



Growth Capital for Social Entrepreneurs

RISE Presentation

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2:00-3:30pm

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Agenda

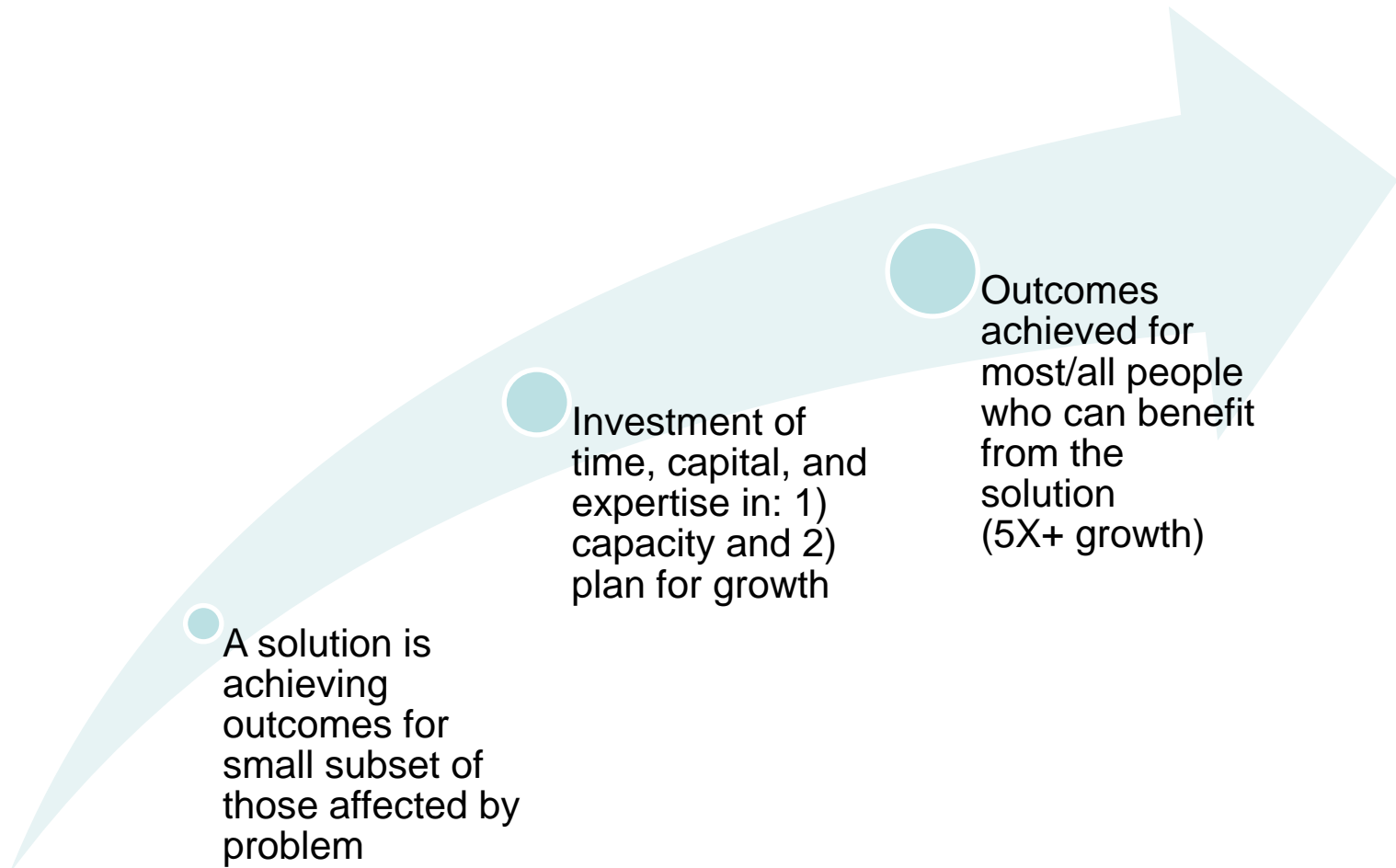
- Introductions
- What is Social Entrepreneurship?
- What is Growth and Capacity Capital?
- The Process to Secure Capital
- Growth/Capacity Capital Case Studies
- Austin vs. the Nation in Social Innovation
- Discussion: How do we grow Austin's social capital marketplace?



Social Entrepreneurship

- Many definitions, none definitive yet
- Thought leaders include: Skoll Foundation, Ashoka, Schwab Foundation for Social Entrepreneurship, Center for Advancement of Social Entrepreneurship (CASE)
- Basic elements of the definition include:
 - **Solutions:** Social problem (not its symptoms) is attacked, and solved
 - **Scale:** Changes an inadequate social system (education, healthcare, access to capital, etc.)
 - **Entrepreneurial:** Creates value without regard to resources at hand
- Differs from “Social Service Provision” organizations, which do not:
 - scale
 - solve a problem, or
 - change a system
- Some examples: KIPP, City Year, Citizen Schools, Teach for America

What is Scale



Case Study

Teach for America

- Problem: Crumbling school districts across the country
- Solution: Send recent college graduates into low performing public schools to teach for 2 years, increasing student engagement, performance
- Since 1990, 17,000 teachers have taught 2.5 million students in 26 school districts improving achievement outcomes and future trajectories
- Growth capital provided by New Profit and other foundations and venture philanthropists



Growth/Capacity Capital

- Funds the movement from A to B
- **BUILDS** organizations rather than **BUYS** services
 - Does not **DIRECTLY** support programs, rather it supports the organization towards growth and/or sustainability
- **Funds things like:**
 - Technology (databases, online tools, web/social media development, computers)
 - Systems (evaluation, monitoring, service delivery)
 - Planning
 - Administrative or revenue-generating staff (Development Director, CFO, COO)
 - Professional development (training, best practices sharing)
 - Management consulting



Growth vs. Capacity Capital

- **Growth Capital**
 - Allows an organization to build the infrastructure necessary to GROW an organization/go to scale
- **Capacity Capital**
 - Allows an organization to build the infrastructure necessary to STRENGTHEN their current capacity (fundraising, systems, technology)



Process to Secure Growth/Capacity Capital

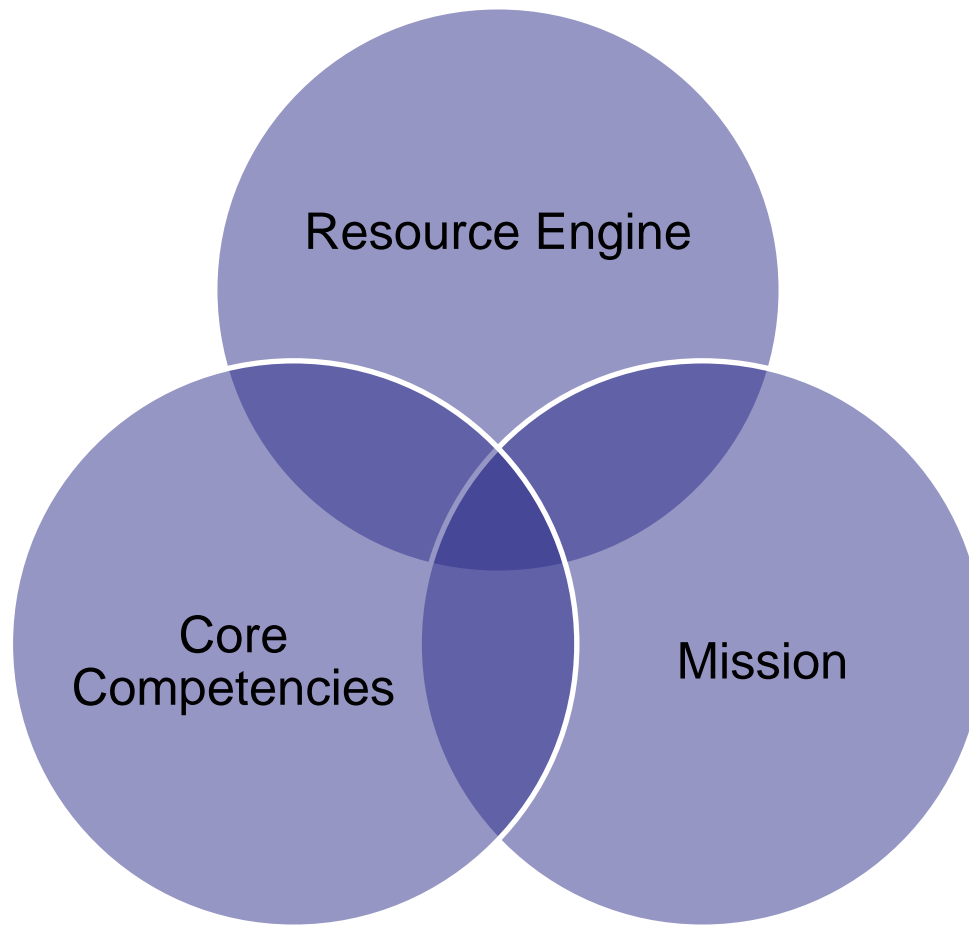
1. Create growth/capacity plan
2. Create the pitch
3. Determine the right funding vehicle(s)
4. Create a prospect list
5. Make the pitch
6. Demonstrate SROI



1. Create Growth/Capacity Plan

- **The Opportunity**
 - Why do you need to go from A to B?
 - Why does it make sense to grow/increase capacity, significance, benefits now?
 - What impact on the system will this change in your organization have?
- **The Growth/Business Model**
 - What does your changed organization look like?
 - **How can your organization be sustainable at point B?**
- **Competitors and Competitive Advantage**
 - Who else is out there and why are you/your model better?
- **Management Team**
 - Why is your team uniquely positioned to make this growth/change a success?
- **Components and Budget**
 - What elements do you need?
 - What will it cost (\$, people, management expertise, other infrastructure) to get from A to B?
- **Implementation**
 - How will you get from A to B?

Elements of Sustainability





Sustainability Case Study: FORGE

- Nonprofit working with refugees in African camps to promote peace and social stability
 - Teach skills, community building, economic development
- Old revenue model: college students running programs must raise the money for their programs
- New revenue model: Kiva-type online giving to projects
- Results: \$100K in debt and may go under
- Why?
 - No strategy for transforming revenue engine
 - New revenue engine at odds with their core competencies
 - No capacity capital to help make the switch



2. Create the Pitch

- The Opportunity
- Competitors and Competitive Advantage
- Components and Budget
- Ask amount
 - What piece of the budget can this investor afford (willingness AND ability to pay)?
- Projected SROI for investors
 - Quantify the impact (change) you will have at scale/capacity (economic, lives changed, increased productivity, increased revenue)
 - Compare the investment now with that impact



3. Determine the Right Financial Vehicle

- Major “Gifts”
- Program Related Investments (PRIs)
- Venture philanthropy
- Mission-related investing



Major Gifts with a Twist

- Individuals or foundations “investing” at a significant (> \$25K level)
- BUILDING an organization, not BUYING services
- The traditional approach must be modified:
 - To educate them about social return on investment
 - To demonstrate an even greater impact than with a traditional “gift”
 - To become an investment not a contribution
 - To include greater follow-up demonstrating return



Program Related Investments

- Loan to nonprofit from foundation at low or no interest
- Can be forgiven at the end of the term, if the foundation desires
- Borrower should have potential to generate income to repay the loan
- Usually used for affordable housing, community development, capital projects, preserving habitats
- New idea: use PRIs to build revenue engine/sustainability of a nonprofit



Venture Philanthropy

- Uses the principles of venture capital to scale impact
- Large (100K+) multi-year investments
- Metrics-based
- Investments instead of contributions/donations
- Achieves a significant Social Return on Investment
- Large-scale, accelerated growth
 - 5X-40X growth
 - 3-5 year window
 - From serving 500 children to 2,500+ children



Social/Mission-Related Investing

- Works for social entrepreneurs that are also social enterprises (generate some financial return)
- Defined as: “a financial investment strategy that maximizes BOTH financial and social return”
- Examples:
 - Investment groups like Good Capital and Investor’s Circle where wealthy individuals are given investment options with double bottom lines
 - Social mutual funds like Calvert Fund, Portfolio 21
 - A foundation invests part of its endowment in social businesses in order to make both a financial and social return

Continuum of Capital

Pure Mission

Pure Profit



PRIs

Major Gifts

Growth Capital

Product/Service Sales

Social Investing

VC/Angels



4. Create a Prospect List

- Remember the 3 Cs, which still apply:
 - Capacity: to give at the needed level
 - Connection: to a peer at the organization
 - Concern: for the mission of the organization
- Start from the inside (closest to the org) and move out:
 - Board of Directors with capacity
 - Major donors to the org
 - Other “friends” of the org with capacity
 - Local foundations/individuals with an interest in your mission
 - Regional/national foundations with an interest in capacity/scale



Austin's Social Sector

Nonprofits

- Highly fragmented – many small nonprofits
- Mostly symptoms, not solutions, focused
- Undercapitalized – small, one-year donations
- Few successful national models

Philanthropy

- Small donor pool
- Enormous untapped wealth
- Untapped venture & entrepreneurial expertise
- Growing recognition of need for capacity, scale, solutions
- Few growth capital investments, YET

5. Pitch

- Meet one-on-one with prospects, starting with closest and moving out
- Be clear, concise and articulate
 - 5-10 slide PPT deck
 - 2-page Word document
- Hit the key points hard:
 - The Opportunity
 - The components and budget
 - Ask amount
 - SROI

6. Demonstrate SROI

- Once they've invested you must continually demonstrate the return
- What has their money allowed to happen?
- How can you quantify the change
 - # of lives changed
 - Systems change
 - Additional dollars raised
 - Increased productivity
- Get investors excited about and further invested in the return



Growth Capital Case Studies

Social Entrepreneur	Venture Funder	# of Years in Fund	\$ Invested	Results
BELL (afterschool program for at-risk youth)	New Profit	5	\$990K	<ul style="list-style-type: none"> • Grew from 925 to 6,900 kids • 100% of kids improved on standardized tests • Revenue grew from \$2.5M to \$16.2 M
See Forever Fdtn (multi-campus charter school for at-risk students)	Venture Philanthropy Partners	3.5	\$1.4M	<ul style="list-style-type: none"> • Grew students served from 85 to 230 • 92% graduated high school • Grew revenue from \$3M to \$7.2M
New Leaders for New Schools (train non-traditional, management expertise candidates to be school principals)	Chicago Public Education Fund	4	\$790K	<ul style="list-style-type: none"> • 90 leaders trained • 51 leaders working as principals or asst principals in Chicago Public Schools



Capacity Capital Case Study: KLRU

- Raised \$350K from 6 individuals/foundations to revamp fundraising function
- Components included: technology (new donor database, online giving software), staff, training, market research, collateral
- Results:
 - Revenue up by \$1.6 million, or 40%, annually
 - Fundraising expenses down by 20%
 - # of donors up by 36% to over 19K
 - \$ raised from major donors up by 195%
 - The number of days of on-air fundraising down 33% (from 89 to 60 days)
 - Foundation support up by 171%
 - Online revenue grew by 250%
 - Size of average online gift up by 164%



Social Innovation Around the Country

City	Social Entrepreneurs	Social Enterprise	PRIs	Venture Philanthropy/ Growth Capital	Social/Mission-Related Investing
Portland, OR	Low	Medium	Low	Low	Medium
San Francisco	High	High	Medium	High	High
Boston	High	High	Medium	High	Medium
Pittsburgh	Medium	Medium	Low	Medium	Low
Austin	Low	Low	Low	None	Low



Discussion

What is required to grow the social capital marketplace in Austin?