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Utilizing Partnerships to Test Emerging Market Strategies:

A Case Study of H&R Block Initiatives in Five Cities

Executive Summary

As the financial industry changes, there are increasing moments of opportunity and physical spaces for consumers to conduct a wide range of financial transactions. As new players emerge in the market, some have developed fresh ways to reach traditionally underserved populations. For example, partnerships have been a big part of the movement to reach the underbanked. This report describes the partnerships created by H&R Block (Block) and public and nonprofit sector entities in five U.S. cities.

The report describes the reasons that Block and its partners began to work together, provides an overview of goals and negotiation tactics, describes the business case and marketing strategies, outlines challenges and offers an evaluation of the partnerships' success in the first year. The following lessons can inform parties wishing to enter into a partnership strategy that can be successful for firms, municipalities, nonprofits, and customers alike—but that is not without its challenges.

- **Be Clear About Expectations and Upfront About Your Goals.** Partners need to build trust and try to speak the same language.
- **Systems Are Important.** Partnerships require well-designed program management mechanisms, technologies that enable partners to integrate products and services, and data tracking resources
- **Personal Dedication Is Necessary.** Top-level buy-in is also crucial to the success of such partnerships.
- **Reputation Matters.** For-profit companies, nonprofits and public agencies all need to take into consideration the reality of internal and external resistance to potentially contentious partnerships.
- **The Industry Needs Market Research on the Lower-income Segment's Financial Services Preferences and Behaviors.** These partnerships show that a balance between real world experience and research is vital for effective programming.

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- **The Partners Accomplished More Together Than They Would Have Separately.** Block reached more lower-income clients than they could have on their own, and nonprofits and municipalities provided lower-income people with more services than they could have if they had not worked with Block.
- **Experimentation Seeds Sustainability.** Financial services companies can leverage their scale and the market knowledge of nonprofits and municipalities to create market tests that will help them design programs to reach lower-income customers.

Introduction

The financial services industry is an increasingly diverse conglomerate of players that includes banks and credit unions, check cashers, retail outlets, and other firms. As the industry changes, there are increasing moments of opportunity and physical spaces for consumers to conduct a wide range of financial transactions. A growing number of firms, especially new entrants to the space, are looking to emerging markets, such as immigrant and underbanked households, to secure their place in an increasingly competitive field.

These emerging markets are relatively untapped by financial institutions. It is estimated that as many as 22 million households – 20% of U.S. households – are unbanked,¹ and the combined unbanked and subprime credit population may be 30-40 million households. Moreover, a 2003 survey by MetroEdge, a market research firm specializing in lower-income urban markets, found that the line between being banked and unbanked is quite fluid for lower-income households, as families move in and out of the financial mainstream to meet their financial needs.² This suggests that a new paradigm for financial services provision is needed for these households.

As new players emerge in the market, some have developed fresh ways to reach traditionally underserved populations. While technology has helped make it cheaper and easier to reach these groups, partnerships have been a big part of the movement to reach the underbanked. Financial services companies, especially those with nontraditional models, but including more traditional banks, are partnering with municipalities and nonprofits to achieve a successful business case for reaching these consumers.

This report will describe the evolving history and lessons learned behind the partnerships created by one financial services firm—H&R Block—and a variety of public and nonprofit sector entities in urban markets around the U.S. The report is based on a series of extensive interviews as well as supplemental materials related to the partnerships. The report will serve to inform the greater financial services industry about a strategy that can be successful for firms, municipalities, nonprofits, and customers alike—but that is not without its challenges.

Why Partnerships?

The financial services industry has an interesting history of developing innovative partnerships in order to reach new customers. For example, recently, check cashers in New York City began partnering with credit unions to provide deposit services for credit union

¹ This estimate was developed by the General Accounting Office (GAO) using data from the 1998 and 1999 Survey of Income and Program Participation (SIPP). U.S. General Accounting Office (2002). "Electronic Transfers: Use by Federal Payment Recipients Has Increased but Obstacles to Greater Participation Remain." Washington, DC: United States General Accounting Office.

² MetroEdge Financial Services Survey 2003.

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members in check cashing locations.³ Retail firms have been simultaneously partnering with and competing with financial institutions in order to provide their lower-income customers with financial services for years.⁴ Finally, as the industry has focused on financial education efforts over the last several years, financial institutions have developed intensive partnerships with local governments, social service agencies, advocacy groups, the religious community, and other groups in order to make these programs work.

One example of a financial services company using a partnership strategy in a broad sense is H&R Block (Block).⁵ H&R Block has been seeking to expand its presence in the general financial services marketplace for some time, including applying for its own bank charter. Moreover, in 2004, the company, which has long been a market leader in the provision of tax services in the U.S., developed the “Everyday Financial Services” or EFS concept in order to build a platform for providing a suite of financial services—in addition to tax assistance—to the majority of its clients who fell into the low- and moderate-income category.⁶ The creation of EFS was important from a standpoint of sustainability, profitability and market share. For three continuous years, Block had lost return and market share to its tax-preparation competitors. This loss in return counts was primarily in large metropolitan areas and inner cities; Block’s loss in market share was largest amongst lower-income populations.

Indeed, in recent years, the company had diversified its marketing to appeal to a larger base, including the middle market and affluent clients. But, in part because wealthier clients were likely to use private CPAs for tax services, Block re-examined its approach and discovered that there was significant brand recognition and trust from the lower-income market segment, which was already a major customer base. According to Block, 58% of the company’s 20 million customers earn under \$30,000 a year. Moreover, three million Block customers are unbanked, with an additional two million holding marginal relationships with financial institutions. Through market research, the firm discovered that this population, which had not been the company’s focus for growth in the past several years, was a core market interested in pursuing a variety of business relationships with them. In addition, the lower-income market was experiencing a significant gap in the provision of financial services. Thus, EFS was born.

To align with the creation of EFS in 2004, Block began aggressively pursuing partnerships with a wide variety of entities to achieve its goal of reaching the lower-income market with additional financial services outside of tax preparation. The company began to think about

³ For more information on this partnership, see Jacob, K. (2004, October). *The PayNet Deposit Program: Check Cashier-Credit Union Partnerships and the Point of Banking Machine*. The Center for Financial Services Innovation. http://www.cfsinnovation.com/managed_documents/pobpaper.pdf

⁴ For further detail on the movement of retail firms into financial services, see Jacob, K (2005, May). *Retailers as Financial Services Providers: The Potential and Pitfalls of This Burgeoning Distribution Channel*. The Center for Financial Services Innovation. http://www.cfsinnovation.com/managed_documents/retailpaper_0001.pdf

⁵ H&R Block’s mission statement is: “To help our clients achieve their financial objectives by serving as their tax and financial partner.”

⁶ A more complete description of EFS can be found in Tufano, P and Schneider, D. (2004, October). *H&R Block and “Everyday Financial Services.”* Harvard Business School. To order copies, visit <http://www.hbsp.harvard.edu>.

its core client base as a group that was taking advantage of services provided by a variety of entities, including Block, the public sector and nonprofits. Block realized that it was only one of several financial services entities for these clients, and began to see partnerships as an ideal way to reach customers with whom they had limited contact.

In addition, community groups and municipalities had protested Refund Anticipation Loans (RALs), one of Block's products offered at tax time, for high fees and deceptive practices.⁷ In certain cases, Block was involved with lawsuits related to this issue and Block offices were picketed. Ultimately, some of the partnerships discussed here formed as outcomes of those protests. In the end, Block chose a variety of partnership models as a market test to see what strategies worked best. Because EFS is still a work in progress, it is unclear whether or not the concept will ultimately be successful. These partnerships enabled Block to pilot some strategies on a small scale to further the development of EFS and increase internal acceptance of the EFS concept.

Partnership Overview

This paper focuses on partnerships among Block and various entities in five different cities. Broadly speaking, the partnerships targeted lower-income families that qualified for the Earned Income Tax Credit (EITC) by having incomes of below \$35,000 for a family of four. The EITC is a federal income tax credit for eligible low-income workers. Some states and municipalities have EITC programs as well. The EITC reduces the amount of taxes that an individual or family owes and may be returned in the form of a refund. For many families, the credit is the largest lump sum of money received in a year. Over 20 million lower-income Americans receive a \$1,700 average boost to their tax refund from the credit.⁸ The EITC is estimated to be one of the most successful poverty-reduction programs in U.S. history.

Community groups, municipalities and others have focused outreach efforts around the EITC, as the credit provides a tangible asset for lower-income families, many of whom are unbanked. Many community groups have also developed free tax preparation programs for lower-income people, supported in part by the IRS VITA program.⁹ While groups have been using tax time to link EITC recipients with financial education, access to direct deposit and bank accounts, and other financial services for years, the specific partnerships described below are new.

⁷ RALs are short-term loans, available at many commercial tax-preparation venues, which enable consumers to receive their tax refunds immediately or within a few days of filing. Advocates have been very critical of these loans because of the fees and interest rates associated with them. In the past, major tax preparation agencies, including Block, have settled lawsuits alleging deceptive practices related to RALs.

⁸ For more information on EITC, including the impact of RALs, see The Brookings Institution's EITC Series of research reports: <http://www.brookings.edu/es/urban/eitc.htm>.

⁹ The VITA Program offers free tax preparation to people earning under \$36,000 who have trouble preparing their own taxes. Many VITA sites, which are run by volunteers out of community centers, libraries, schools, shopping malls, and other locations, specialize in helping filers with the EITC. For more information, see <http://www.irs.gov/individuals/article/0,,id=107626,00.html> or the National Community Tax Coalition at <http://www.tax-coalition.org/>

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1. **City of San Francisco Working Families Credit:** Block partnered with the City of San Francisco to fund, sponsor and co-brand a two-year pilot of a local version of the EITC and provide discounted tax preparation services to qualified families. Other partners included SFWorks, Anne Stuhldreher, a fellow at the New America Foundation, and the Earn It Keep It Save It Coalition. All sixteen Block offices in San Francisco participated in the program.
2. **City of Miami Anti-Poverty Initiative:** Block developed a five-year program with the City of Miami to provide community outreach surrounding EITC and discounted tax preparation services to qualified families. All eleven Block offices within the Miami City limits offered these services.
3. **CAPTC and H&R Block Market Trial, Tulsa, OK:** Block worked with CAPTC, a Tulsa-based nonprofit that provides free tax preparation and other services to lower-income families, to offer benefits screening to clients in four out of 25 Block offices in the general Tulsa vicinity. The agreement was for a one-year pilot.
4. **New York City-Union Tax Savings Pilot Project:** Block worked with New York City, 1199 SEIU (New York's health care union), and Jackson Hewitt to provide coupons for discounted tax preparation services through a coupon program to qualified families. UNITE HERE, CWA local 1182, Hotel and Restaurant Workers local 6, OPEIU local 153, and the Professional Staff Congress were also involved in the program. Block has approximately 140 offices in the New York City area, and clients could utilize coupons at any of these locations.
5. **Operation Hope, Los Angeles:** Block partnered with Operation Hope to develop a shared referral system, discounted products, and financial literacy services for Block clients. The partnership is slated to last four years and ran out of five Hope Centers and 22 Block offices in South Central Los Angeles out of roughly 113 Block offices in the greater Los Angeles area.

In addition, in 2004, Block invested \$1 million in matched savings for IRAs for clients in St. Louis, and in 2005, the firm worked with the Brookings Institution to evaluate that program's success. Block also worked with the Children's Health Insurance Program in rural Texas to determine the feasibility of integrating benefits screening into Block's product matrix.

Senior level staff from Block's headquarters office in Kansas City negotiated and developed the partnerships in the five cities. In most cases, local or regional Block staff worked with the partner agencies on day-to-day activities. On the partner side, senior staff of the nonprofits and key staff of city departments negotiated the partnerships and managed the programs on a daily basis.¹⁰

¹⁰ In Miami, the Special Projects Administrator managed the partnership. In San Francisco, key staff from the Mayor's office negotiated the partnership and the City Treasurer implemented day-to-day activities. In New York City, the Assistant Commissioner for the Department of Consumer Affairs managed the program.

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Impetus for the Partnerships and Mutual Goals

These partnerships originated in a variety of ways. Block was actively searching for partners in order to address the company's loss in market share. Block's CEO, Mark Ernst, championed the idea of partnering with nonprofits and municipalities with expertise related to local communities and lower-income families. In several cases, partnerships formed organically, in conjunction with--but not necessarily directly tied to--Block's focus on EFS.

For example, in San Francisco, the developers of the Working Families Credit were searching for funding partners for the \$6 million two-year initiative. SFWorks approached Block about funding opportunities and starting a formal partnership. In Tulsa, CAPTC and Block had a prior relationship. Block was interested in market testing different ways of providing benefits screening to eligible clients as an added service, so the company approached CAPTC to begin conversations on a partnership. In Los Angeles, an Operation Hope Board member recommended that the organization work with Block and provided a referral at the outset of the partnership.

On the other hand, as mentioned previously, some of these partnerships formed out of local resistance to corporate practices related to a subset of tax preparation products. In Miami, Block offices were being picketed because of the perceived high cost of Refund Anticipation Loans (RALs). Block approached the City and the Mayor's office to start a dialogue on a partnership to address the firm's local image. A similar process took place in New York. The Department of Consumer Affairs had sued H&R Block and Jackson Hewitt over deceptive practices related to RALs and achieved a landmark settlement in 2002 against Block. The settlement gave the City the authority to review marketing materials and put a reduced fee program in order. Block and Jackson Hewitt met with the City to discuss ways to work together, but nothing had materialized by early 2004. At the same time, the City was working with 1199 to increase EITC outreach and bring EITC filing to scale in New York. The goals of the partners and Block were synergistic, and the timing was right in mid-2004 for the partnership to form.

In all five cities, the parties involved had different expectations of what they hoped to get out of the partnerships. Overall, Block had a range of goals for the partnerships based on the assumption that nonprofits and municipalities had expertise related to the lower-income market. Some of the most important goals for Block included generating new clients, retaining existing clients, enhancing their reputation in the community, and recouping market share.¹¹ Overall, the company wanted to test strategies to change clients' interaction with Block from transactional to relationship-based. This was especially important in light of Block's May 10, 2005 application to the Office of Thrift Supervision for a bank charter.¹²

The municipalities and nonprofits expressed expectations for the program that were in line with their stated missions: to facilitate more EITC funds into the community, provide wage

¹¹ Other stated goals included increasing the number of EITC clients served, increasing the average EITC and total refund amounts, testing the provision of benefits screening as an added service, measuring cross-selling opportunities, and bringing down the number of RALs offered.

¹² <http://www.ots.treas.gov>.

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supplements for lower-income workers, decrease the number of high-priced RALs in their communities, provide benefits screening to a greater number of clients and enable families to access food stamps, link low-income workers to opportunities for asset building, and explore the scalability of processing EITC returns. For some partners, this last goal was especially important. In the last few years, there has been a rise in free tax preparation or VITA sites that have explored ways to link unbanked consumers to financial services. However, most of these programs lack the ability to reach significant scale; working with entities such as Block was seen by some partners as one way to reach that aim.

The Business Case and Financing the Partnerships

Block conducted business cases for all of the partnerships; these documents were not publicly available at the time of this writing. According to Block staff, these partnerships were initiated because of the business opportunity presented by improving service for lower-income people. The firm maintains that though the upfront cost of the partnerships was significant, it was in Block's interest in the long term to develop client loyalty and create a market dynamic wherein community leaders viewed Block as an entity that saw lower-income markets as promising and profitable.

Block instituted a variety of funding platforms for the partnerships. The greatest outright financial commitment by Block occurred in San Francisco, where the firm provided \$1 million over two years to fund the Working Families Credit. In contrast, the firm did not make direct financial commitments to the partners in Miami. In New York, Block made a donation to the citywide campaign to fund advertising and technical support of VITA sites. Block provided small grants to Operation Hope and CAPTC as well. Donations in these three cities ranged from \$20,000-50,000.¹³

In San Francisco, the company provided significant funds for marketing and outreach, while in New York, Block and Jackson Hewitt paid for direct mailings to hundreds of thousands of potential EITC recipients. Block estimates that in the last fiscal year, the firm spent approximately \$2 million on these partnerships, including the \$500,000 match in San Francisco. Besides fiscal contributions, the remaining funds included program costs related to grants, advertising, branding, and salaries. These funds came out of Block's research budget. The firm sees these costs as start-up costs that would hopefully not need to be duplicated once a system-wide infrastructure to manage similar programs is in place.

Except for the contributions described, few of the partners raised extra funds for these partnerships. In New York, the City already had staff dedicated to EITC outreach, and \$300,000 in City dollars and foundation funds were available for the project. In San Francisco, the Mayor dedicated \$3 million over two years to the Working Families Credit and the City and SFWorks are working to raise the other \$2 million for the program. The City of Miami had a budget of \$270,000 for the tax preparation campaign and one staff member dedicated to the project. In Tulsa, CAPTC staff maintains that they would not have been able to dedicate staff time to the project without Block's contribution. Operation Hope did not

¹³ In the cases where Block provided discounted tax preparation services, that loss of revenue could be considered in-kind support for the partnership.

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raise outside funds for the work with Block. In sum, Block and to some extent the municipalities had the onus for funding these initiatives. Nonprofit agencies mentioned staff time as the greatest cost of the programs.

Negotiation

The Negotiation Process

These partnerships would not have occurred absent the willingness of the parties on both sides to spend considerable time and energy in the negotiation phase. Though many of the partnerships came together over a relatively short period of time, with negotiations beginning in the fall of 2004 and official Memoranda of Understanding (MOUs) in place by January 2005, the negotiations were intense and substantive. In the beginning, Block and the partners spent time getting to know each other. The first step for all the parties involved was to ascertain whether there was a general basis to work together and a specific interest in working with the individuals at the table.

Once the partners crossed that hurdle, each side had to navigate varying degrees of internal and external resistance to the partnerships. At Block, the program leaders faced internal skepticism from headquarters that these partnerships would be fruitful. On the other hand, regional managers for the firm were often very supportive. This is perhaps because regional managers had business goals related to customer attraction and retention, and the partnership strategy helped reach that aim. Block also had to contend with internal resistance to partnerships with entities that could be viewed as competitors. Many of the partner agencies facilitated free tax preparation services, and some within the company perceived working with them as risky. For example, in Tulsa, CAPTC completed over 14,000 free tax returns in 2004, mostly for EITC clients. Thus, in some markets, the competitive issue was significant. In addition, some Block personnel thought that working with City governments could be problematic from a political context.

Block overcame internal resistance by keeping open lines of communication within the firm and relying on the support of the CEO for the partnerships. Block noted that free tax preparation sites were not competitors but rather complementary organizations that could serve some of Block's clients' needs. The firm also utilized the fact that national marketing strategies that ignored deep understanding of local communities had contributed to a decrease in market share in core inner-city areas to overcome internal resistance.

Upon the successful completion of negotiations, Block and the partners signed Memoranda of Understanding (MOUs) varying in length from one to five years.¹⁴ This structure, as opposed to a formal agreement, enabled the partners to be flexible and make changes as the programs took shape. This was particularly important in Tulsa, where the initial model called for a market test wherein some clients were offered benefits screening at the time of tax preparation and others were offered future appointments. It quickly became clear that

¹⁴ In New York, the partners did not negotiate an official MOU, but rather put a less formal agreement in place.

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clients did not want to take the time to get screened for benefits at Block sites, so the partners modified the program to shift focus and resources to the screenings by phone.

Contentious Issues

A few common challenges represented the bulk of the negotiations between Block and the partner agencies. Pricing for reduced tax preparation services was negotiated in a fairly straightforward manner, with parties on either side going back and forth until a compromise was reached. In some cases, this negotiation was time-consuming. For instance, in Miami, where the City was very tough on pricing, the negotiations took much longer. In San Francisco, the partners and Block engaged in lengthy negotiations over price reductions. Also, In New York, where both Block and Jackson Hewitt were involved, pricing negotiation was more complex. One company offered to lower the price of tax preparation first, and then the other firm came on board and mutual negotiations occurred from that point.

With one exception, all of the partners took issue with RALs during the negotiation process. This issue was the major item of tension, above and beyond pricing negotiation, mentioned by Block and the partners. The partner agencies came to different conclusions about how to deal with RALs and how to overcome internal and community resistance to the idea of partnering with a for-profit entity offering the loans.¹⁵ The most significant RAL outcome occurred in San Francisco, where Block agreed to stop the distribution of merchandise for RALs (e.g., flyers, door hangers, posters etc.) within the city limits. Additionally continued emphasis was paid to educating customers on the benefits of not choosing a RAL. In this case, the community was very concerned about RALs, and the City was able to utilize the Mayor's significant local credibility to persuade the community that this partnership could be in its best interest. Moreover, City staff made a number of presentations in the community, including a presentation to 75 nonprofits, to push the Working Families' Credit and explain the RAL compromise they had negotiated.

In Miami, Block offered a discounted Refund Anticipation Check (RAC, a less costly alternative to a RAL) but did not stop offering RALs. The company also agreed not to advertise RALs in bill boards or City sites. In part because of the RAL issue, City staff had to contend with resistance from volunteer tax sites and other agencies that viewed the partnership with skepticism. The City kept open lines of communication to address this local resistance. In New York, the coupons that families received for discounted tax preparation could not be utilized for RALs, but the loans were still available. New York was able to utilize the City's credibility to overcome the RAL issue from a community perspective, while 1199 relied on constant communication with its officers to keep them apprised of the situation. In Tulsa, where CAPTC raised concerns over RALs, Block did not make changes to its RAL program. However, in most partner cities, Block provided educational sessions that showed that when a client came in for tax preparation, a screen with different payment options, including RALs, would emerge. If a customer was interested in a RAL, the screen prompted the customers—three different times—with information about why this might not be the best

¹⁵ RAL negotiations were not a part of the Los Angeles partnership with Operation Hope.

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option for them. The partners felt that this system provided choice without being deceptive about the cost of RALs.

Though RALs and pricing were the primary issues of negotiation, a few other interesting areas of negotiation emerged as well. For example, Block staff felt that they needed to tweak their negotiation and business styles in order to effectively work with some partners. Staff felt that corporate deadlines differed significantly from those of nonprofits and municipalities, and it was important for the two entities to learn to meet halfway. Staff members were challenged when deadlines weren't met and timelines were extended; constant communication within Block, from supervisors down, alleviated this problem.

Language was an issue as well. In several of these programs, the municipal or nonprofit staff involved in the negotiations had business backgrounds that enabled them to speak the same language as Block. In other cases, Block discovered that discussing "sustainability" rather than "profit" when negotiating price reductions for tax services helped to build trust and reach consensus sooner. The municipalities and nonprofits needed to be sure that the negotiations with Block did not preclude an open choice of tax preparation providers for lower-income constituents.

According to Block and the partners, ultimately, participants were able to work on tense issues by laying them out on the table and openly discussing them. Everyone involved in negotiations had to be willing to give a little bit, whether that meant a municipality relinquishing some control of its longstanding EITC program, Block agreeing to be potentially inundated with low-cost returns during peak tax season, or volunteer tax sites agreeing to turn some customers over to Block.

Branding and Marketing

One major component of each partnership surrounds the branding and marketing of the initiatives. Each of the sites handled these issues quite differently. In Los Angeles, the program was not specifically marketed at all; Block staff provided services to existing Operation Hope clients (75% of whom were already Block customers) and Operation Hope and Block provided clients with mutual referrals to the other agency. In Tulsa, the benefits screening program wasn't marketed per se, but it was branded as a Block initiative. In this case, the partners, especially Block, felt that it was important for clients to feel that the process was seamless and that receiving benefit screening was not a stigma that set them apart from other clients in the Block office. Thus, personnel and callback numbers were Block-branded. Clients were not told of CAPTC's involvement, though in an interesting twist, the partners found that in follow-up focus groups, clients knew that CAPTC was involved.

In New York, Block paid for mailings to union members, but these were fairly passive pieces of advertising, as members had to call in to express interest in the coupons. The partners engaged in very little direct marketing. However, New York is the only case where Block was not the only tax preparation partner. The initiative was branded as a Paid Preparer Pilot amongst the City, 1199, Block, and Jackson Hewitt. Block and Jackson Hewitt had equal billing in the program's branding.

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In Miami, the program was marketed jointly as a general EITC campaign sponsored by the City, of which Block was a part. The City of Miami paid \$150,000 for a phone bank, did direct mailings and distributed door hangers. Block paid for the design of billboards, door hangers and other materials. On the other hand, Block played a major role in branding and marketing in San Francisco, where the Working Families Credit was co-branded as a City initiative sponsored by Block. In fact, Block was the sole corporate sponsor of the Working Families Credit this past tax season. Block funded the design and production of all materials and the partners initiated a substantial marketing campaign. In this case, the existence of the Working Families Credit provided a new “product” to sell from a marketing standpoint. In addition, Block placed increased emphasis on its Express IRA product in conjunction with the partnership in San Francisco.

Challenges

Though the parties were successful in negotiating terms that were mutually agreeable, there were several notable challenges in implementation. Because these were pilot projects, the partners expected to learn along the way. The following are examples of issues the partners experienced that they expressed interest in working on in future years:

- **Marketing:** Several partners expressed frustration over marketing campaigns. Most nonprofits and municipalities do not have marketing staffs, so the partners relied on Block’s expertise in that area. Participants were very happy with the quality of materials, but found that the message could be confusing or ineffective for clients. For example, in cases where the partners were trying to simultaneously raise awareness of EITC and plug the services provided through the partnership, messages got confused. In cases such as New York, where little direct marketing was done, the partners saw the lack of aggressive marketing as a mistake. In most cases, partner agencies expressed the need to begin marketing earlier and avoid tight deadlines that led to unnecessary frustration.
- **Process issues:** Because this was the first year for these programs, participants needed to work out several process-related kinks. Certain processes, such as referral systems or phone bank queues, were not streamlined this year and were difficult for clients to navigate. In San Francisco and Tulsa, where families were applying for other services in Block offices (the Working Families Credit or public benefits), the partners lacked streamlined electronic application processes that integrated with Block’s systems. In San Francisco, the partners felt that they could have been smarter about distribution of materials; applications for the Working Families Credit were done by hand, and it was difficult to tell if families found out about the credit through Block, Vita sites, or other sources. This will make evaluation more difficult.

In addition, these programs were put into place in January 2005, at the height of the most chaotic season for tax professionals (January-February). The partners found that it was difficult to add another component of tax preparation into tax professionals’ schedules in peak season. The timing was not the most effective for

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the target clients either. Operation Hope, which relied on mutual referrals as a key component of the partnership, found that beginning a referral process in February was too late to reach most lower-income families, who had already filed their taxes.

- **Franchises:** According to the New York partners, who worked with both Block and Jackson Hewitt, there were additional issues related to coordination for Jackson Hewitt, which is a franchise model, compared to Block's centralized structure. For the most part, Block's headquarters office was able to coordinate activities with regional and local managers in a way that was not possible for the franchised tax preparation locations. Partners felt that they had more direct lines of communication with Block due to this structural issue. Moreover, in Tulsa, which is also a franchise location, the partners had to negotiate with the franchise owner in addition to staff at Block headquarters. This issue warrants consideration as the firm considers expanding partnerships into additional markets.
- **Politics:** Certain partners experienced unique challenges related to political concerns. For the unions in New York, the fact that 2004 was a Presidential election year made it difficult to focus energy on the partnership or garner additional union support. Though this issue is fairly specific, it is important for entities engaged in such partnerships to consider how challenges specific to an agency's mission or local climate might impact the partnerships.

Evaluation

There are mixed results on feelings of success upon the completion of the first year of the partnerships. In some instances, actual numbers of clients reached fell short of goals. The partners maintained that this could be because goals were unrealistically high for pilot projects that were put together quickly and without significant precedent. The subsequent paragraphs sum up the partners' views of the success of the partnerships in the first year; Block's views on success follow.

Miami: The City of Miami was quite pleased with the partnership, as the City's goal for the program was met and greatly exceeded. In 2004, 9,258 families received the EITC; over 8,400 of those came through the partnership with Block. However, the City felt that the partnership fell short of helping families meet asset goals. Clients saved hundreds of thousands of dollars in tax preparation fees through the reduced rates negotiated through the partnership, less than half of which was moved into asset vehicles.¹⁶ For example, while participants deposited \$167,000 in 356 IRAs at tax time, the City ultimately wants to see more of the saved funds, as well as portions of clients' refunds, funneled into these types of products. The City plans to recruit financial institutions in the future to reach that goal.

San Francisco: In this case, the partners were also very pleased with the results of the pilot. The partners had estimated that 20,000 families were eligible for the Working Families

¹⁶ The City negotiated a \$25 tax preparation fee for the partnership; average tax preparation fees in the Miami market were about \$90 in 2005.

Credit, and their initial goal was to reach between 15-25% of eligible families. In the end, almost 11,000--or over 50% of eligible families--applied for the credit. The partners believe that the relationship with Block and the scale they provided (3,500 Working Families Credit returns were filed through Block) made this possible. The City also felt that Block was responsive and took the initiative seriously because they were doing it for business as well as philanthropic reasons.

New York City: In this instance, the City and 1199 had differing views of success. 1199 was pleased with the partnership, and felt that it added choice for low-income union members. On the other hand, the City believed that the partnership was not successful in the first year—1,600 people made appointments to use coupons for reduced tax preparation in Block offices. The City hoped to see at least 15,000, which is still a small fraction of EITC-eligible families in New York City. The City felt that the partnership did not get EITC dollars into the community to the extent that they had hoped. In the future, the City might contemplate focusing marketing efforts on very low-income families earning under \$18,000 per year to increase its success rate. In the meantime, the City believes that the existence of the partnership and the mutual understanding gained through the negotiation were the real success of the program's first year.

Los Angeles: Operation Hope received 506 referrals from Block, and referred 434 clients back to Block. Though Operation Hope expressed overall satisfaction with the partnership, the agency had hoped that referrals would be higher. Staff members attribute the low number of referrals to the lack of an interface between Hope clients and Block staff. Moreover, Operation Hope would like to see better results next year after referrals are received. Clients often dropped off and didn't actually come to the Hope Centers for services after being referred.

Tulsa: CAPTC had expected 2,400 individuals to receive benefits screening through the partnership. In the end, 900 expressed interest, and of those, more than 350 dropped off and did not make appointments for screening. Ultimately a total of about 300 were screened—only 10% of them on-site in Block offices. Those most interested in finding out about benefits were lower-income clients aged 18-55 with children in the home. Though CAPTC would have liked to see many more screenings, staff felt that the partnership went very smoothly and was ultimately a successful first step.

Block's vision of success: Overall, Block staff felt that the partnerships were successful, especially in San Francisco, where there was a tangible product (the Working Families Credit) to sell, rather than an idea. Block was pleased with the response of its tax professionals, who understood the partnerships. Block did not have to offer incentives or recruit employees to run the programs. The firm also felt that regional managers and local staff enthusiastically embraced the partnerships, while it was more difficult to convince some headquarters' staff of the partnership's importance.

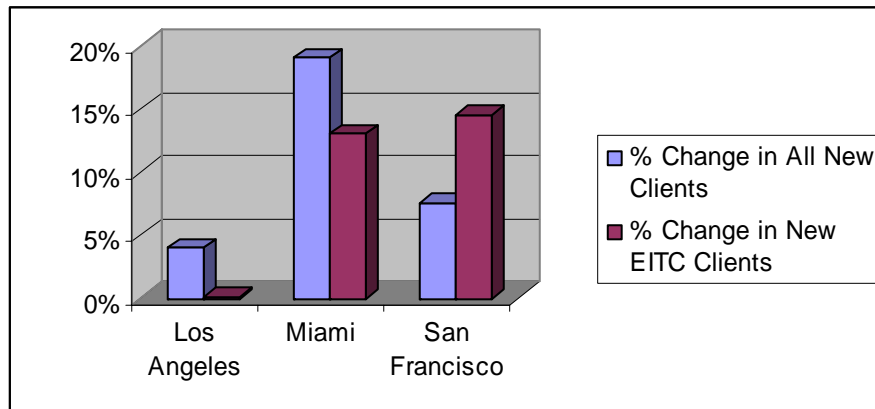
When asked to rate a variety of factors on a scale of importance for implementing the partnerships, Block staff mentioned attracting new customers, retaining current customers, and creating value for customers as the top priorities. Improving company image and cross-

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selling financial products were somewhat less important. Staff rated these partnerships as being moderately successful (score of 3 on a 1 to 5 scale) in helping them attract and maintain customers and gave similar ratings for the other factors.

Block has longitudinal information about overall performance in three of the partner cities. As the chart below shows, from 2004 to 2005, Block saw a 4% increase in new clients in the offices involved in the Operation Hope partnership, but new EITC clients were minimal with a 0.08% increase. Moreover, Block saw a 19% increase in overall new clients and a 13% increase in new EITC clients in its partner offices in Miami. From 2004 to 2005 in San Francisco, Block experienced a 7.5% increase in overall new clients and a 14.5% increase in EITC clients. Data on New York and Tulsa were not available at the time of this writing.

% Change in New H&R Block Clients, 2004-2005



Though these numbers seem promising, Block noted that these are very early days, and that the ultimate question—will these partnerships provide Block with long-term customers who will be loyal to the firm and engage in a variety of services—has yet to be answered.

Moreover, as they stand today, the firm feels that the partnerships, while invaluable as market tests, are only the first steps towards a sustainable partnership model. Block staff report that the partnerships should be sustainable by the end of the third year. However, in order to make money, the firm cannot repeat the same intense negotiation strategies as this year or incur such large upfront costs. Block hopes to implement partnerships in other urban markets and utilize lessons from these pilot programs to drive down costs by implementing national training, marketing, and technological programs that would cut across markets.

Ultimately, Block views these partnerships as experiments that can help them devise a strategy for large-scale partnerships that are ultimately scalable and sustainable. It is important to note that most of the partners understood and echoed this sentiment. The municipalities and nonprofits involved felt that the for-profit partner needed a recognizable “up tick” in its bottom line in order to realistically be expected to maintain levels of investment similar to those undertaken with this year’s partnerships.

Lessons Learned

Block's partnerships with a diverse group of partners in varying geographies offers an interesting road map of lessons learned for financial services companies that are interested in finding innovative ways to reach emerging markets. Though these partnerships are new and challenging in certain respects, the players involved discovered that the private, public and nonprofit sectors can work together towards a common goal. For-profits can make inroads into these markets and build efficiencies, while municipalities and nonprofits that are trying to reach lower-income people with financial services can help more families if they reach out to the business sector. Other lessons learned that are specific to these partnerships, but that provide crucial food for thought for entities considering similar market trials, include:

Lessons Related to Process

- **Be Clear About Expectations and Upfront About Your Goals.** Honesty is required from beginning to end for these partnerships to succeed. Partners must confront two vital questions at the beginning of the process: Why am I doing this and what do I want from the other party? In order to effectively manage a partnership that hinges on potential conflicts of interest, it is important to build trust and explain to the other party how your business or organization works and who you answer to in the end. Partners need to clearly lay out their expectations from the beginning. It also helps to speak the same language. Negotiations went smoothly when partners were well-versed in the language of financial services and when Block was willing to demonstrate a collaborative rather than competitive spirit.
- **Systems Are Important.** Each of these partnerships was evaluated in different ways, but participants all stressed the need for long-term data tracking in order to gauge success and consider expansion of the programs. Successful partnerships will pursue well-designed program management mechanisms, technologies that enable partners to integrate products and services, and resources dedicated to tracking clearly defined data measures and client trends.
- **Personal Dedication Is Necessary.** According to the partners and to Block staff, personal dedication on the part of specific individuals was the overwhelming factor of success in every partnership. In fact, when asked why these programs were successful, several participants answered "because of the individuals sitting at the table." Participants who were actively involved with the programs exhibited personal interest in the issues at hand, willingness to dedicate significant time to difficult negotiations, and the ability to overlook conflicts, avoid "turf wars" and work towards a collective goal. If staff kept the partnership at the top of their to-do list and set and adhered to regular meeting times, the partnerships were more successful.

As financial services companies contemplate these types of partnerships, they must consider the importance of personalities. What is it that makes an individual willing to commit to a collective goal rather than to personal or institutional gain and how can

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that commitment be replicated across geographic markets? Moreover, top-level internal champions were vital to these partnerships. If Block's CEO, the Mayors or Executive Directors had not touted these partnerships as important and valuable, it is unlikely that they would have occurred.

- **Reputation Matters.** For-profit companies, nonprofits and public agencies all need to take into consideration the reality of internal and external resistance to potentially contentious partnerships. It was important for Block staff to convince colleagues that these partnerships were not "money drains" and that there was real profit potential in the lower-income market segment. At the same time, Block needed to prove to nonprofits and municipalities that they would be effective partners with lower-income clients' interests at heart. Block also had the added charge of communicating to customers that Block wanted to conduct business with them above and beyond preparing their taxes. These various reputation issues meant that Block had to be strategic about the public face that they exhibited in the partnerships.

On the other hand, the nonprofit and municipal partners also had reputation risks associated with working with Block. It was important for partners to maintain neutrality and preserve choice for lower-income clients, so that the public did not see the agency as an extension of the for-profit Block. In addition, partners were very concerned about avoiding charges of aiding in "predatory lending" by supporting RALs. Further, because the partners are mostly supported by foundation or tax dollars, it would have hurt the agencies' image if the public perceived that those dollars were going to expensive marketing campaigns.

Reputation was significant not just from the perspective of participants, but also to clients. This is an important lesson. In some cases, clients' trust of Block's reliability and service was crucial to the success of the partnership. In other cases, the partner was the trusted source, and clients felt that if the union or city was working with Block, the program must be legitimate.

General Lessons

- **The Industry Needs Market Research on the Lower-income Segment's Financial Services Preferences and Behaviors.** These partnerships, which served as market trials, were mostly done absent significant market data from actual clients. Because of this, some aspects of the programs had to change midstream because Block's and the partners' assumptions about what clients would want was very different from how clients actually behaved. The partners learned that lower-income clients value choice—including RALs-- and that "free" is not necessarily as important to these clients as "convenient" or "reliable" services. In order to be more effective, additional market research on the front end could help similar partnerships tailor to the specific interests of the client base. These partnerships show that a balance between real world experience and research is needed for effective programming.

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- **The Partners Accomplished More Together Than They Would Have Separately.** Block reached more lower-income clients than they could have on their own, and nonprofits and municipalities provided lower-income people with more services than they could have if they had not worked with Block, which offered large scale. This lesson is potentially contentious, as it is subject to change in the future. At some point, the players will confront the question of what these partnerships mean for the future of who is in the market. In other words, will the public, private, and nonprofit sectors always be needed to reach lower-income people with additional financial, social and government services in conjunction with tax preparation? One hypothesis is that the connection between these services and taxes will only grow in the future. But since it is a relatively new phenomenon, it is unclear how this will shake out, and whether these types of partnerships will always be a necessary and sufficient prerequisite to the extension of such services.
- **Experimentation Seeds Sustainability.** Perhaps the most important lesson learned from these partnerships is that financial services companies can leverage their scale and the market knowledge of nonprofits and municipalities to create market tests that will help them design programs to reach lower-income customers. While the initial costs might be high, such companies can use pilot projects to inform larger strategies that will ultimately lead to more sustainable and profitable relationships with traditionally underserved consumers.

Appendix

List of interviewees, in alphabetical order:

Ms. Amiee Albertson, Policy Analyst, Mayor's Office of Public Policy and Finance, City of San Francisco

Ms. Kay Anderson, Executive Assistant to the President, 1199 SEIU

Ms. Karen Clark, Senior Vice President, Operation Hope

Ms. Terri Feeley, Executive Director, SFWorks

Mr. Douglas Hartung, Director of Content Development, H&R Block

Ms. Andrea Hughes, Business Consultant and Project Manager, CAPTC

Mr. William Porro, Special Projects Administrator, City of Miami

Mr. Arijit Roy, Director of Outreach and Business Development, H&R Block

Ms. Anne Stuhldreher, Consultant, SFWorks, and Senior Research Fellow, New America Foundation

Ms. Pauline Toole, Assistant Commissioner of the Department of Consumer Affairs, New York City

Mr. Bernard Wilson, Vice President of Outreach and Business Development, H&R Block

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