

Social Venture Plan Paradigm

Business Plan Element

Keyword

- Mission/Opportunity/Strategies
- External Environment Analysis
- Beneficiary (“Market”) Analysis
- Operations
- Organization and Human Resources
- Business Model and Financial Plan
- Metrics
- Operations
- Financing

Focus

Context

Customer

Process

People

Cash

Accountability

Manage it

Fund it

Operating Plan/Budget and Financing Readings

- *Carlson/Koch, Chapters 11 and 12*

Operating Plan/Budget and Financing

- Operating Plan/Budget
- Importance
- Process
- Results
- Tactics, Owners, Due Dates, Costs
- Budget
- Adequacy

Operating Plan/Budget and Financing

- Financing
- VC vs Social VC
- Types of Social VC
- Amounts
- Valuation and Capital Structure
- Due Diligence
- Investment Readiness (next week)

Importance of Operating Plan and Budget

- Guiding day-to-day operations

“Your Business Plan is only an opportunity unless you execute on an Operating Plan that turns it into reality”

- *Brad Mattson*

- Obtaining financing

“Having an operating plan is a prerequisite for funding.”

- *John Kohler*

Operating Plan & Budgeting Process



Operating Plan & Budgeting Process

1. Confirm your Business Plan with your team
2. Develop Strategic Initiatives (SIs)
3. Define Desired Outcomes (for each SI)
4. For each Outcome, develop Tactics (Actions)
5. Develop Timeline for each Tactic (month by month)
6. Create a Resourcing Plan for each Tactic
7. Develop income and expense models from historical (or competitive) data
8. Load staffing, income & expense models into budgeting tool
9. **If/when you hit a roadblock (e.g., get short on cash) return to steps 1,2, or 3 and repeat.**

Timeline Table

[illegible]

Resource Requirements Table

[illegible]

Example: Five Year Operating Budget

Global Operations 2006-2010

Consolidated Income/Expense	2006	2007	2008	2009	2010
Operations Revenue					
VE channel	72,556	110,516	156,080	263,584	263,584
Partner channel	123,084	440,719	1,392,458	3,856,469	8,434,158
Other	8,600	17,300	29,445	51,950	74,460
Total Revenue from Operations	204,240	568,536	1,577,983	4,172,003	8,772,202
Revenue from Contributions					
Revenue from restricted grants	240,000	325,000	600,000	1,125,000	1,250,000
Revenue from unrestricted contribution:	185,000	200,000	225,000	200,000	200,000
Total Revenue from Contributions	425,000	525,000	825,000	1,325,000	1,450,000
Total Revenue	629,240	1,093,536	2,402,983	5,497,003	10,222,202
COGs	136,504	359,988	1,035,575	2,698,278	5,753,300
Operating Cost Centers					
Headquarters	266,830	563,980	758,250	775,700	837,050
India	159,711	246,389	425,962	850,957	1,451,383
El Salvador	25,983	31,863	34,699	35,877	37,193
Others	40,871	61,900	90,700	101,200	61,000
Total Operating Cost Centers	493,395	904,132	1,309,611	1,763,734	2,386,626
Total Costs	629,900	1,264,120	2,345,187	4,462,012	8,139,926
Net Deficit/Surplus	(\$16,437)	(\$196,861)	\$24,158	\$998,696	\$2,044,096

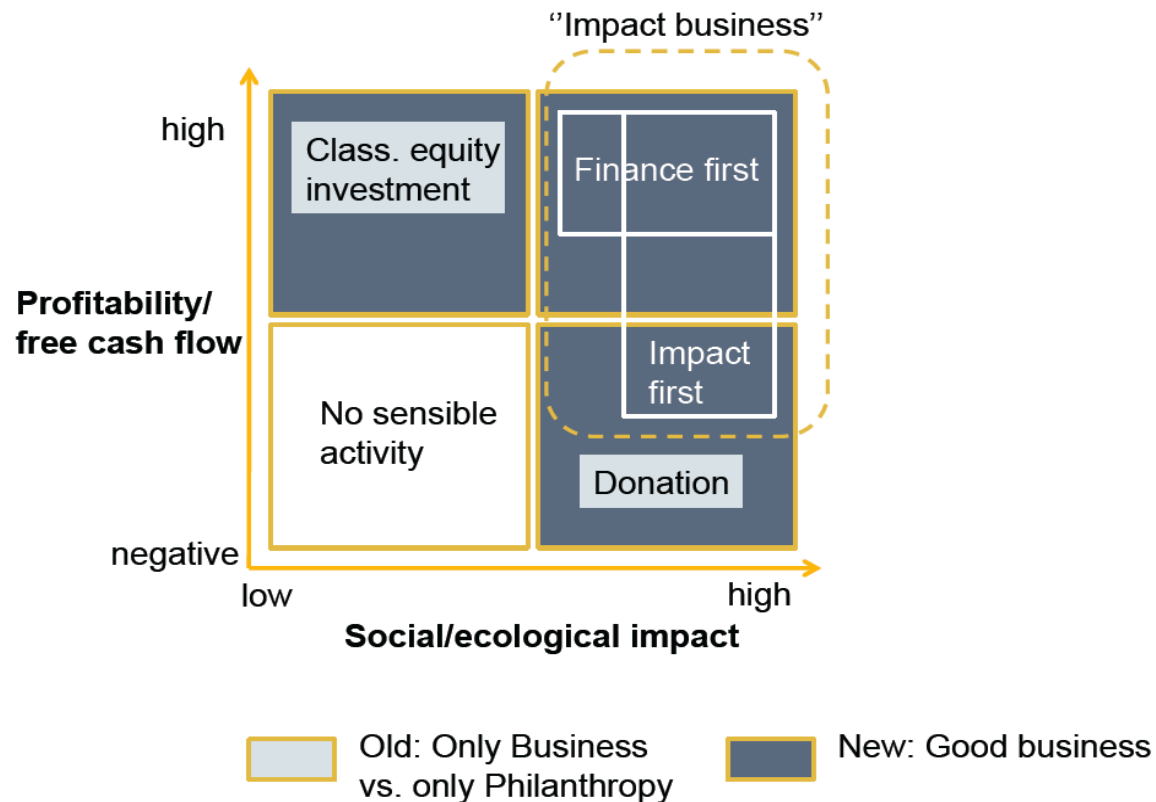
Operating Plan Adequacy

- Strategic initiatives/tactics specify outcomes, milestones, resource requirements, and owners
- Budgets combine both on-going revenue/expense targets and project-specific expense projections
- Operating plan includes budget and cash flow statements.

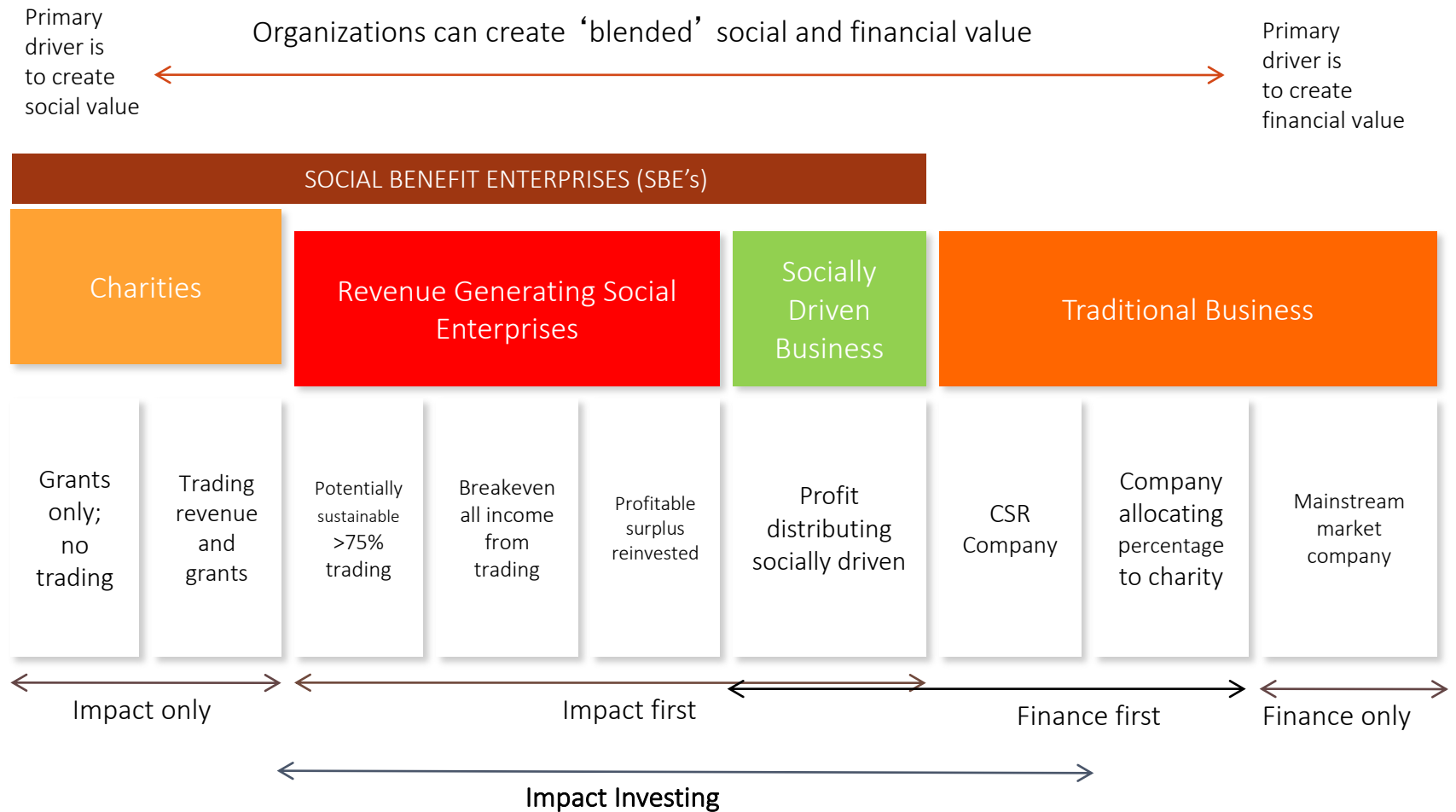
Financing

- Markets (Private Equity vs Social Capital)
- Types of Social Capital
- Process
- Valuation and Capital Structure
- Due Diligence Documents Needed

Financial First vs. Impact First History



Current State: Spectrum of Revenue Source and Mission



Venture capitalists have it easy...!

Venture investing in the developed world

- Targets of opportunity are sourced locally
- Investment syndicate drawn from local venture capital relationships
- Results of venture capital backed product or service has a global impact
- Well-defined path of “up-round” investing
- Ready-made pools of “up-round” capital waiting for winners to emerge from previous financing

Venture investing in the developing world

- Targets of opportunity are sourced remotely
- Investment syndicate drawn from the global impact investing community
- Results of venture capital backed product or service has a local impact
- Scarce “up-round” capital available

Private Equity vs. Social Capital

Private Equity Markets

- Cost efficient
- Low transaction costs
- Information rich
- Up-to-date
- Value driven allocation of funds
- Success is rewarded
- Tiered, flexible and responsive market environment
- High liquidity

What Private Equity Investors are Looking For: Qualitative

- Ability to articulate the business: “What do you do?”
- Succinct understanding of who your customer is, why do they need what you provide, and why they should pay for it
- Evidence of reliable, objective, and consistent measurement & evaluation processes
- Lots of energy ... “fast clock speed”
- Deep domain or technology experience (or both)

What Private Equity Investors are Looking For: Qualitative

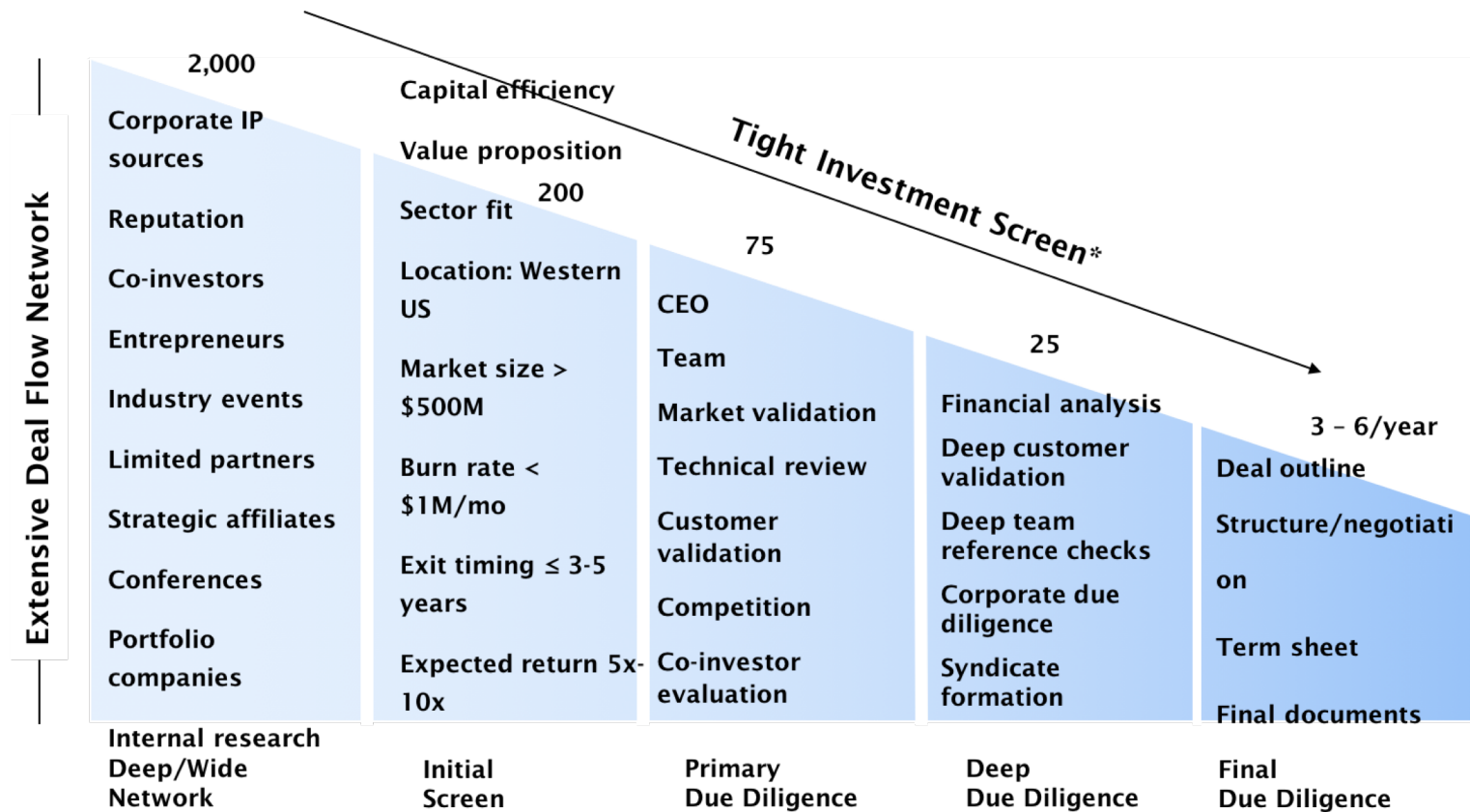
- Incomplete teams are okay... not incompetent or broken ones
- A team of experts who manage cohesively ... not “yes men” in an autocracy
- Passionate and strong belief in the company mission, technology, and value... but still coachable
- Ownership for product quality, customer satisfaction, and shareholder value
- CEO operates with a vision, manages burn rate, is decisive, knows when to expand, and has ability to inspire...

What Private Equity Investors are Looking For: Quantitative

- Big Markets
- Great Teams and Advisors
- Defensible Value Proposition / Technology
- Customer Traction
- Unfair Market Advantage
- Tangible Business Model
- History of Execution

Stages of Private Equity Due Diligence

Example



* Deal evaluations over a 12 month period

Private Equity vs. Social Capital

Social Capital Markets

- Inefficient
 - High transaction costs
- Information poor
 - Inconsistent or non-existent metrics
- Cause driven allocation of funds
 - Success goes unmeasured and possibly unrewarded
- Unstructured, static and inflexible
 - Low liquidity, limited resources

Unlocking Flow of Social Capital



- Eliminating poverty through development: everybody's heart is in the right place... capital sources, intermediaries, and social entrepreneurs
- The Debate: Is there too little interested capital or are there too few investible SEs?
- There a trade-off between impact investing and market rate return
- What are the missing pieces that allow development capital to flow to deserving SEs in developing regions?

Types of Social Capital “Colors of Money”

- Portfolio company growth can often be leveraged if sequenced with other forms of available capital... This has often been referred to as the “colors of money”
 - Grant capital or philanthropic donation
 - Soft loan
 - Quasi-equity
 - Trade credit
 - Commercial lines of credit
 - “Patient” equity
- Sources of capital are rarely coordinated and introduce competing priorities...

Types of Social Capital

Why Choose Non-Equity Instruments?

- Time-to-yield realization
- Imperfect market conditions
- Increase the reliability of a positive outcome
- The (low) probability of an 'exit' (sale or IPO)

Variables Influencing Types of Social Capital

- The “life cycle stage” (start-up, early results or proof of concept, beginning growth, rapid expansion, maturity)?
- How much “due diligence” (effort)?
- What are the funding sources’ expected returns?
- How long does the engagement (contract) with the funding source last
- What is the “exit strategy” (i.e., when does the engagement end)?
- How much control/involvement with the enterprise does the financing source require?
- Is the organization “investment ready”—can its valuation be calculated and does it have cash flow to support the investors expected returns?
- The organizational structure

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
Personal: family and friends (incl. KickStarter)	Start up, early stage and some-times early growth	Low	Impact first, beware of financial	Both flexible	Should be low, Possibly high

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
Grants	Start up, early growth	High initially, then moderate	Impact may expect some repayment	Generally short term—for a specific period	Should be low, may be moderate

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
“Soft” Loan (incl. Kiva)	Any	High initially, then low	Impact, repayment of principal and maybe some interest	Flexible, exit is repayment	Low

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
Conventional Loan	Beginning growth, expansion through maturity	High initially then low, will require verification of assets (or income) as security	Payback of principal and market interest, usually on pre-set schedule	Fixed time period, exit is payoff	Low

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
Program Directed Investment	Growth, expansion	Moderate, will need progress reports on program	Impact, may require payback of principal	Fixed time period, exit is completion of program	Low

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
Demand Dividend	Growth, Expansion	High initially then low based on demand conditions	Dividends paid in amounts (or %) at times agreed to at start of program	Dividends as Agreed upon at signing, exit at duration of agreement or amount of payoff	Low to Moderate

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
Convertible Debt	Beginning growth, expansion, maturity	Initially high, then moderate, will require org. to have valuation and proposed capital structure	Payback of principal plus below market rate interest and/or appreciation through conversion to equity	Flexible, exit is payback or conversion to equity	Moderate

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
Angel equity	Early stage or beginning growth	Moderate to high, will require valuation and capital structure	Impact first, beware of financial	Flexible (patient capital), exit is buy-back, buy-out, sale of company, or public offering	Low to moderate, may want to be on Board or Advisory Committee

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
Impact First Equity	Any	Moderate to High	Impact, possibly below market rate of payback, exit through buy-out or sale of company	Flexible (patient capital), exit is payback, buy-out, sale of company, or public offering	Moderate to High, are owners of the venture

Types of Social Capital

Type	Stage	Due Diligence	Expected Return	Duration and Exit	Expected Involvement
Financial First Equity	Early Growth or expansion	High, will require valuation and capital structure	Market rate of appreciation, exit through sale of company or public offering	Short to medium term, exist if sale of company or public offering	High, are owners and expect financial return

How much Capital Is Needed

- Enough to cover all negative cash flow (for all expenses – including at least 10% risk extra)

Valuation Alternatives

- Replacement costs of assets (e.g. the costs of creating products and/or processes)
- Revenue (present value over several years--how much you would need to invest now at market rates to create the revenue stream)
- Earnings (present value over several years—how much you would need to invest now at market rates to create the earning/revenue stream)
- Opportunity Costs: how much it would cost to create a revenue stream equal to that of the business
- NOTE VALUATION MAY CHANGE OVER TIME

Capital Structure

- **Best to plan for more than one funding round** (initial investors should expect to be “pushed down” (e.g. have smaller share of company– hopefully at higher valuation)
- **Try not to give up more than half the company (over time)** to outside investors
- **Try not to have several classes of stock** (other than Series A, B, etc)
- **Number of shares depends on valuation and desired share price level**

Due Diligence Documents

- Business Plan
- Operating plan and budget
- Revenue forecast detail (income over time by product/service/source)
- Funding Request (amounts, timing, sources and uses) outside
- Proposed capital structure (if necessary)
- Copies of any contracts, partnership agreements, and any legal proceedings (patents and lawsuits)

Report #8: Operating Plan/Budget and Financing

Note: not the same as in Carlson/Koch

1. What operating plan documents did you find? (Provide copy) 1 pt
2. What budget data did you find? (Provide copy) 1 pt
3. Are the operating plan and budget sufficient: 1 pt
 - To run the organization (why or why not)?
 - To obtain financing (why or why not)?
4. What type(s) of financing is the organization seeking? 1 pt
5. Is the financing: 1 pt
 - Achievable (why or why not)?
 - Sufficient to get to sustainability (why or why not)?

Presentation #8: Operating Plan & Financing

1. What Operating Plan did you find? Do you think this is: 1 pt
 - Sufficient to manage the business?
 - Sufficient to obtain financing?
2. What type(s) of financing is your organization seeking? Do you think the financing requesting is: 1 pt
 - Achievable?
 - Adequate (For sustainability/scalability)?