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**SPUD.CA**  
*Local Organic Groceries*

# Social Finance Case Study

**Sustainable Produce  
Urban Delivery**

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# Social Finance Case Study: Sustainable Produce Urban Delivery

Social enterprises and ventures often face significant challenges accessing financial capital to ideate, launch and grow. Many not-for-profit social ventures do not have the cash flow required to service large debt obligations, leaving these organizations largely dependent on traditional sources of short-term and cyclical grant funding. While for-profit social enterprises and ventures have the option of raising equity capital, these organizations also face challenges related to finding investors that are willing to tolerate patient returns and avoiding investors that expect them to compromise their social mission to grow.

The aim of these case studies is to illustrate how Vancouver Island-based social enterprises and ventures have leveraged innovative financing to support their launch and growth, while maintaining a strong commitment to their social mission. The case studies are selected to represent a diversity of organizational forms, stages of growth and financing mechanisms. It is hoped that their stories will inspire other social enterprise and ventures to explore innovative financial mechanisms to scale up their own social impact, and to identify social finance tools and options that could be further strengthened. The table below summarizes the key attributes of the four case studies selected for this research.

**SPUD** is a for-profit Certified B Corp that provides online grocery delivery service with operations in Victoria, Vancouver, Edmonton, Calgary and several cities in the US. SPUD partners with local and organic farmers to provide customers with access to food produced using sustainable farming practices and humane treatment of animals while also reducing pollution associated with the transportation of food.

**Financial Structure:** SPUD was established in 1997, with a \$150,000 personal investment by the founding CEO. In the following year, Renewal Partners, a social venture capital firm with a focus on organic and sustainable food, invested \$70,000 in shares and provided SPUD with a \$50,000 loan. In subsequent financing rounds, SPUD received approximately \$1 million in total investments from Renewal Partners. SPUD reserves 10 percent of its share ownership for employees. The CEO owns 20 percent of shares. In the earlier years of its growth, SPUD offered debentures that could be converted into shares or a new two-year note. Most of SPUD's capital is now in the form of common shares. In 2017, Walter Group completed a \$12.8 million private placement of common shares. SPUD's investors represent a mix of socially-minded and conventional investors. As SPUD's CFO Adrienne Yu explains, "we've got high net worth individuals that are passionate about food systems and

This social finance case study will examine Sustainable Produce Urban Delivery (SPUD), based out of Vancouver and Victoria, BC. SPUD is a for-profit certified B-Corp that has used venture capital to scale their social impact.



SPUD delivers local and organic groceries to homes in Victoria and Vancouver BC.

sustainability and more traditional investors that see the trend of increased demand for sustainable and organic food and want to be a part of it."

**Rationale:** Equity investment allows SPUD to replace debentures and to expand its operations. In addition to financial capital, venture capital firms bring expertise, partnership and access to new networks.

**Process:** SPUD's social mission guides the type of investment partners that they seek. Investors must share SPUD's long-term vision and demonstrate alignment with SPUD's values. SPUD attributes its success in attracting private investment to its ability to articulate a strong vision and compelling narrative. This story must be backed by clear opportunity that can be understood by prospective investors within 18 to 30 slides. Investors also need to see that SPUD is aware of potential risks and has a plan to mitigate these risks.

**Key Outcomes:** Recent capital raises have been used to grow SPUD's warehouse distribution facility in Vancouver, to establish physical stores in British Columbia's lower mainland and to support growth of businesses in SPUD's existing markets. SPUD has become the largest organic food delivery company in Canada.

**Key Challenges:** Having a social mission means that long-term viability of the company can take precedent over short-term profits. In the earlier years, finding venture capital firms that were willing to tolerate patient returns was difficult. In an interview conducted in 2007, the founding CEO Peter Van Seters expressed, "I was worried they would ask me to water down the company values to generate a bigger profit, and all of a sudden we're selling Coca-Cola." SPUD's CFO explains that finding investors that are aligned with SPUD's values is not as challenging as it used to be and that many conventional investors recognize the growth potential in the market for organic and sustainable food. In Yu's experience, "having a social mission does not prevent us from finding good investor partners – rather, it helps us to weed out potential investors that would not be a good fit."

There are some challenges that all ventures face when raising capital, regardless of whether they have a social mission. First, reporting requirements to keep investors informed of the firms' activities can be onerous. Second, raising capital often requires capital in the first place, since investors want to see that the firm is prepared to execute quickly. Moreover, preparing presentations for investors requires resources. SPUD often must demonstrate its past financial performance, particularly for more conventional investors. This may require testing on a small scale to validate claims and financial modelling, which requires both time and resources.

Another key challenge relates to the structure of convertible debt to attract investors. In its earlier years, SPUD's cash flow was insufficient to cover repayment, which meant that SPUD had to raise capital every year to cover repayment of debts and to avoid risk of default. Approximately half of the investors in convertible debt opted out after their term. SPUD now relies more heavily on common shares.

**"We've got high net worth individuals that are passionate about food systems and sustainability and more traditional investors that see the trend of increased demand for sustainable and organic food and want to be a part of it."**

**–Adrienne Yu, CFO, SPUD**

**Key Conditions for Success:** In several interviews, SPUD's founding CEO attributes the firm's success to finding values aligned venture capital investors like Renewal Partners who understood that the value of SPUD was intimately tied to its social mission. This support extends beyond financial and management experience, to include referrals and network opportunities. When looking to attract new investors, a key condition for success is a strong management team with the capacity to execute. As Yu explains, "while you need to sell your plan on paper, you also need the capacity to execute the plan." Persistence and willingness to work through adversity are also critical.

Key to maintaining SPUD's existing relationships with investors is consistent communication. SPUD provides information on a regular basis to investors to keep them informed, particularly if there are changes to what SPUD initially committed to do. SPUD's CFO also emphasized that it is important that ventures understand the deal and ensure that the deal is structured properly. Yu adds, "there are several examples of bad deals where companies have given up too much. You need to consider what you are willing to give up and what you are not willing to compromise."

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—Adrienne Yu, CFO, SPUD

**"Be prepared for things to not go your way and don't let it deter you from your end goal. It can take twice as long as planned to close a deal. Ensuring that you have the cash front while you are raising new capital is critical."**

—Adrienne Yu, CFO, SPUD

**Lessons Learned:** SPUD has a long and successful track record of raising capital from a diverse mix of Canadian and US investors, some with strong ethical and social missions to invest in businesses that align with investment criteria and others that focus only on long-term value. It is remarkable that SPUD has maintained its commitment to its social mission despite giving some control to outside investors. SPUD continues to evaluate opportunities to expand and strengthen the pursuit of its social mission. Finding the right partners and ensuring that SPUD does its due diligence is key to maintaining this alignment and ensuring that it never has to compromise on its values.

To be sure, short-term tradeoffs between social and financial goals can arise. SPUD's social mission guides its decision-making to find the right balance between its long-term viability while continuing to contribute to more sustainable food systems and healthy communities. Maintaining this balance requires on-going and open dialogue with investors to ensure that they understand that SPUD is seeking to build a company for the long-term. As Yu explains, "we are a for-profit entity and you need to be able to speak intelligently about your business model and financial performance metrics. Working with investors is both a tactical process as well as a visionary one, and both perspectives are needed."

#### **Resources:**

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