

Pre-Class Discovery Handout: Alternative Credit Scoring Business Models

Activity 1: Business Model Canvas Detective — A Scoring Vendor

Scenario: Pick ONE alternative-credit-scoring vendor from the slate below: Upstart, Zest AI, Experian Boost, FairPlay, or Pagaya. Investigate how that vendor actually creates value — read their product pages, developer docs, or investor materials — and fill in the Business Model Canvas below. Focus on mechanics, not marketing language.

Canvas Element	Your Analysis
Value Proposition	<i>What lift does this vendor promise over an incumbent bureau score?</i>
Customer Segments	<i>Which lender archetypes does it sell to?</i>
Channels	<i>How does the model reach the lender's decision engine?</i>
Revenue Streams	<i>Per-file, per-decision, platform fee, securitisation fee — which combination?</i>
Key Resources	<i>Data assets, model IP, regulatory relationships, or something else?</i>

- Q1:** What is the single most important friction this vendor removes for a lender that already has a bureau-score pipe?
- Q2:** How does the vendor reach new lender customers without a branch network or broker chain?
- Q3:** If this vendor disappeared tomorrow, what would a partner lender lose that the lender's in-house team cannot easily rebuild?

Activity 2: Unbundling Map — Bureau Services Under Attack

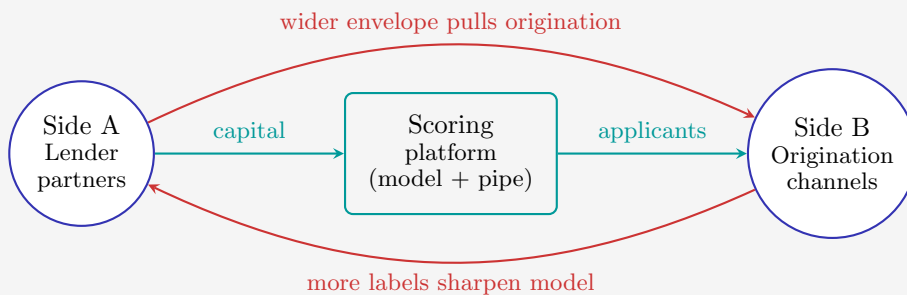
Scenario: A legacy credit bureau bundles many services: tradeline curation, identity verification, score construction, reason-code delivery, portfolio monitoring, and dispute resolution. Each of those services has an alternative-credit-scoring vendor attacking it. Match each vendor to the bureau service it is most directly disaggregating, then answer the debrief questions.

Vendor	Bureau Service Disaggregated
Upstart	Score construction and underwriting decisioning
Zest AI	Model framework and model-governance tooling
Experian Boost	Consumer-consent layer and tradeline enrichment
FairPlay	Fair-lending testing and remediation workflow
Pagaya	Approval-envelope widening plus securitisation orchestration

- Q1:** For each pair, describe in one sentence what the vendor does that the incumbent bureau historically did not.
- Q2:** Which of these vendors has begun adding adjacent products beyond its original wedge? What did it add, and on the same buyer?
- Q3:** Why might a scoring vendor that starts with one wedge eventually want to offer many — and what keeps the buyer stable across the expansion?

Activity 3: The Platform Puzzle — Lenders and Originations

Scenario: A scoring platform typically connects two sides of a market — lender partners who want approvals they can fund, and origination channels (branded partner sites, dealer networks, checkout widgets) that send in applications. Neither side finds the platform useful alone.



- Q1:** Why does a platform with more lender partners attract more origination channels, and vice versa? Describe the cross-side network effect in one paragraph.
- Q2:** The chicken-and-egg problem: which side should a new scoring platform attract first, and what concrete wedge would you use to attract it?
- Q3:** Once a scoring platform reaches critical mass on both sides, why is it hard for competitors to enter? Identify the structural moat.

Solutions

Activity 1: Business Model Canvas Detective — Upstart

- A1: Model answer for Upstart:** The most important friction removed is the lender's inability to extend credit to thin-file applicants whose creditworthiness is real but cannot be captured by the bureau score alone. Upstart delivers a decision that widens the approvable envelope without forcing the lender to build its own alternative-data pipeline, model-risk governance, or fair-lending test stack.
- A2:** Upstart reaches new lenders through a two-sided distribution motion: direct integration with bank and credit-union decision engines on one side, and API-based origination partners (branded sites, embedded checkout, dealer networks) on the other. The platform is its own channel: each new origination partner lowers the acquisition cost of the next lender partner, and vice versa.
- A3:** A partner lender would lose the wider approval envelope and the labels-to-model feedback loop. Rebuilding in-house would mean assembling an alternative-data pipeline, building the model-risk and adverse-action reason-code machinery, and accumulating the label history that Upstart has built up across many lenders simultaneously. None of those are quick to re-create.

Canvas elements (Upstart):

- **Value Proposition:** Widened approval envelope for thin-file applicants, delivered per decision with reason codes and fair-lending tests bundled.
- **Customer Segments:** Primary — mid-sized banks and credit unions seeking underwriting lift without a full model-risk team; secondary — fintech partners running embedded consumer credit.
- **Channels:** Direct API into lender decision engines; origination channels feeding applicants into the shared pipe.
- **Revenue Streams:** Per-decision licence fee plus transactional economics on loans that flow through Upstart's origination partners and related capital-markets activity.
- **Key Resources:** Proprietary model framework, accumulated label history across lenders, fair-lending testing pipeline, reason-code generator, capital-markets relationships.

Activity 2: Unbundling Map

- A1:** Upstart → Score construction and underwriting decisioning (delivers a per-applicant decision richer than a bureau-only score). Zest AI → Model framework and governance tooling (sells the machinery to build and defend a custom model rather than the score itself). Experian Boost → Consumer-consent layer (creates a new link in the value chain by asking the applicant directly for utility and telecom tradeline access). FairPlay → Fair-lending testing and remediation workflow (sells the compliance-testing service as a subscription package). Pagaya → Approval-envelope widening plus securitisation orchestration (monetises the model through the downstream capital-markets pipe rather than a pure model-licensing fee).
- A2:** Zest AI has rebundled most visibly. Having started with a model framework, it added governance tooling, monitoring, pre- and post-implementation fair-lending testing, and policy-workflow modules — all on the same underwriting buyer and per-decision billing cadence. Upstart has similarly rebundled from personal loans into auto, home-improvement, and small-business lending, and into a partner-platform motion.
- A3:** A single-wedge vendor faces a classic problem: the cost of integrating with a lender's decision engine is high, but once inside the perimeter, the marginal cost of offering an adjacent product is low and the marginal revenue is high. Rebundling raises lifetime value per lender account, lengthens the relationship, and makes the vendor harder to rip out than a single-wedge competitor would be. The buyer stays stable because each new module extends the underwriting workflow rather than introducing a new buyer.

Activity 3: The Platform Puzzle

- A1:** A platform with more lender partners attracts more origination channels because a wider approval envelope means more applicants receive a yes — raising the expected revenue per application sent into the platform. Simultaneously, more origination sends more labelled outcomes back into the model, sharpening the envelope further and making the lender partners' approvals more efficient. Each side's growth reinforces the other through a labels-to-envelope-to-origination feedback loop. This is the textbook definition of a cross-side network effect.
- A2:** Most successful scoring platforms solve the chicken-and-egg problem by self-originating at first — carrying the initial loans on their own balance sheet or a captive securitisation to generate the first labels. Once the model has real outcomes, lender partners can be invited in with an evidence-backed pitch. Attempting to recruit lender partners before the model has labels is a cold-start trap: the partners want evidence the envelope works, but without partners the platform has no scale.
- A3:** Once both sides reach critical mass, the platform enjoys a self-reinforcing loop that creates a structural moat. A new entrant must simultaneously attract lender partners (who want evidence) and origination channels (who want approvals), each of which has little reason to join an empty platform. The incumbent's label accumulation grows with every additional participant, widening the lift over bureau scores in a way a new entrant cannot replicate without years of label history.