

MEMORANDUM

TO: Barb Sido, Executive Director
National Active and Retired Federal Employees Association (NARFE)

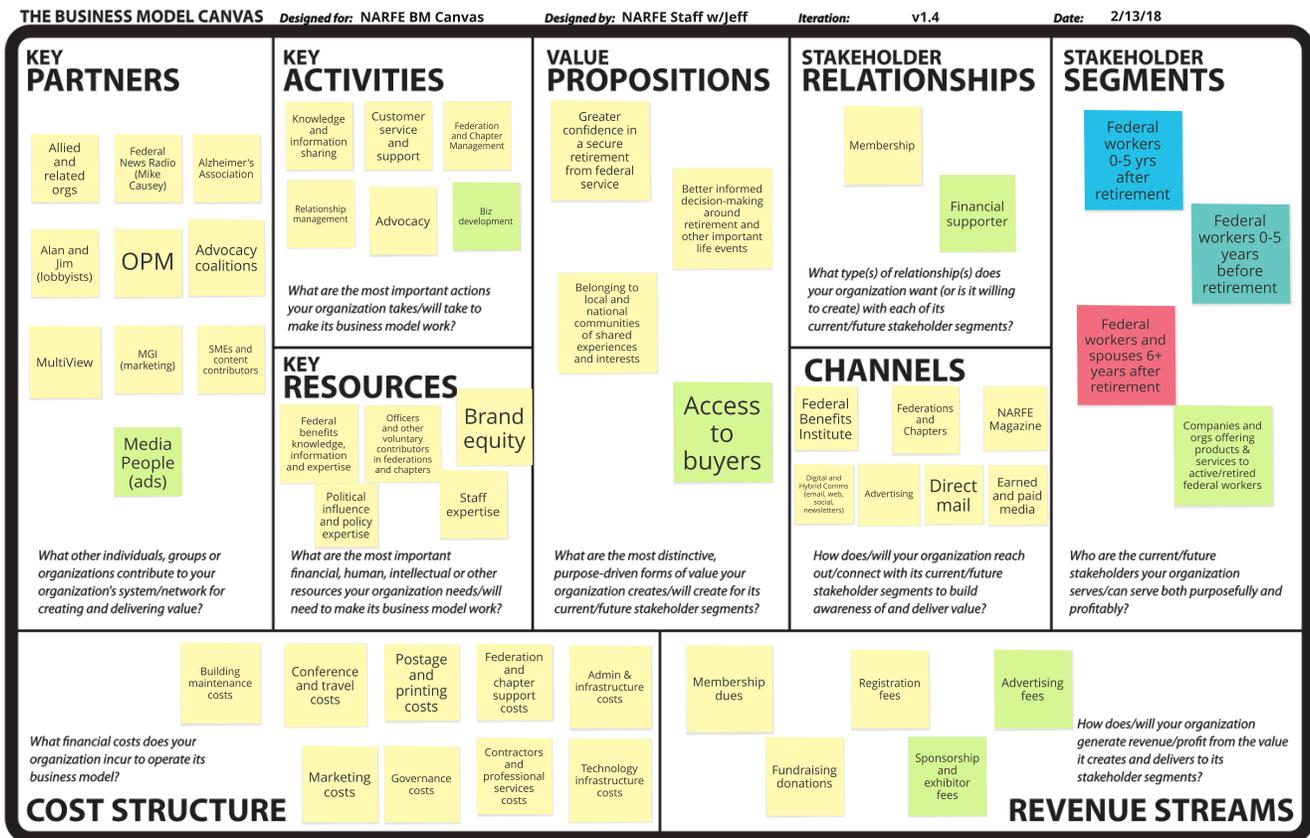
FR: Jeff De Cagna FRSA FASAE, Executive Advisor

DA: February 13, 2018

RE: NARFE Business Model Canvas (v1.4) Memorandum

MOST CURRENT VERSION OF THE NARFE BM CANVAS

As of the date above, we are talking about the NARFE Business Model (BM) Canvas Version v1.4. The canvas is pictured below:



This remixed version of The Business Model Canvas is based on the original work of Dr. Alex Osterwalder and Dr. Yves Pigneur, designed by Alex Smith.

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In our business model visualization work, we observe the mathematical principle, articulated by the late British statistician George Box that “all models are wrong but some are useful.” This perspective makes intuitive sense since we have visualized only NARFE’s most important and revenue-generating work, and

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MOST CURRENT VERSION OF THE NARFE BM CANVAS (continued)

not the totality of the organization's efforts on behalf of its stakeholders. Instead of trying to make it "right" and falling short, we have sought to make it as useful as possible, and I believe we have succeeded

As we continue our work, we will use v1.4 in three ways:

- NARFE's National Executive Board (NEB) can consider v1.4 as "the version-in-use" for its on-going business model conversations. (Whenever we adjust or edit the canvas, that updated version replaces the previous version as the version-in-use.) As I outlined in my November 2017 remarks to the NEB, the visualization process revealed some important business model concerns, which are presented in the next section of this memorandum. Embedded within these concerns are several questions to consider for the future. The NEB may wish to explore these concerns and questions to provide useful guidance to our work.
- The NARFE staff should review v1.4 to gain a deeper and more holistic understanding of how NARFE creates, delivers and captures value for its current stakeholders. In addition, as part of developing new individual, team and organizational capabilities for value creation, we want to access the staff's compelling insights into how NARFE should consider adapting its business model for the future, as well as fresh ideas for new products, services, experiences and other forms of value.
- The NARFE Next project team will use the canvas as part of its continuing work in developing new value concepts for testing with our collaboration network and other NARFE stakeholders. In addition, we will develop new business model concepts for discussion and possible recommendation to the NEB later in the process.

BUSINESS MODEL CONCERNS AND DISCUSSION QUESTIONS

Business Model Concerns

As mentioned above, v1.4 raises some concerns about NARFE's existing business model. These observations are listed below. We will strive to address these concerns through our work, but it is important to remember that all adaptations, pivots and shifts will require the commitment of internal decision-makers to ensure their full implementation. The ultimate success of our efforts will be determined by NARFE's stakeholders and the choices they make about pursuing a relationship with the organization.

•NARFE's existing business model offers no unique value propositions for any identified stakeholder segments except companies and organizations offering products and services to active/retired federal employees. NARFE needs unique value propositions for other stakeholder segments.

Further Observations—It is quite common for the visualization process of existing membership-centric business models to reveal more generic value propositions that do not apply specifically to individual stakeholder segments. Since membership is typically the only relationship offered in these business models (as is the case for NARFE), the organization emphasizes the value of the membership relationship

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BUSINESS MODEL CONCERNS AND DISCUSSION QUESTIONS (continued)

itself based on the totality of organizational activity and not with targeted value creation in mind. Through our project, we will strive to develop at least one unique value proposition for each stakeholder segment that NARFE intends to serve in the years ahead.

•Two of the identified value propositions (greater confidence in a secure retirement from federal service and better informed decision-making around retirement and other important life events) are grounded in retirement-related issues, while a third value proposition (belonging to local and national communities of shared experiences and interests) is not of sufficient appeal to most active federal employees to attract them into relationships with NARFE.

Further Observations—As we visualized NARFE’s existing business model, we exercised great care in articulating the value propositions above to ensure they made sense in relation to NARFE’s current work and thus would be helpful to future conversations. As explained in the previous section, these value propositions may resonate in the context of selling memberships to retired federal employees, but going forward NARFE will need to develop and refine more compelling value propositions that can attract active federal workers (and perhaps other stakeholder segments) into relationships with the organization that are not connected to membership.

•Operating NARFE’s existing business model requires extensive organizational activity and cost, especially in areas that do not create direct value for stakeholders, in exchange for a comparatively conventional and narrow set of revenue streams.

Further Observations—Looking at v1.4, it is easy to spot the imbalance in NARFE’s existing business model. The cost side of the canvas shows the organization directing its key resources, key activities and key partners toward value propositions that deliver the same standard set of revenue streams as most membership-centric association business models, e.g., dues, registration fees, advertising/sponsorship etc. At the same time, the cost structure is extensive and includes expenses, such as building maintenance, governance and technology, that do not create value for stakeholders. Of special concern is the level of support NARFE must provide to its chapters, federations and regions for little return, a particularly troubling issue considering the critical role this component structure plays as a channel within the existing business model. To bring greater balance to NARFE’s next business model, then, we must identify ways to simplify and streamline the organization’s activity and reduce costs.

•The work of advocacy, which is a significant element of NARFE’s existing business model, is difficult to monetize.

Further Observations—One of the primary ways in which NARFE delivers on its current “greater confidence” value proposition is through its highly capable advocacy efforts. The organization incurs costs for key resources, key activities and key partnerships related to advocacy and those costs are covered by membership dues and other organizational revenue streams. To sustain and strengthen advocacy activities in the future, NARFE must strive to rely less on membership dues by creating a robust and diverse set of revenue streams based on meaningful new value creation in other areas.

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BUSINESS MODEL CONCERNS AND DISCUSSION QUESTIONS (continued)

Business Model Discussion Questions

To maintain the forward momentum of our business model work, I encourage the NEB and NARFE staff to consider the following discussion questions:

- Which aspects of NARFE's current work is the organization willing to reduce or eliminate to free up resources for raising and creating work that can deliver new stakeholder value?
- Which areas of NARFE's most important work offer immediate opportunities for simplification and streamlining, including through the application of technology?
- What steps is NARFE prepared to take to reinvent its component structure to be simpler for all stakeholders, less expensive to maintain and more capable of contributing to new value creation, delivery and capture?
- As an organization with a long-standing focus on membership, how can NARFE increase its comfort with designing and developing stakeholder relationships beyond membership?

NEW VALUE CREATION FOCUS AREAS

Through our project work to date, we have identified three focus area for new value creation that we will explore further in the coming months:

•**Strengthening the Personal and Professional Growth of Active Federal Employees**—To build relationships with active federal employees who are not interested in NARFE's current focus on retirement-related issues, we will develop value offers focused on strengthening their personal and professional growth. As part of this process, we will place special emphasis on developing solutions, services and support that help active federal employees make smart health and wellness decisions, lead healthier lives and nurture an overall sense of personal well-being.

•**Enhanced Retirement Support for Both Active and Retired Federal Employees**—Our work confirms that NARFE must be more than "all retirement, all the time." Nevertheless, we still need to look for new ways to apply the organization's existing capabilities to assist both active and retired federal employees with retirement-related issues. As part of this process, we will place special emphasis on developing solutions, services and support that make a deeper connection between retirement planning and new efforts to strengthen the personal and professional growth of active federal employees.

•**Enhanced Health Insurance Support for Both Active and Retired Federal Employees**—Consistent with the previous two focus areas, we will look for new opportunities to assist both active and retired federal employees manage the complexity around health insurance questions both before retirement, during retirement preparations and throughout their post-retirement years. As part of this process, we will place special emphasis on developing solutions, services and support that clarify the importance of this health insurance continuum for all federal employees.

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NEW VALUE CREATION FOCUS AREAS (continued)

In addition to these three primary value creation areas, we will continue to listen to NARFE stakeholders and scan the broader environment for intriguing ideas, some of which may fall outside these boundaries. The first rule of creating stakeholder value is making value real. If we can identify compelling opportunities for NARFE to create and deliver real value to active and retired federal employees, we have a responsibility to explore them.

A FEW WORDS IN CLOSING

The observations and guidance contained in this memorandum are offered with the intention of framing the next phase of our work and opening a space for further dialogue with the NEB and the NARFE staff. I look forward to those conversations, and I am happy to answer and any questions.