Angel Investing 203 - Assessing impact in early-stage startup companies
Agenda

• Introduction to SWAN
• Challenges in measuring the impact
• How SWAN assesses impact potential
• Examples: SWAN impact assessments
Introduction to SWAN
The Network
• First investment in 2016
• Primarily pre-seed investments
• 80 angel investors
• Chapters in Austin, Dallas and Houston
• We fund companies from across the US

Investments
• Have invested $10M in 31 impact companies
• Per year
  o ~250 company apply
  o ~6 companies get initial funding
  o ~6 portfolio companies get follow-on funding
We Recognize That There Can Be No Impact Without Business Success
We Evaluate Two Bottom Lines

Considered

- Financial return to shareholders
- Impact created by company’s primary business mission

Not Considered

- ESG (Environmental, Social, Governance), DEI & other socially responsible internal operations
SWAN’s Impact Focus

Companies whose **primary** business mission is to address serious societal or environmental challenges

Typically, in the areas of environment, health care, education, wealth inequality, social justice

Highly supportive of under-represented founding teams

50% of investments have gone to these teams

Other networks may define impact as supporting diversity or promoting regional economic development
Challenges in Measuring the Impact of Early Stage Companies
Quoting an Experienced Early-Stage Impact Investor

“"The early-stage impact startup teams have so much going on. They scramble every day to make progress and to ensure that the company survives. That pressure makes it hard for them to prioritize measuring and reporting on impact."”

Juan Thurman
General Partner
SWAN Impact Venture Fund
Impact Measurements

• Social impact can be challenging to measure
  – Health outcomes improved
  – Depression/anxiety reduced
  – Income inequality decreased
  – Racial injustice reduced

• Environmental impact is often easier to measure
  – Energy or water saved
  – Greenhouse gases reduced
  – Environmental pollution decreased
Most Startups Are Not Able to Demonstrate High Levels of Causality

Source: https://ecotone-partners.com/
How then can an early-stage company tell a credible efficacy story?

**Pre launch**
- Provide testimonials from beneficiaries and/or care providers
- Cite evidence compiled by outside authorities or from company research
- Publish pre-release test results
- Write a Theory of Change

**Post launch**
- Compare pre-use and post-use outcomes
- Compare outcomes relative to competitive impact solutions
- Compare outcomes relative to a control group
If it is too early for demonstrated causality, how does SWAN assess impact?
SWAN’s Most Basic Impact Criteria – The Company’s Mission

- Does the company’s primary business mission speak loudly of an over-riding desire to deliver impact?
- Does the company’s homepage clearly communicate that impact mission?
- Will the impact grow in lock-step with revenue?

That said – “Impact is in the eye of each SWAN Investor”
And we work at assessing **Efficacy**

What evidence is there that the company will effectively deliver significant impact?

What a nice idea 😊 vs. High confidence that significant impact will occur
Frameworks that SWAN Employs
UN Sustainable Development Goals

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reduced Inequalities
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace and Justice, Strong Institutions
17. Partnerships for the Goals

THE GLOBAL GOALS
For Sustainable Development
### Five Dimensions of Impact

<table>
<thead>
<tr>
<th>IMPACT DIMENSION</th>
<th>IMPACT QUESTIONS EACH DIMENSION SEEKS TO ANSWER</th>
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</thead>
<tbody>
<tr>
<td>WHAT</td>
<td>• What outcome occurs in period?</td>
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<td></td>
<td>• How important is the outcome to the people (or planet) experiencing it?</td>
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<tr>
<td>WHO</td>
<td>• Who experiences the outcome?</td>
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<td></td>
<td>• How underserved are the affected stakeholders in relation to the outcome?</td>
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<tr>
<td>HOW MUCH</td>
<td>• How much of the outcome occurs - across scale, depth and duration?</td>
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<tr>
<td>CONTRIBUTION</td>
<td>• What is the enterprise’s contribution to the outcome, accounting for what would have happened anyway?</td>
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<tr>
<td>RISK</td>
<td>• What is the risk to people and planet that impact does not occur as expected?</td>
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Q1: UN Sustainable Development Goal?  
A: 3-Good Health & Well Being

Q2: Impact Theme?  
A: Access to Quality Health Care

Q3: Strategic Goal?  
A: Increasing Consistent Supply of Essential Services & Products

Suggested metrics:

- Number and percent of patients with decreased health spending
- Percent change in median client spending on healthcare
- Potential sub-metrics:
  - Patient groups served
  - Communities served
  - Healthcare facilities served
  - Treatment completion rate
  - Patient retention rate
  - (and 10 more)
1. We ask company applicants to define their expected impact and to propose impact measurement KPIs (key performance indicators)

2. We assess their impact in our screening process

3. As final steps before funding, we document:
   - Our impact assessment
   - Mutually-agreed to impact KPIs

4. We require companies to report quarterly on impact KPIs along with financial results and to update SWAN if their impact KPIs change
Goals for Impact KPIs

- **MEASUREABLE**: Is easy and inexpensive to collect, measure and track
- **ACCURATE**: Communicates whether the intended outcome has occurred
- **RELEVANT**: Helps the company grow (e.g. gaining new customers and funding)
- **USEFUL**: Assists in making operational decisions
- **LOCKSTEP**: Grows as revenue grows
- **TIMEBOUND**: Tracks progress over time versus a one time study result
- **PLANNED**: Includes a specific and realizable plan for collecting and reporting the data

Impact KPIs are established when creating the deal memo and are tracked post-revenue
References

• GIIN (Global Impact Investing Network)
  – Including “Best Company Measurement and Reporting Practices”
  – https://thegiin.org/

• Impact Management Project on Impact Frontiers
  – https://impactfrontiers.org/norms/

• UN Sustainable Development Goals

• IRIS
  – https://iris.thegiin.org/metrics/
Examples: SWAN Impact Assessments
Adding aerodynamic fairing around drive wheels of long-haul tractor trailer cabs to improve fuel efficiency and decrease CO2 footprint

- **Impact metric**
  - 1.2% improvement in a truck’s fuel efficiency, with a similar decrease in carbon footprint
  - Total impact can be estimated using the number of trucks employing the fairings and average miles driven per year per truck
  - Metrics are often straightforward for environmental companies
Mobile app focused on improving social-emotional well-being of students in a classroom, especially those who are upset or disruptive

- **Impact metrics**
  - **Harder metrics to measure**
    - Decrease in number of disruptive incidents in the classroom (who would be able and motivated to measure and report on that?)
    - Increase in students’ social-emotional well-being and life skills
  - **Easier metrics to measure**
    - Decrease in absentee rate
    - Increase in graduation rates
    - Decrease in negative emotions as self-reported by students on the app
Not funded: company “a”

Mobile dating app where first date is a volunteer activity at an event hosted by a non-profit

• Impact metric
  – An increase in volunteer hours

• Concerns
  – Impact is not the company’s primary business mission
  – Difficultly in demonstrating the significant societal benefit resulting from dating volunteer hours (the “outcome”)
  – Is the volunteering sticky?
Funded: Scriptly Rx

Offers prescription drug discounts with a primary focus on serving disadvantaged groups.

• Impact metrics
  – The percentage of Scriptly Rx users who are disadvantaged
    • “Who” is served is important to distinguish the company from non-impact prescription discount providers
  – Number of disadvantaged users served
  – Average savings by a disadvantaged user
Not funded – company “b”

High-protein food powder supplement derived from beetles

• Impact metrics
  – Low-environmental footprint (e.g., compared to beef protein)
  – A healthy food

• Concern
  – Will market demand be high enough to deliver meaningfully large environmental and health impacts?
  – There is no way to measure if use of this product causes better health outcomes
  – Yet another “healthy” food. Which food choice results in best health?
Funded: College Consortium

Allowing small colleges to cross list online classes with other small colleges

• Impact metrics
  – Higher graduation rates
  – Shorter time needed to earn a degree
  – Increased viability of smaller colleges
Not funded – company “c”

Innovative technology allowing the windows in existing high-rise commercial buildings to be relatively easily upgraded to double pane

• Impact metric
  – Marked increase in insulation efficiency of windows, with corresponding decrease in fuel usage and carbon footprint

• Concern
  – Risk of low adoption => limiting the scale of impact: Hard to get first high-rise building owner to commit to upgrade an entire building. Who is willing to go first?
Funded: Binary Bridge

A robust, easy to use portable electronic records systems optimized for use in developing countries by medical missions and by local clinics

• Impact metrics
  – Direct impact: Improved longitudinal care for patients
  – Ability to scale the long-term impact: Enhanced ability of medical mission NGOs to report their impact to donors, thereby increasing the NGOs’ ability to scale their operations
Not funded – company “d”

Developing cutting-edge manufacturing techniques in combination with a patient’s own living cells to treat loss of skin color caused by disease and scarring.

• Impact metric
  – Mechanization of the cell-preparation process greatly expands the number of dermatologists who can offer this life-changing treatment

• Concern
  – Small number of people being helped. Treatment is currently available only to patients who can self-pay $5,000. Not covered by Medicare, Medicaid or insurance.
Funded: On the Dot

Daily podcast spotlighting women who are being successful in the world of business. Working to address income inequality and to support women as they work to break through glass ceilings.

- Impact metrics
  - Hard to measure
    - The resultant change in the economic status of business women
  - Easier to measure
    - Women’s self-reported change in attitude
    - A gender-lens investment provides sufficient impact for some investors
Not funded – company “e”

Platform that allows senior public school administrators to more easily comply with state laws which, if the district is found to be in non-compliance, can cause the schools to be designated as under-performing

- **Impact metric**
  - Decrease in hours spent by administrators on reporting, giving them more time to focus on initiatives that improve educational outcomes

- **Concerns**
  - Impact: Hard to measure impact on educational outcomes
  - Business: relatively small market
Additional Webinars

Angel Investing 101
- The Angel Experience: What is an Angel Investor? What motivates Angels? What are examples of typical Angel investments? How does the SWAN operate?

Angel Investing 201
- The Big Picture: Basics of building an Investment Portfolio, and an introduction to how to do Due Diligence

Angel Investing 202
- The Mechanics of Investments: Investment instruments, company valuations, dilution across rounds, post-investment activities, and tax considerations
Good Resources
Webinar Feedback

- Any final questions?
- What was most helpful?
- What was less interesting?
- What would you like to learn more about?
The Angel Investing 203 webinar has completed