

# Assessing New Opportunities Some Thoughts and a Practicum

Strength Matters Financial Management Conference

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# Introductions

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# Credits

- This work is based on a framework developed by Charlie Baum and Douglas K. Smith
- This material is being presented by permission of Charlie Baum, Starting Point Consulting.

# There Are Many Opportunities!



Oregon's LIFT Housing Program to Release \$40 Million for New Affordable Housing

The Philadelphia Inquirer

Mayor and City Council Agree to \$70 Million For Affordable Housing



Baltimore creates an affordable housing trust



Seattle constructs "tiny house" villages to fight rising homelessness problem.

# Questions we will answer

- When confronted with one – or many more -- opportunities, how do we move forward???
  - How do we assess **each** opportunity?
  - What does an appropriate **portfolio** of opportunities look like?
- How can we feel more comfortable in the decisions we are making?

# What This Session Is Not...

- Presentation of technical tools for financial and risk assessment of opportunities



# Kinds of Questions This Can Help In Thinking About

- Should we expand our service area into new geography?
- Should we enter -- or exit -- a line of business?
- Should we take the things we do well and do them for others?
- Do we have the right portfolio of possibilities to pursue?

# This Session: 3 Parts

- Tools 101: How these tools evolved -- the Peoples' Self Help Housing story
- Tools 201: Layering in a bit more complexity
- A practicum with exercises for you to try things out

# Exercise

- Think about today and beyond. Are there one or more opportunities you-- and your colleagues-- are thinking about pursuing?
- What are your **concerns** about these?
- Take 3 minutes and share with a neighbor...

# Case Example: Peoples' Self Help Housing

- Founded in 1970 in San Luis Obispo, California
- The largest affordable housing developer on Central Coast
- PSHH's mission:

*“We build affordable homes with site-based services that offer opportunities to change lives and strengthen communities on the central coast of California.”*



# PSHH in 2013

- Four lines of business
  - Single family home ownership (self help)
  - Multifamily development
    - Farmworkers
    - Seniors
    - Larger families
    - Physically and mentally disadvantaged
    - Turnaround of distressed multi-family properties (code enforcement)
  - Property management
  - Resident services, including widely recognized after school programs
- Advocacy at local, regional, state, and national levels

# View From the Balcony in 2013: Not Much Good Economic News

- Major pressure on past funding sources
  - Loss of California redevelopment dollars
  - Deep cuts to Section 8, HOME, and CDBG
  - Depletion of voter approved bond proceeds
  - USDA budget cuts and potential loss of eligibility in Peoples' operating area
  - LIHTC program: **Extremely** competitive
- Higher costs
  - Cost of land
  - Cost of new regulations (i.e., storm water runoff control)

# But Also...



- PSHH seen as a high-performing, go-to partner for governments seeking to address affordability, homelessness, and social welfare
- With many competencies...
- And a great brand!

# So, In 2013...

- What is success?
  - Continuing to do good work– but can't remain static
- Many opportunities out there– but can't put our core work at risk
- If the goal is “staying the course with ongoing vitality”:  
where should “vitality” come from???

# Peoples' People Had a **Lot** of Ideas (>20)

- Go for increased funding for housing the homeless!
- Buy properties with code enforcement issues, and turn them around!
- Help for-profit developers with their inclusionary requirement!
- Do continuum of care housing for the elderly!
- Do mixed income workforce and student housing!
- Contract with large farms to provide a minimum level of accommodation!
- Do third party construction management!
- Do third party IT!
- Do third party property management!
- Launch a CDFI!
- Start a real estate brokerage!
- Let's become a homeownership center!

.....**Each with its advocates and naysayers**

So...





# A Set of Screening Questions!

- Think about your opportunity. Mull it over as you listen to the questions...

# Opportunity Assessment Questions

1. What is the **business, product, or service**?
2. Which **growth pathway** – organic growth, start-up, merger/acquisition, other?
3. Who are the **potential customers**? Is there a substantial market for our products/services? Roughly how large?
4. What is the **value proposition** we offer?
5. To what extent does this **reinforce our mission**?  
(High/medium/low)
6. What particular **competencies are required**? Do we have these? Do we believe we could develop them, or partner successfully?
7. Do we have **both table stakes and differentiators** to successfully compete?

# Opportunity Assessment Questions (continued)

8. List the **assumptions about entering and prospering** in this market. Rate 1-4 re total assumption versus total knowledge.
9. **How easy would it be to enter** this market? Why? And to exit it? Does “slow immersion” work, or is a “diving board” strategy necessary?
10. **Capital requirements** – high, medium, low
11. **Risk assessment:** What are some of the key risks, likelihood, impact, and mitigation potential?
12. What would **success look like** one year from now? 3 years? 5 years?
13. Would this particular expansion **substantially affect our core identity?** If so, how?

# One by one

## 1. What is the business, product, or service?

- Which *growth pathway* – organic growth, start-up, merger/acquisition, other?
- Who are the *potential customers*? Is there a substantial market for our products/services? Roughly how large?

## 2. What is the value proposition we offer?

- To what extent does this reinforce our *mission*? (High/medium/low)
- What particular *competencies* are required? Do we have these? Do we believe we could develop them, or partner successfully?
- Do we have both *table stakes and differentiators* to successfully compete?

## Screening questions part 2

3. List the **assumptions** about entering and prospering in this market. Rate 1: complete assumption to 4: certain knowledge.
4. **How easy would it be to enter and exit** this market? Why? Does “slow immersion” work, or is a “diving board” strategy necessary?
5. **Capital requirements** – high, medium, low
6. **Risk assessment:** What are some of the key risks, likelihood, impact, and mitigation potential?
7. **What would success look like** one year from now? 3 years? 5 years? Would this particular expansion **substantially affect our core identity?** If so, how?

Does Your Opportunity Survive This Screen?  
Or Is It a TKO?

# Then, Three Lenses That Help *Compare* Opportunities...

- Ease/impact matrix
- Mission/cash flow matrix
- Opportunity portfolio

# Ease/Impact Matrix

	High Impact	Low Impact
Easy	<p>Construction - 3<sup>rd</sup> party</p> <p>Inclusionary requirement</p> <p>Senior housing</p> <p>Property management - 3<sup>rd</sup> party</p> <p>Real estate brokerage</p>	<p>IT-3<sup>rd</sup> party</p>
Hard	<p>Moderate income dev</p> <p>Senior assisted living</p> <p>Homeless housing</p> <p>Senior continuum of care</p> <p>Veterans housing</p>	<p>Home ownership center</p> <p>CDFI</p>

# Mission/Cash Flow

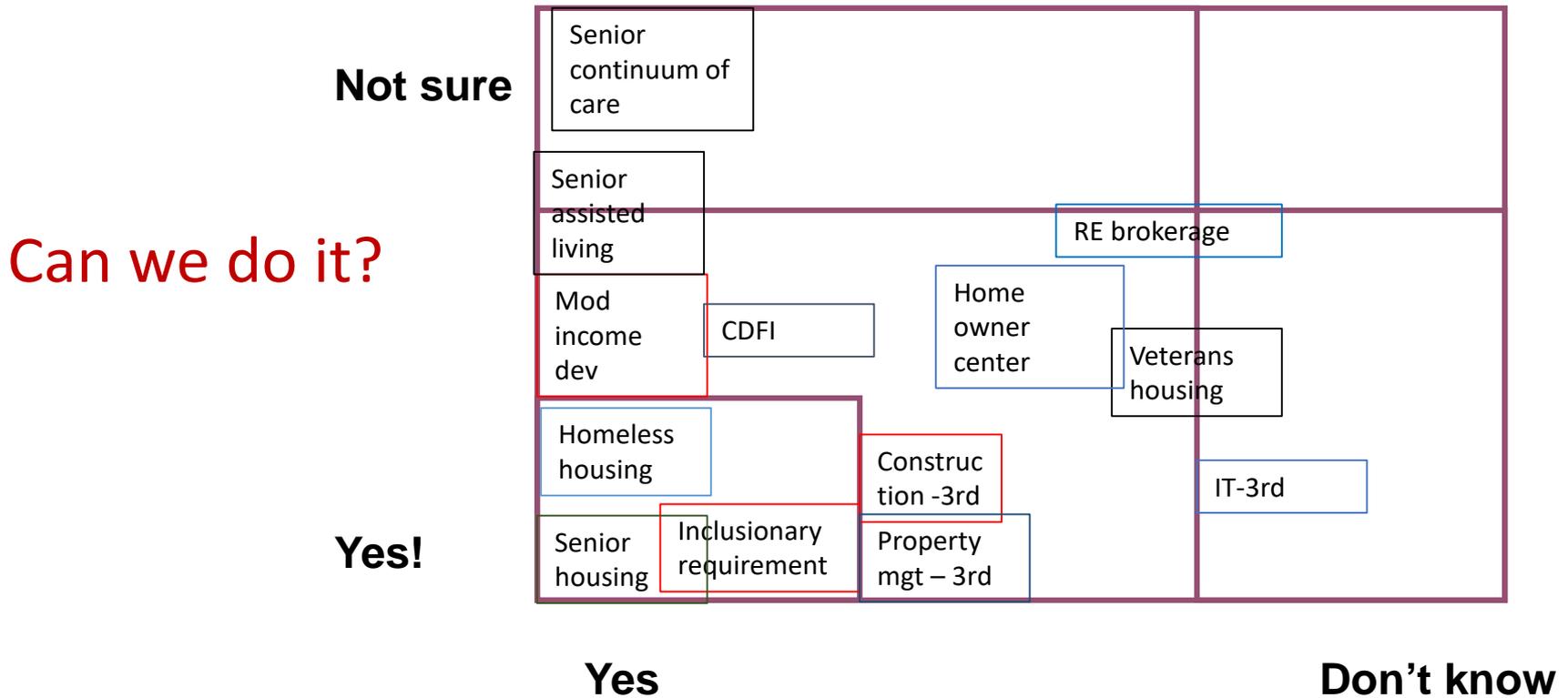
	High Mission	Low Mission
Cash Positive	<p>Inclusionary requirement</p> <p>Senior housing</p> <p>Homeless housing</p> <p>Veterans housing</p> <p>CDFI</p> <p>Senior assisted living</p> <p>Mod income dev</p> <p>RE brokerage</p> <p>Property mgt - 3<sup>rd</sup> party</p>	<p>Construction - 3<sup>rd</sup> party</p>
Cash Negative	<p>Home owner center</p> <p>Senior continuum of care</p>	<p>IT-3<sup>rd</sup> party</p>

# Framework: An Opportunity Portfolio

Can we do it?	Not sure	Capability-building options (try one out!)	Stepping stones
	Yes!	Potentially do-able extensions	Scouting options (trial to learn more)
		Core business/ product	
		Yes	Don't know

**Does the market want it?**

# Framework: An Opportunity Portfolio



Does the market want it?

# Takeaways from PSHH

- We will pursue these opportunities more aggressively:
  - Inclusionary zoning (30 units every 2 years)
  - Senior housing (one development every 3 years)
  - Homeless/veteran housing (2 more projects for people with special needs, including the chronically homeless and veterans in 5 years, with a model that fits our approach and core competence; either in Ventura, Santa Barbara, or SLO)
  - Low-moderate income mixed development (one every 3 years; 100 units with 80/20 mix)
  - Establish a CDFI
- Regarding 3<sup>rd</sup> party services:
  - We will offer Property Management services as requested by third parties, on a case by case basis
  - We will **not** dedicate significant resources to the establishment of other third party services

And....

- We can use the assessment frameworks to assess opportunities that come our way organically
- A core competency

# How Did It Play Out??

- Did we pursue these opportunities?
- Did new ones arise?
- What assumptions were we able to test?
- Was the process robust enough for the situation?

# Q & A with Ken

# What we have covered

- **Tools 101: How these tools evolved -- the Peoples' Self Help Housing story**
- Tools 201: Layering in a bit more complexity
- A practicum

# What's Next

- Tools 101: How these tools evolved -- the Peoples' Self Help Housing story
- **Tools 201: Layering in a bit more complexity**
- A practicum to try these out

# Additional Modest Complexity

- Thoughts on scenarios and drivers
- More on the opportunity portfolio
- Assumptions versus knowledge

# Thoughts on Scenario Planning and Drivers....

Question: So how do we select opportunities, recognizing we can't predict the future???

# Thoughts on Scenarios

- “We look into the future, trying to make wise decisions, only to find ourselves staring into widespread uncertainties. If only everything didn't depend on everything else. How do we strike a balance between **prediction** - believing that we can see past these uncertainties when in fact we can't - and **paralysis** – letting uncertainties freeze us into inactivity?”\*

\*Lawrence Wilkinson

# Trust This Arithmetic...

- Pick **four** underlying variables that are likely to shape coming years
- Pick **two** options within these....
- Choose one of the options for each variable
- And voila, there are your drivers....
- This is good enough!

# PSHH's 4 Variables in 2013

- *Interest rates*
- *Government Funding*
- *Inventory of land*
- *Executive Transition*

# Scenario Assumptions in 2013

- **Interest rates**

- Remain low near term, slowly increase 2-3 points over five years
- Rise more quickly, peaking higher

- **Government funding**

- Somewhat below traditional levels, non-catastrophic
- Catastrophic hit to two or more major sources of funding

- **Inventory of land**

- Reasonable amount available, at a develop-able price
- Little or no supply develop-able at a reasonable price

- **Executive transition**

- Goes reasonably smoothly, organization's capacity to act stays high
- Goes less smoothly, with a substantial impact on organization's capacity to act

# Thoughts About Assumptions

- Beneath each opportunity is a set of assumptions: what **must** be true to succeed
- These can be rated 1-4 from (1) total assumption to (4) pretty solid knowledge
- This leads to an **assumption/knowledge** rating
- Your job is to move this needle over time

# Assumptions Versus Knowledge

**What must be true for you to succeed?**

**What must go right?**

**What are you assuming about ...**

- **The external market**
  - customer segments and needs
  - competitors
  - partners
  - technology
- **Your organization's capabilities**
  - leadership support
  - Skills and capabilities
  - Resource availability
- **The economics**
- **Yourself**
  - Skills
  - Commitment
  - Availability

**What are your doubts ...**

- What worries you?
- What would skeptics poke at?

**Where are you now on the rating spectrum ...**

1

2

3

4

- pure gut
- just a hunch
- hopeful thinking

- a few insights
- some evidence
- many remaining question

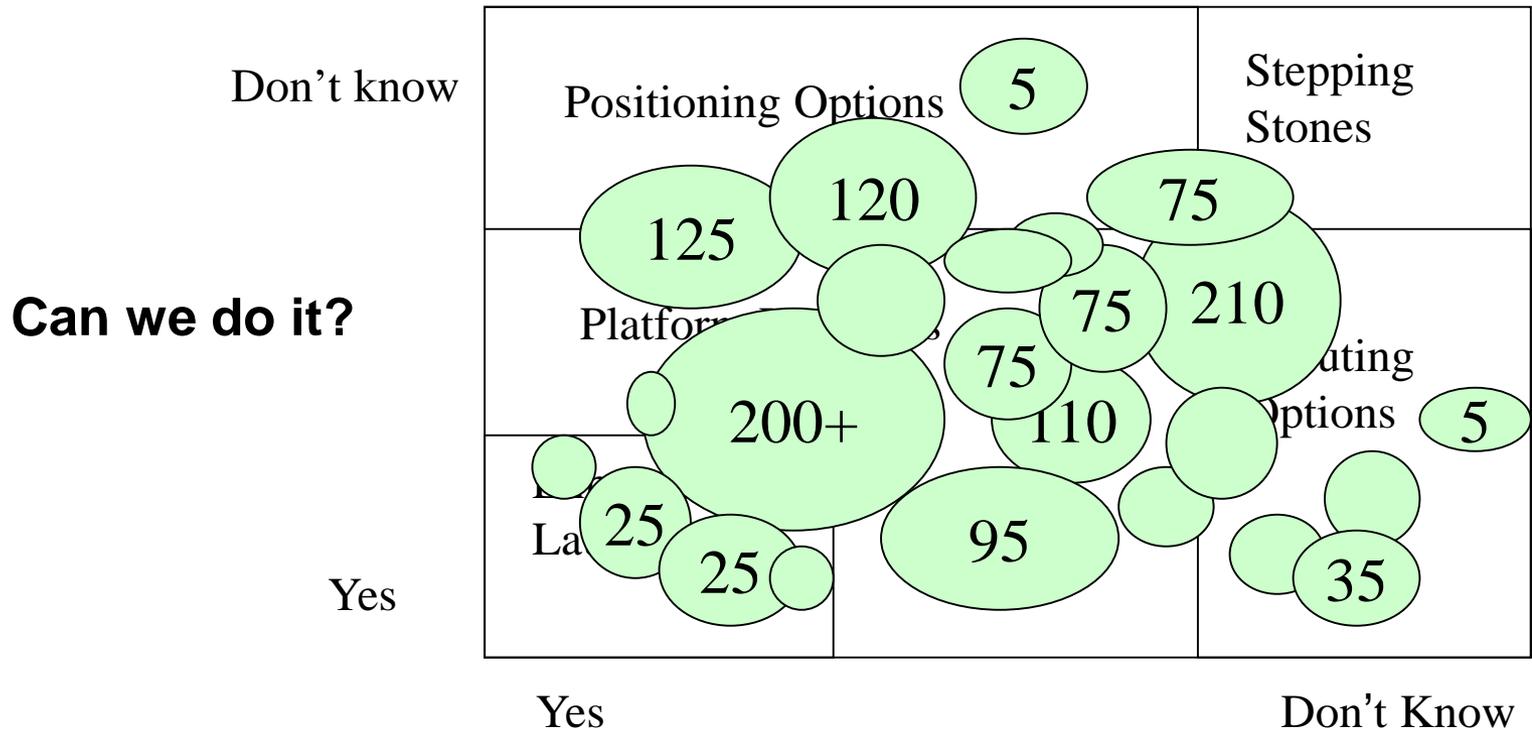
- mounting evidence
- a few remaining questions

- extensive evidence
- known facts
- absolute certainty

So...

- How can we learn about this opportunity?
- What are the cheapest ways to learn?
- How can we stage the process, such that we learn a bit before an early decision point...then a bit more...and a bit more...before we have to “bet the farm”, hopefully with a better assumption/knowledge ratio?

# Opportunity Portfolio – More Detail

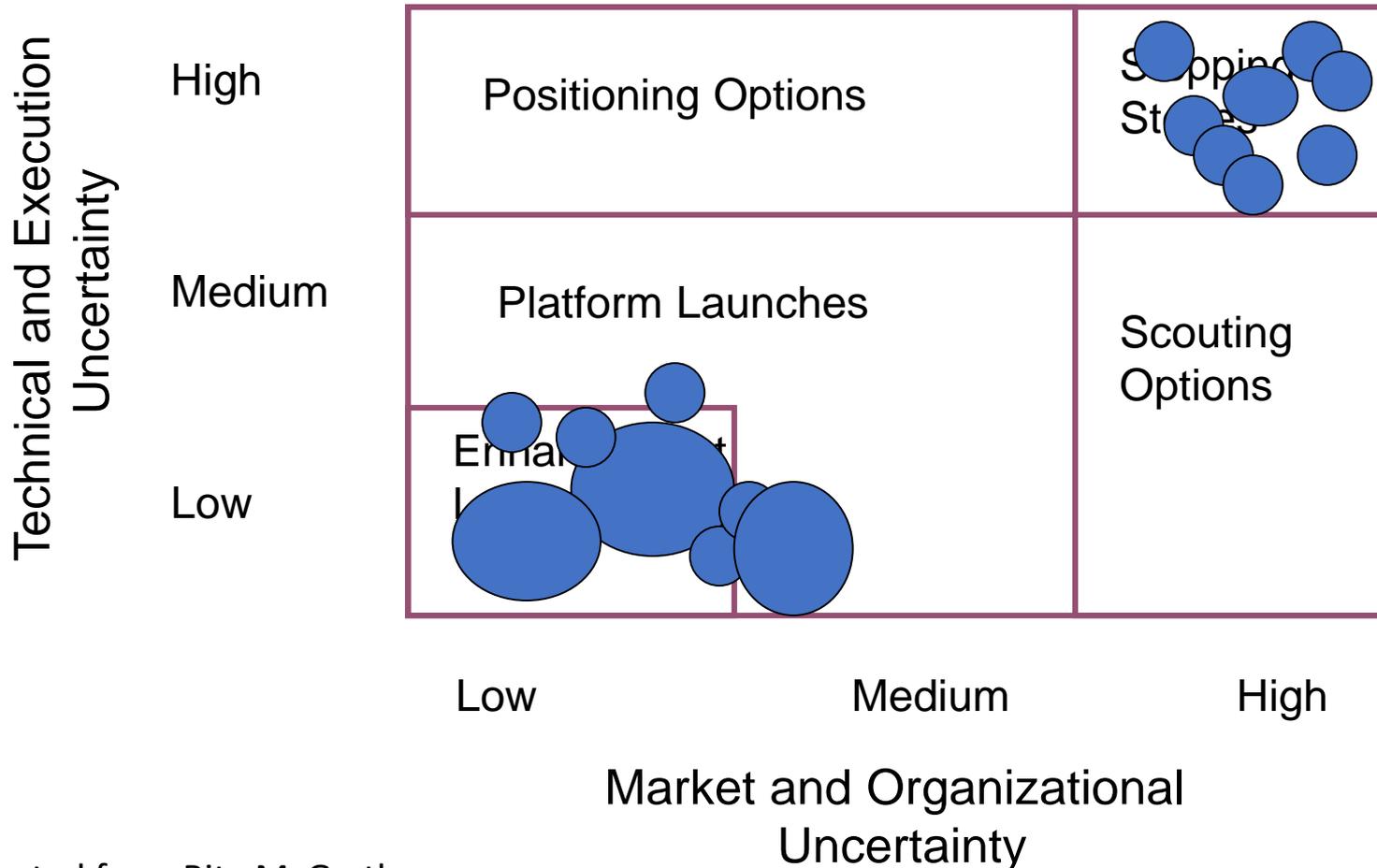


**Bubble size = Size of opportunity**

**Numbers = People months to develop**

**Do People Want It?**

# A Portfolio with Gaps



# This Session: 3 Parts

- Tools 101: How these tools evolved -- the Peoples' Self Help Housing story
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- **A practicum** to try it on

# Opportunity Assessment Questions

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3. **List the assumptions** about entering and prospering in this market. Rate 1-4 re total assumption versus total knowledge.
4. How **easy would it be to enter** this market? Why? And to exit it? Does “slow immersion” work, or is a “diving board” strategy necessary?
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# First set of questions

## 1. What is the **business, product, or service**?

- Which **growth pathway** – organic growth, start-up, merger/acquisition, other?
- Who are the **potential customers**? Is there a substantial **market** for our products/services? Roughly how large?

## 2. What is the **value proposition** we offer?

- To what extent does this reinforce our mission?
- What **particular competencies are required**? Do we have these? Do we believe we could develop them, or partner successfully?
- Do we have both **table stakes and differentiators** to successfully compete?

# Debrief questions 1 and 2

# The next set

3. **List the assumptions about entering and prospering in this market.**  
**Rate 1-4** re total assumption versus total knowledge.
4. How **easy would it be to enter** this market? Why? And to exit it?  
Does “slow immersion” work, or is a “diving board” strategy necessary?
5. **Capital requirements** – high, medium, low
6. **Risk assessment:** What are some of the key risks, likelihood, impact, and mitigation potential?
7. What would **success look like one year from now?** 3 years? 5 years?  
Use reverse P&L, as appropriate
8. Would this particular expansion substantially affect our **core identity?**

# Debrief questions 3-8

# What Insights Did You Take Away From This Screen?

- Still an opportunity??
- Positives??
- Concerns??

# Ease/Impact Matrix

	<b>High Impact</b>	<b>Low Impact</b>
<b>Easy</b>		
<b>Hard</b>		

# Mission/Cash Flow

	<b>High Mission</b>	<b>Low Mission</b>
<b>Cash Positive</b>		
<b>Cash Negative</b>		

# Framework: An Opportunity Portfolio

Can we do it?	Not sure	Capability-building options (try one out!)	Stepping stones
	Yes!	Potentially do-able extensions	Scouting options (trial to learn more)
		Core business/ product	
		Yes	Don't know

**Does the market want it?**

# What's the Verdict?

# Reflections and Observations

# Closing and appreciation

- This is a taste– but enough to use with your colleagues
- Thank you to Ken
- Thank you for the opportunity to join you today