SWAN Deal Memo Guide to Impact KPIs

For deal memo impact section leaders

Overview

The goal of the impact section of the SWAN deal memo is two fold:

- To provide an impact assessment to SWAN angels as they decide whether or not to invest in a company
- To guide companies as they develop and strengthen their impact story, both quantitatively and qualitatively

How does SWAN assess a company's impact?

1. Analyze how the company addresses a serious societal or environmental problem
2. Determine the main UN Sustainable Development Goal (SDG) targeted
3. Evaluate the company using the Impact Management Project's Five Dimensions of Impact including a risk assessment
4. Establish impact key performance indicators (KPIs) to be measured and reported on post-revenue

To help guide companies as they develop and strengthen their impact story, SWAN works with our applicants to establish the optimal impact KPIs to measure and manage. The SWAN Impact Deal Memo template offers guidance on the first three parts of our impact assessment - the problem analysis, the UN SDG and the Impact Management Project's Five Dimensions of Impact. This document offers additional guidance on the fourth part of our impact assessment - the impact KPIs.

Why did we create this Guide to Impact KPIs?

SWAN applicants often suggest impact KPIs that are either very difficult to measure or are not truly impact KPIs. The goal of this document is to assist you in working with the company to establish the optimal impact KPIs for the company.

Impact KPIs

What is SWAN looking for in an impact KPI?

The impact section deal memo lead works with the company to establish 1-3 impact KPIs to track post-revenue.
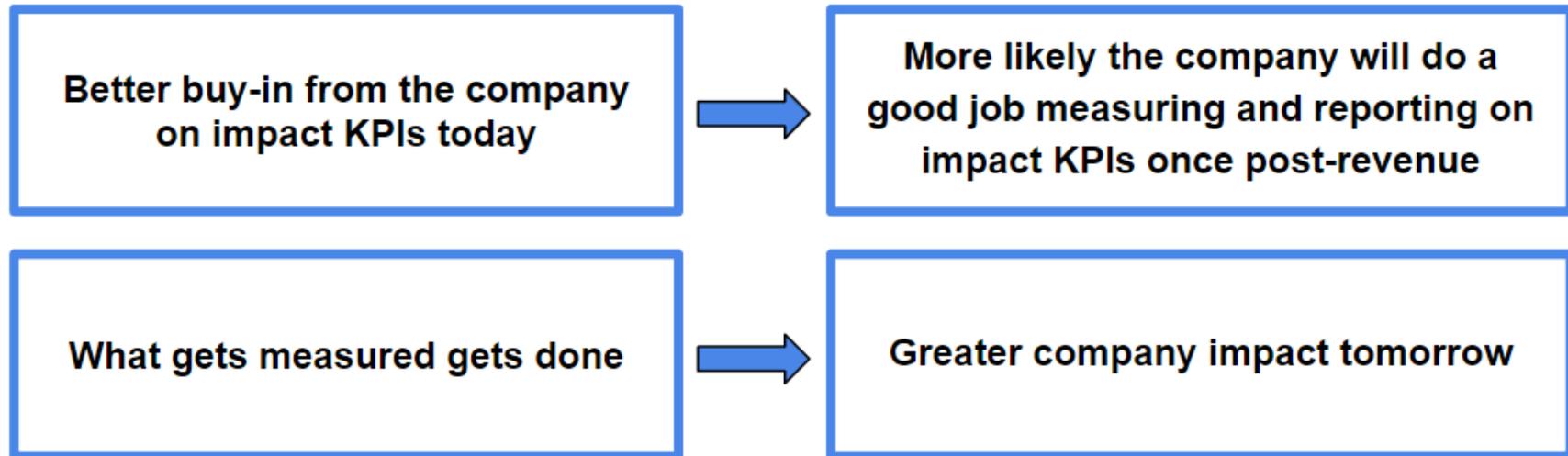
Goals for impact KPIs:
- **MEASUREABLE**: Is easy and inexpensive to collect, measure and track
- **ACCURATE**: Communicates whether the intended outcome has occurred
- **RELEVANT**: Helps the company grow (e.g. gaining new customers and funding)
- **USEFUL**: Assists in making strategic and operational decisions
- **LOCKSTEP**: Grows as revenue grows
- **TIMEBOUND**: Tracks progress over time versus a one time study result (data can be from recurring surveys)
- **PLANNED:** Includes a specific and realizable plan for collecting and reporting the data

REFRESHER: KPIs vs metrics

Key Performance Indicator	Metric
Emphasis on KEY	Not the most important
Every KPI is a metric	Not every metric is a KPI
Measurement to show progress towards an outcome	Good to track but not a standalone measure of outcome
Strategic and critical / focus on what matters most	Operational and tactical / more a valuable metric to track
Understand if you are making the right decisions	Understand overall business health
Relevant across the business	Relevant to specific business areas
Linked to targets or goals	Not always linked to targets or goals, a performance measurement

Working with the company

Remember that the impact KPIs need company buy-in. Our application process requires companies to submit proposed impact KPIs in Dealum and in their pitch deck. These may be good to go but usually we find they need some work. This work cannot be done in a vacuum but must be done with the company, usually the company CEO. The final impact KPIs are then included in the deal memo. If SWAN funds the company, the CEO agrees the company will report on the impact KPIs established in your deal memo once post-revenue. It is important to note that it can be several years between SWAN funding and revenue for the company. This deal memo can set our portfolio companies up for success in tracking and reporting on their impact in the future.

Better buy-in from the company on impact KPIs today →	**More likely the company will do a good job measuring and reporting on impact KPIs once post-revenue**
What gets measured gets done →	**Greater company impact tomorrow**

Identifying which impact KPIs to measure

Sources of potential impact KPIs

1.) UN Sustainable Development Goals - includes targets and indicators for each Sustainable Development Goal (SDG)
2.) IRIS Catalog of Metrics - includes metric suggestions based on impact category, SDG, dimension of impact and other criteria
   a.) NOTE: if you select an SDG, then a new option comes up to search by SDG target

Ideas for potential impact KPIs

1.) Identify KPIs that measure the company's product or service in terms of:
- Effectiveness
- Quality
- Scale
- Access (particularly for any underserved populations)
- Cost

If it is difficult to create strong impact KPIs for a company then suggest the company disaggregate disparities in customers / sales.
- For example: % of units sold into low income communities
  - Could use zip code or specific hospitals to make assumptions on community groups

There may be publicly available data that can help track outcomes and potentially be usable as impact KPIs.
- For example: standardized testing averages, county-level energy consumption averages or mortality rates
- This is most helpful if you can be confident that a change in this data can be attributed to your company
  - If there are numerous factors or companies contributing to this data then it is less useful as a company impact KPI

2.) A simple Theory of Change
A theory of change (ToC) is a tool used to help explain how a company intends to achieve its desired impact. ToC explains a company's intended path to impact by outlining causal linkages between the company's actions and the impact that results. There are several ways to complete a ToC with the most robust requiring extensive time and effort and often results in visual graphics.

The simplest form of ToC is listed as an "if/then" or a "will" statement and this simple version may be helpful as you identify KPIs.

For example:

Theory of Change	Providing low wind optimized, low noise, distributed wind turbines which require a small land footprint and lower the cost of electricity will lead to **more access** for communities to switch to renewable energy which will **reduce greenhouse gas emissions**.
Potential impact KPI from "more access"	Track the # and % of sales to underserved population based off zip code
Potential impact KPI from "reduce greenhouse gas emissions"	Create a formula to show CO_2 reduction from installed fleet

	estimated based on kW installed and track to installations

How does SWAN define outputs and outcomes?

For a financial literacy company, output is the number of people educated and outcomes are the number of people with increased savings or less credit card debt. Those outcomes are more valuable as a measure of impact for our investment but it is more challenging for the company to measure and often involve factors outside the control of the company.

Outputs: What the company produces
Outputs are the tangible products and services that are the result of the company's activities. They are usually expressed as nouns and can be counted.

Outcomes: What the company achieves
Outcomes are the changes that result from the company's outputs. Outcomes are the benefits customers and/or end users receive from a product or service. Unlike outputs, outcomes generally are not completely within the control of the company. Outcomes are often described as increased, decreased, enhanced, reduced, improved or maintained.

Output Examples	Outcome Examples
150 recycling bins installed	Decreased recyclable material in landfills
300 job training session attendees	Improved job skills for the future
1000 solar panels delivered	Increased access to clean energy for underserved communities
200 patients treated	Enhanced patient standard of care

SWAN has a strong preference for companies to measure outcomes versus outputs. However, we understand that outcomes can be very difficult to measure, especially in early stage companies. In this

case, please identify what outcomes the company is targeting then establish which output based impact KPIs will support these outcomes.

The very important plan

Companies often suggest impact KPIs in their application and deck that sound powerful <u>but there is no plan to measure the KPI</u> going forward. The company needs to create a specific and realizable plan for collecting and reporting the data for each impact KPI. Ask the company how they plan to collect, measure and track each impact KPI. If you learn an impact KPI will be too difficult to measure then work with the company to identify another relevant impact KPI that has a better plan.

Case study of how we developed an impact KPI for a potential investment:

Description	KPI (Output or Outcome)	Difficulty to measure	How to measure	Data source	Timing	SDG and IRIS
XYZ Co's wind turbines displace fossil fuels from the electric grid	*CO2 reduction from installed fleet* *Outcome based KPI*	*Easy*	*Created a formula for CO2 reduced based on the turbines' kW installed*	*Installation data + formula*	*Tracked on an ongoing basis* *Reported quarterly*	***SDG****: #13 Climate Action* ***SDG target + indicator:*** *none identified* ***IRIS****:* <u>*Greenhouse Gas Emissions Avoided*</u> *(PI2764)*

NOTE: Impact KPIs are to be tracked by the company post-revenue and reported to SWAN each quarter via the company's quarterly investor report

Quick note on impact KPI comparisons

Once the company is post-revenue then they should track their impact KPIs vs targets, baselines and benchmarks when possible. However given the early stage of our applicants, we do not focus on comparisons in our deal memos.

Closing note from SWAN

SWAN truly appreciates all the hard work that our section leaders put into creating our SWAN deal memos. If you have any questions or are looking for a sounding board as you work on your impact section please do reach out. I am happy to help!

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