Investment Readiness Case Study

Purppl

Author

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This case study is part of a social finance case studies series on investment readiness. Through a partnership with Investment Readiness Program (IRP), SI Canada is working with ten entities (SPOs non-profits, co-operatives, for-profit social enterprises) that have achieved investment readiness and provide them with an opportunity to share their journey and profile this work through a case study and a virtual event.

Background

“We build social impact, together”

Purppl coaches, consults and collaborates with social entrepreneurs and impact leaders to build enterprises and initiatives that address the root causes of systemic inequity. Our diverse team of experienced Entrepreneurs In Residence work with clients to build skills and confidence in impact modeling and measurement, financial management, operations, organizational development and leadership. Our vision is a just, regenerative economy that advances collective wellbeing and the health of air, land and water.

The organization was created to support purposeful people (hence the portmanteau of the name, Purppl), in developing their capacity to implement sustainable business models and sustainable impact models.

Timeline

Purppl took on initial loans from co-founders in 2015. We then got a line of credit in 2017. In 2020 we took out a loan from the credit union. Also in 2020, we took on our first equity investment into an impact fund that we started. For several reasons we shut down the initial fund and became partners and co-owners of a very similar impact fund; equity has been raised in that fund in 2021, 2022 and 2023.

How the initiative came about

Purppl is a co-owner of Thrive Impact Fund, an impact-first fund that provides flexible and patient capital to impact organizations solving today’s most challenging problems - including non-profits, charities, co-operatives and for-profit social enterprises. The Fund’s investors are mobilizing catalytic capital to enable investees to build strong financial models, grow their operations and deepen their impact. We are actively raising investment for the fund.

As a partnership between Scale Collaborative and Purppl, Thrive Impact Fund has access to extensive expertise in social enterprise development and backbone organizational support.

In 2021 we raised about $1M, in 2022 about $1.5M, and in 2023 we have a new $1M investment commitment, with another $1.5M anticipated by the end of the year. Our goal is to raise $5M in 2023 and $10M in total for the fund by the end of 2024.

Types of financial support sought out

Purppl took out a very small loan ($10K) at inception. This very friendly loan (0% interest rate) was from the two other co-founders, who also took on some of the equity of the company. Half of that loan was paid back as a percentage of our early revenue. The other half was paid back a few years later. Upon incorporation and getting our first bank account, we also set up a small line of credit.

In early 2020, the pandemic created a lot of uncertainty for Purppl. We didn't know how the pandemic would affect our clients and saw some of them close their doors within weeks of the pandemic closing down the community. We did some immediate analysis of our business model, reached out to clients to understand their emerging needs and stopped doing some of the events and workshops that were no longer possible. We quickly made some changes to our business and operational model that helped build more predictability to our revenue and expenses. We then asked for and received a loan from the credit union. This was on top of our existing line of credit. The capital helped us manage risk and stress, and gave us some comfort in hiring an additional staff role which gave us more sales and operational capacity.

Pre-pandemic, we had also started building an impact fund alongside a couple of other partners. We launched Liime, a small place-based impact investment fund for the Okanagan and B.C. Interior and then raised our first equity investment through Savings Credit Union in the early months of the pandemic. We struggled to grow it past the initial investment because the structure required more capital to access the investment, and the pandemic really hampered our ability to raise that additional capital. Liime was structured as an evergreen fund, not a traditional general partner/limited partner-style venture fund.

Around the same time, our friends and colleagues at Scale Collaborative in Victoria started working on a similar place-based fund for Vancouver Island. We started learning with and from each other during that process. After seeing so much alignment in our intended outcomes and over several months of conversation, we discussed working together instead of building two separate funds. In the fall of 2021, we decided to close down Liime, and convinced our investors to shift their investment to Thrive Impact Fund. Purppl was welcomed into Thrive Impact Fund and became a co-owner and board member. Thrive Impact Fund is incorporated as a BC Benefit Company and is intended to be an evergreen fund.

Barriers and Challenges

Purppl's biggest barrier to accessing social finance and impact investment has been the risk tolerance of the leadership and Board. Taking on debt in some ways feels like a failure, almost as if getting debt or equity means that the business model is weak because it can't generate enough cash to grow by itself. It also felt risky to take on someone else's capital. What we've learned is that we likely should have taken on external capital sooner. The capital gave us the confidence to expand our team and this has enabled meaningful growth and deepened our ability to deliver on our impact model.

At Thrive, the capital needs are different. We couldn't start a fund without immediately taking on investment capital. Our biggest barrier is a systemic problem in the traditional expectations of capital and investors.

Many investors are seeking "market rate" returns; market rate returns are often gained at the expense of environmental and social outcomes, and the investments Thrive is interested in are often addressing market failures.

In order to make value-aligned investments, Thrive operates as an exempt fund outside the wider market. Our "market" is flexible investments, either loans or revenue-based financing, into organizations with steady returns to investors based on the portfolio. Some investors are willing and able to have steady financial and high impact returns, however we have observed real cultural, policy and systemic barriers to raising capital:

- Institutional investment policies that specify "market rate returns", even if these come with a loss;
- Some boards and institutions see a smaller, place-based fund as "risky" and believe that "bigger is better";
- The belief that fiduciary duty means profits and returns first, and a concern that considering impact outcomes will compromise their duty;
- Stats show that women-led funds and enterprises raise far less capital than their male counterparts (Thrive is a women-led fund).

Based on all this, investors in Thrive are highly values-aligned, willing to be flexible in their return profile, and are seeking alternative avenues for supporting local communities and entrepreneurs.

Thrive itself is set up to remove financial barriers for social entrepreneurs. We know that the social sector is largely led by women. It's well documented that women have a hard time raising capital. Nonprofits also have a hard time raising capital, mostly as a result of misunderstood business models and impact models, as well as limited risk tolerance and capacity of boards and leadership teams. Many organizations are trying to manage ongoing, multiple crises and don't have the time to figure out impact investing. Further, if you are a racialized leader, the barriers to accessing social finance are even greater.

Thrive is set up specifically to help address these gaps, and we look for investors who can be patient and committed to a capital structure that supports investing in these leaders.

The government's involvement in Purppl's impact investing journey

Both Purppl and our fund partner, Scale Collaborative, have received funds from the Investment Readiness Program funded by the Government of Canada. And we benefit indirectly from the municipal, provincial and federal money that gets directed into social purpose organizations and social enterprises, who in turn hire Purppl to help them develop and mature their organizations and increase their impact.

Measuring Impact

How impact was measured and demonstrated to investors

From its earliest days, Purppl implemented protocols for tracking data and impact. This included monitoring indicators such as client revenue growth and revenue diversity as anchor points.

As of five years ago, we added to our efforts by starting to measure social impact as well. We began to use a theory of change to help us clarify the impact we wanted to create and how we intended to effect real change in the world. This process is what led us to the Common Approach.

We chose to measure and track in these ways because we wanted to know if and how our efforts were effective - tracking not just the quantitative but the qualitative too. We are in a constant learning journey about impact measurement.

Thrive Impact Fund is also using the Common Approach and is really focused on enabling investees to tell us how they measure impact, rather than us telling them what to measure.

- **Learn more about Purppl's impact measurement and evaluation here.**

Incorporating diversity and inclusion into the venture

Our primary activity at Purppl is walking together with social entrepreneurs and impact leaders as they build their capacity to lead enterprises and initiatives that address the root causes of systemic inequity. To date, 70 per cent of those leaders have been women, and many from racialized communities.

I'm very cautious about representing Purppl as working on DEI or as a DEI leader. While our team of Entrepreneurs in Residence (EIRs) holds some diverse identities, and we've focused on hiring EIRs with different lived experiences, we are still vastly led by people, myself included, who bring white privilege and other privileges into the work.

We have a long and deep commitment to decolonizing and building respectful relationships with Indigenous people and places. We have an ongoing collaborative relationship with IndigenEYEZ. Their social enterprise, kinSHIFT, focuses on helping non-Indigenous people to build respectful relationships and honour Indigenous ways of being and knowing.

More broadly, our work mainly connects to SDGs #8 Decent Work and Economic Growth, #5 Gender Equality (a lot of women are leading social impact organizations), #10 Reduced Inequalities (a focus on social enterprise), and #17 Partnerships for the Goals (related to data).

The social entrepreneurs Purppl works with cover a very broad spectrum of the SDGs as they each focus on different systemic problems and their root causes; these are well known to be intersectional and overlapped.

Next steps for the social finance project

Purppl does have a low-interest loan in order to cover our operating needs. I expect we will need more as we grow. We aren't seeking equity right now, but we are in the early stages of exploring a large social purpose real estate project which would require significant investment. We are also in the earliest stage of considering what it means to bring on partners/employee owners.

At Thrive we are expecting to raise an additional $1.5-$2M in equity in 2023 and $5M in 2024. We are actively seeking values-aligned investors. So far these have been family foundations, community foundations and credit unions.

Lessons learned from "investment readiness" journey

I had to really change my own mind about taking on social finance or investment capital.

With some patience, we've been able to find values-aligned, patient capital. Rather than it feeling like a weight, it actually has enabled us to broaden and deepen our impact at Purppl. And our impact at Thrive is not at all possible without impact investment.

That's been the real lesson for me, a change in my own mind and some of the culture in our team about money. Social finance is a growing opportunity. But I am quite cautious about solving some of the challenges of capitalism and colonization with more capitalism.

I've learned that a sound business model is as important as a sound impact model. Measurement can support storytelling on both of those pieces and attract the right capital and investors - there is no story without data and no data without a story.

Solving system problems is best done together. Being in respectful relationships brings hope, and is the foundation that enables real action.

Shutting down Liime was empowering for me, and the ongoing opportunity of working together on Thrive is tremendous. Real partnerships are really enabling.

Hopes for the future with regard to social finance

Our vision is a just, regenerative economy that advances collective wellbeing and the health of air, land and water. We see a future with permanent, widespread policy, practice and infrastructure in place to support social entrepreneurs.

Social finance must play a role. We have to shift the dominant economic model from extractive to regenerative. Our collective future will be better than the one we've inherited.