



# Start Ups with Social Impact

RISE

March 3, 2009

Nell Edgington, President  
Social Velocity

Jessica Shortall,  
social business consultant

# Agenda

- Introductions
- Definitions of Start Ups with Social Impact
- Start Up Case Studies
- Social Impact Businesses Panel
  - Melissa Nathan, Co-Founder, Blue Avocado
  - Maile Broccoli-Hickey, Founder, English at Work
- Discussion: What does Austin need to lead in this area?



# 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:
  - Change to an inadequate social system (education, healthcare, access to capital, etc.)
  - Creating value without regard to resources at hand
  - Scale
- Examples:
  - Teach for America, microfinance, Hull House, Aravind Eye Hospital
- ***This broad topic is NOT what we are talking about today.***

# Social Enterprise

- An organization (business or nonprofit) that achieves significant social impact as a product of market-based activity.
- Three types:
  - Subsidized
  - Trade-off
  - Lock-step/Social Business

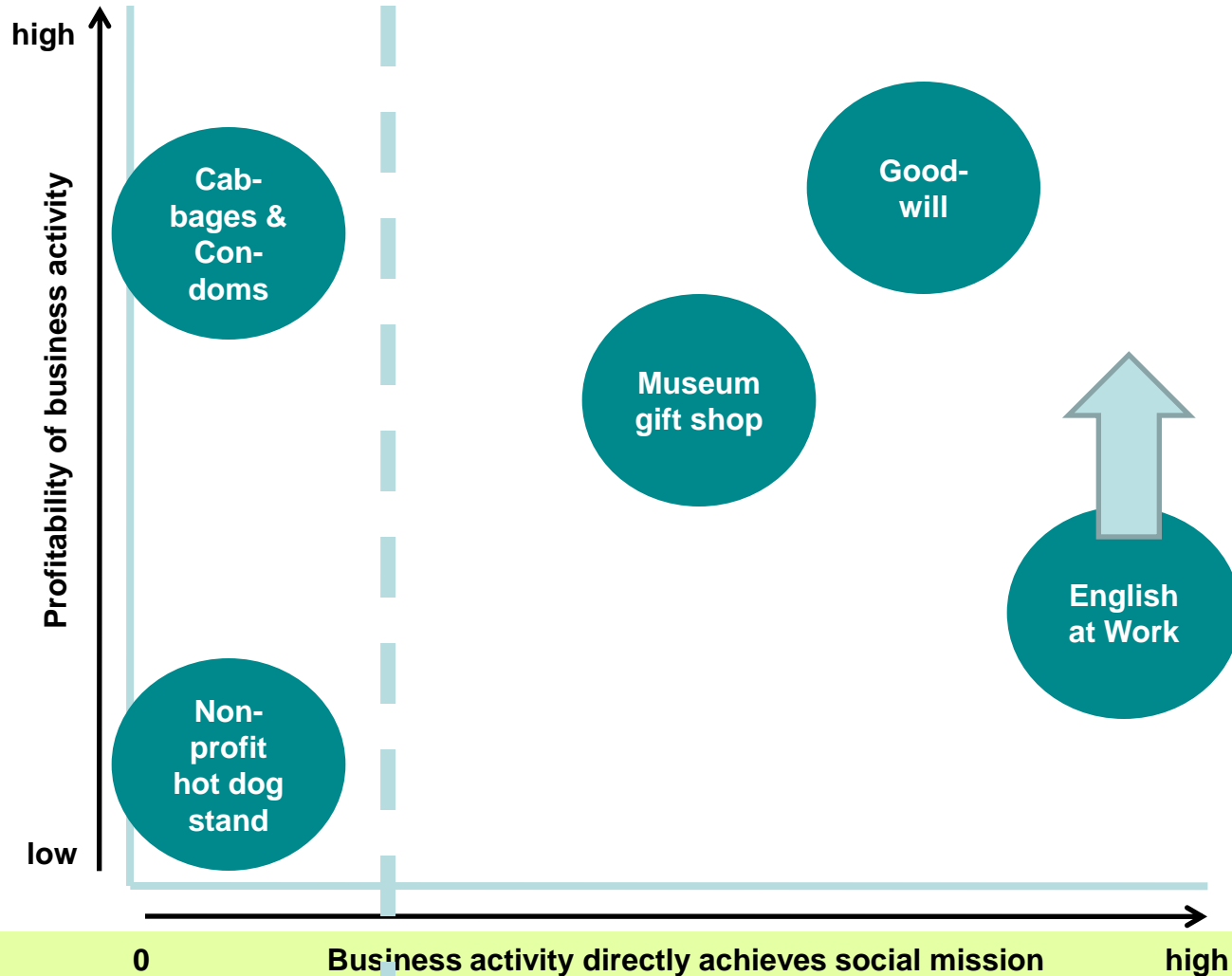
Source: Modification of Paul Cheng & Joe Ludlow, “The 3 Models of Social Enterprises: Creating social impact through trading activities” *January 2008, Venturesome*, [www.venturesome.org](http://www.venturesome.org)



# Social Enterprise: Subsidized

- Business activity operated by a nonprofit organization
- Profits are funneled back into the nonprofit
- Usually <100% of funding comes from earned income – grants, donations etc subsidize the activity
- Examples:
  - Goodwill
  - Theater
  - Museum gift store
  - YMCA

# Social Enterprise: Subsidized



# Trade Off

- Balance between level of profitability & creation of social impact. An increase in one decreases the other.
- Goal is to operate at or above breakeven in the marketplace, without subsidies.
- Social impact is integral to the business.
- Examples:
  - Fair trade businesses (some)
  - Microfinance institutions (some)
  - Firms that employ ex-offenders or other “hard to employ” people
  - Ethical Property Company



# Lock Step / Social Business

- Direct social impact increases or decreases in parallel with financial returns. Financial returns not sacrificed as in Trade-offs.
- Aims to be commercially competitive\*; social return built into business model. Not CSR.
- Quick & dirty test: Would mainstream investors buy shares in it?
- Examples:
  - Whole Foods
  - Wind Farms
  - Greenling (Austin)
  - Justgiving.com

\*



# Subsidized: Positive Partnerships

- Thai project - NGO
- Microenterprise loan fund
- Pairs must apply – one HIV+, one not
- Fund is capitalized by donations
- Very soft loan terms
- Social impact: reduction in stigma, access to capital, economic development





# Trade Off: Better World Books

- Collect & sell used books online & give a % of profits to nonprofit literacy programs
- Triple Bottom Line:
  - Make Money
    - December revenues grew to \$2.1 million (194% increase over Dec 2007)
    - They are on target for \$31 million in revenues this fiscal year
  - Create Social Impact
    - Since launching in 2002 the company has converted 16.4 million donated books into \$5 million in funding for literacy and education.
  - Create Environmental Impact
    - Keep thousands of tons of discarded books from ending up in landfills
- Start Up Funding: \$4.5 million investment from Good Capital, “social” VC firm
- Might move beyond “trade off” – watch this space



# Trade Off: Wholesome Harvest

- Coalition of 40+ small family farms
- Premium organic certified poultry and meats to grocers, chefs and households
- Buy direct from the farmer
- Quality above USDA organic standards:
  - Pasture based production methods
  - No feedlots or confinement/factory farms
  - Better environmental stewardship
  - Added flavor and nutrition
  - Revitalize decimated rural communities and Fair Trade principles
  - Traceability systems and authenticity in intention and production



# Lock-step/Social Business:

- **Whole Foods**
  - Never would have been competitive as just another supermarket
- **Greenling**
  - Tapping into Austin “green” and organic trends
- **Wind farms**
  - The product is the social impact
- **Conversion Sound**
  - Disruptive, affordable hearing aid = change an industry and take market share from incumbents



# Blue Avocado

## Lock-Step/Social Business

Melissa Nathan, Co-Founder

# English at Work

## Subsidized Social Enterprise

Maile Broccoli-Hickey, Founder

# Discussion: What infrastructure is required to make Austin social enterprise flourish?

## **MONEY**

- Risk-taking grants
- Social VC funds
- Foundation leadership

## **NETWORKS**

- Social Enterprise body
- Conferences
- High-profile events

## **EDUCATION**

- Business training for nonprofits
- Educating foundations and investors
- Best practice examples of successful social enterprises