only just beginning to grow into a real business.

So, the problem we're seeking to solve is "How might credit unions make financing more attainable for aspiring women entrepreneurs?"

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<sup>1</sup> Reference: <https://co-opcreditunions.org/credit-unions-the-secret-weapon-for-entrepreneurs/>

<sup>2</sup> Reference: [https://filene.org/assets/pdf-reports/361\\_Financial\\_Capability\\_Women.pdf](https://filene.org/assets/pdf-reports/361_Financial_Capability_Women.pdf)

<sup>3</sup> Reference: <http://www.womenable.com/70/the-state-of-women-owned-businesses-in-the-u.s.-2016>

<sup>4</sup> Reference:

[https://www.nwbc.gov/sites/default/files/Access%20to%20Capital%20by%20High%20Growth%20Women-Owned%20Businesses%20\(Robb\)%20-%20Final%20Draft.pdf](https://www.nwbc.gov/sites/default/files/Access%20to%20Capital%20by%20High%20Growth%20Women-Owned%20Businesses%20(Robb)%20-%20Final%20Draft.pdf)

<sup>5</sup> Reference: [https://www.sbc.senate.gov/public/?a=Files.Serve&File\\_id=3f954386-f16b-48d2-86ad-698a75e33cc4](https://www.sbc.senate.gov/public/?a=Files.Serve&File_id=3f954386-f16b-48d2-86ad-698a75e33cc4)

<sup>6</sup> Reference: <https://www.fastcompany.com/3038534/strong-female-lead/why-more-women-run-businesses-arent-making-millions>

<sup>7</sup> Reference: <https://www.sba.gov/starting-business/how-start-business/business-types/women-owned-businesses>

<sup>8</sup> Reference: <http://fitsmallbusiness.com/alternative-business-loans/> and <https://www.inc.com/jared-hecht/the-best-financing-options-for-women-entrepreneurs.html>

<sup>9</sup> Reference: <http://www.mckinsey.com/industries/financial-services/our-insights/reinventing-small-and-medium-size-business-banking-in-the-us>

## INNOVATIVE SOLUTION

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Our solution is Cultivate – a line of credit catered specifically for those who want to grow their passion into profits. Ideally, Cultivate will provide financial guidance for starting a small business while serving as a tool to easily separate personal from business transactions, monitor progress and seek advice. The Cultivate website walks your member through three simple steps: creating a business profile, which turns into a custom business plan; an aggregated educational resource which directs to setting up a business; and the application for the line of credit.

Our lending decision algorithm takes into account the member's business profile, projections and national industry type averages to guide loan limits. This nimble line-of-credit is offered up to \$50,000 and made available within minutes, alleviating the members' need to use personal savings or credit cards.

Once approved, our members will have access to:

- Flexible repayment schedules, including 90 days to first payment- allowing members to make money before owing.
- POS (Point of Sale) integration saving members thousands in 3<sup>rd</sup> party vendor fees, while increasing interchange for the credit union.
- Business and personal accounts, which are separated but viewable in one screen - allowing for easy distribution transfers and establishing strong bookkeeping practices.

Cultivate is a platform that will meet members at the unique moment when they're just beginning their entrepreneurial journey, giving credit unions the opportunity to be a part of the extraordinary step in a members life while turning their passions into profits.

## PROTOTYPE

The team created a storyboard and website to help demonstrate potential features of the Cultivate product. The storyboard followed the journey of Lily, an aspiring business owner. Users followed Lily's journey into entrepreneurship, eventually utilizing Cultivate to help turn her passion into profit.



1 This is Lily

Lily has a full-time job and juggles work, family and her hobby of making homemade organic jams.



2 Farmer's Market

Lily sells her homemade jam every weekend at the local farmer's market.



3 Jam's are very popular.

Lily's homemade jams are extremely popular and sell out every weekend.



4 Family Encouragement

Lily's family and friends are encouraging her to try to sell her jams online since they are so popular.



5 Inspiration

Lily has been dreaming of selling homemade jams online. She has lots of ideas and thinks that one day she might be able to quit her current job and sell her jams full-time.



6 Business Planning

Lily is ready to put her thoughts and ideas into action. She has contacted vendors for price quotes on supplies, started building her own website, researched free tools to market her business and more.

To demonstrate Cultivate's ease of use, the website was developed, allowing members to get started in three easy steps. Step 1 asked members seven simple questions about their business. When completed, Cultivate would produce the member with a completed business profile. Step 2 educated the aspiring business owner on a number of topics, including differences between personal and business expenses. Step 3 offered financing, with a decision to the member in seconds, and funding in a matter of minutes. Lily, or any aspiring entrepreneur, can use Cultivate as their one stop shop to turn their passion into profit.

**cultivate**  
Designed Specifically for Aspiring Entrepreneurs

EASY AS 1 2 3

HOME

WHAT MAKES US DIFFERENT

HOW IT WORKS!

LET US HELP YOU TAKE YOUR BUSINESS OWNERSHIP DREAM TO  
REALITY!

STEP ONE: BUILDING YOUR BUSINESS PLAN



CLICK! START BUSINESS PROFILE NOW

STEP TWO: BUSINESS EDUCATION



CLICK! HEADING TO THE CLASSROOM

STEP THREE: ACTIVATE CULTIVATE FINANCING...FAST & EASY!



CLICK! LET'S GET YOU APPROVED

LET'S GET STARTED

**cultivate**  
Designed Specifically for Aspiring Entrepreneurs

Success! Your **Cultivate** loan has been  
**APPROVED!**

**Terms are as follows:**

May 2nd, 2017

**\*Loan Amount:** \$4,300

**\*Loan Payment Begins:** August 2nd, 2017  
(90 days to first payment)

**Payment Amount:** \$863

**\*Loan Term:** 9 months

**Interest Rate:** 14%

## TESTING AND RESULTS

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We conducted online and in person interviews with 20 aspiring or current entrepreneurs across multiple US markets. Using a visual product prototype, we asked each participant a series of questions, in order to challenge assumptions, prioritize key features, and demonstrate market need. Our test group was predominantly female (78%), which matches our target market for the Cultivate product. The highest age group represented in our respondents was 30-39 (59%). The average salary for our test group was \$75,000-\$90,000, and only 25% of our respondents had ever applied for a business loan or line of credit.

When measuring concerns of starting a business, we found funds availability to be the most troubling, with 94% of respondents selecting it. This demonstrated a consistent anxiety around funding new businesses. Competition, product/brand creation, and separation of business and personal accounts all distantly followed, with nearly 50% of respondents indicating them as areas of concern. We also found 94% of respondents would be in favor of receiving expert advice on bookkeeping tasks.

Our test group found Cultivate to be of value, with only one participant indicating they “probably don’t need” the solution. 84% of respondents indicated that they “probably” or “definitely” need the solution to successfully run their business. Cultivate also measured as a very innovative solution, with 58% of respondents calling it just that. Another 11% indicated that the solution was extremely innovative, with the remaining six respondents declaring the prototype to be somewhat innovative. Neither of the negative responses were selected in this section.

When it came to likelihood to use Cultivate, the survey demonstrated a majority of respondents (63%) being very likely or extremely likely to use. In fact, only one respondent indicated they were not likely to use Cultivate.

Feedback from the survey helped drive the vision of Cultivate. Comments helped the team understand the need for a simplified path to a business case. We also had enlightening statements on workarounds our test group had used to start a business. From using a 0% personal credit card promo, to crowdsourcing, we found many of our respondents utilizing or considering untraditional means to start and fund their business.

## **BUSINESS MODEL AND 3-YEAR FINANCIAL PROFORMA**

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A few assumptions were made to create the following business model and 3-year financial proforma. Cultivate would have a total of eight employees, including positions in marketing, sales, and programming. Industry median salaries were used to help create the projections below.

The model also assumes Cultivate subscriptions are priced at \$75,000 year. This would result in a \$60k profit per unit sold, based on operating expenses. This price point could potentially be lowered if 100% growth rate year over is achieved.

The sales forecasts used below assume the following:

Year 1: 20 Credit Unions adopt

Year 2: 40 Credit Unions adopt

Year 3: 80 Credit Unions adopt (assuming a three year presentation based on word of mouth between CU's and strong marketing dollars being spent, \$500k a year scoped out for marketing)

For participating credit unions, Cultivate is a perfect solution for an institution committed to empowering more entrepreneurs. The credit union can offer a simple, three step process for aspiring business owners. In a matter of minutes, a few clicks will generate a business plan for the member and a solid lead for their credit union.

**Balance Sheet Years 1-3**

<b>ASSETS</b>	<b>First Year</b>	<b>Second Year</b>	<b>Third Year</b>
Current Assets			
Cash	-	452,980	2,625,518
Accounts Receivable	-	-	-
Inventory	100,000	250,000	450,000
Prepaid Expenses	1,213,600	606,800	-
Other Initial Costs	66,667	33,333	-
<b>Total Current Assets</b>	<b>\$ 1,380,267</b>	<b>\$ 1,343,114</b>	<b>\$ 3,075,518</b>
Fixed Assets			
Equipment	50,000	150,000	300,000
Other	25,000	75,000	150,000
<b>Total Fixed Assets</b>	<b>\$ 75,000</b>	<b>\$ 225,000</b>	<b>\$ 450,000</b>
(Less Accumulated Depreciation)	\$ 12,143	\$ 37,440	\$ 93,601
<b>Total Assets</b>	<b>\$ 1,443,123</b>	<b>\$ 1,530,673</b>	<b>\$ 3,431,917</b>
<b>LIABILITIES &amp; EQUITY</b>			
Liabilities			
Line of Credit Balance	469,776	632,059	632,059
<b>Total Liabilities</b>	<b>\$ 469,776</b>	<b>\$ 632,059</b>	<b>\$ 632,059</b>
Equity			
Common Stock	1,995,400	1,995,400	1,995,400
Retained Earnings	(1,022,052)	(1,096,786)	804,458
Dividends Dispersed/Owners Draw	-	-	-
<b>Total Equity</b>	<b>\$ 973,348</b>	<b>\$ 898,614</b>	<b>\$ 2,799,858</b>
<b>Total Liabilities and Equity</b>	<b>\$ 1,443,123</b>	<b>\$ 1,530,673</b>	<b>\$ 3,431,917</b>
<b>Balance sheet in or out of balance?</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>



Retained Earnings	Balanced!	Balanced!	Balanced!
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**Breakeven Analysis Year 1**

<b>Gross Margin % of Sales</b>	
Gross Margin	\$ 1,200,000
Total Sales	\$ 1,500,000
<b>Gross Margin/Total Sales</b>	<b>80.0%</b>
<b>Total Fixed Expenses</b>	
Payroll	\$ 933,741.92
Operating Expenses	\$ 648,176.71
<b>Operating + Payroll</b>	<b>\$ 1,581,919</b>
<b>Breakeven Sales in Dollars (Annual)</b>	
Gross Margin % of Sales	80.0%
Total Fixed Expenses	\$ 1,581,919
<b>Yearly Breakeven Amount</b>	<b>\$ 1,977,398</b>
<b>Monthly Breakeven Amount</b>	<b>\$ 164,783</b>

## Financial Ratios - Year I

Ratios	Year One	Year Two	Year Three
Liquidity			
Current Ratio	2.9	2.1	4.9
Quick Ratio	0.0	0.7	4.2
Safety			
Debt to Equity Ratio	0.5	0.7	0.2
Debt-Service Coverage Ratio - DSCR	-2.1	-0.1	3.1
Profitability			
Sales Growth	0.0%	100.0%	100.0%
COGS to Sales	20.0%	20.0%	20.0%
Gross Profit Margin	80.0%	80.0%	80.0%
SG&A to Sales	103.0%	58.7%	35.9%
Net Profit Margin	-68.1%	-2.5%	31.7%
Return on Equity (ROE)	-105.0%	-8.3%	67.9%
Return on Assets	-70.8%	-4.9%	55.4%
Owner's Compensation to Sales	28.8%	17.3%	11.2%
Efficiency			
Days in Receivables	0.0	0.0	0.0
Accounts Receivable Turnover	0.0	0.0	0.0
Days in Inventory	120.0	152.1	136.9
Inventory Turnover	3.0	2.4	2.7
Sales to Total Assets	1.0	2.0	1.7

## COMMENTS, NEXT STEPS, AND CALL TO ACTION

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How is your credit union currently serving the needs of small, local-based businesses that need financing for amounts less than \$50,000? When an aspiring entrepreneur approaches your business lending team requesting a loan for \$2,500 to help get their home-based business started, which loan product do they suggest? If you're currently encouraging members that request smaller dollar financing to help start their business or grow their business to use personal consumer loan products, services or credit cards, you might be losing business.

Aspiring entrepreneurs searching for opportunities to finance their passion often get discouraged if their credit union or bank state that their funding needs are too small and they should use their personal credit. As a result, entrepreneurs seek non-traditional financing alternative solutions. Unfortunately there are very little options for individuals just starting their business or do not meet annual or monthly revenue requirements.

**Cultivate is designed specifically for aspiring entrepreneurs and is the ideal solution to assist this fast growing market.**

We invite you to explore our initial prototype at: <https://mysticexpressions.wixsite.com/cultivate>.

We envision Cultivate to utilize additional features and services in the future which may include:

- Credit line monitoring and analysis
- Instant pre-approval offers based upon account activity and progress
- Supplemental deposit and savings products
- Ability to compare your progress to your peers
- Access to local mentor connections

We are seeking opportunities to refine our prototype, identify pertinent plug-in opportunities and establish key partnerships with internal business service experts, credit analysis and card services, web developers, business intelligence experts, and entrepreneurial and advocacy groups.

## ABOUT FILENE

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

We're governed by an administrative board made up of credit union CEOs, the CEOs of CUNA & Affiliates and CUNA Mutual Group, and the chairman of the American Association of Credit Union Leagues (AACUL). Our research priorities are determined by a national Research Council comprised of credit union CEOs and the president/CEO of the Credit Union Executives Society.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: "Progress is the constant replacing of the best there is with something still better." Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

Filene is a 501(c)(3) nonprofit organization. Nearly 1,000 members make our research, innovation, and impact programs possible. Learn more at [filene.org](http://filene.org).

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—Edward A. Filene

