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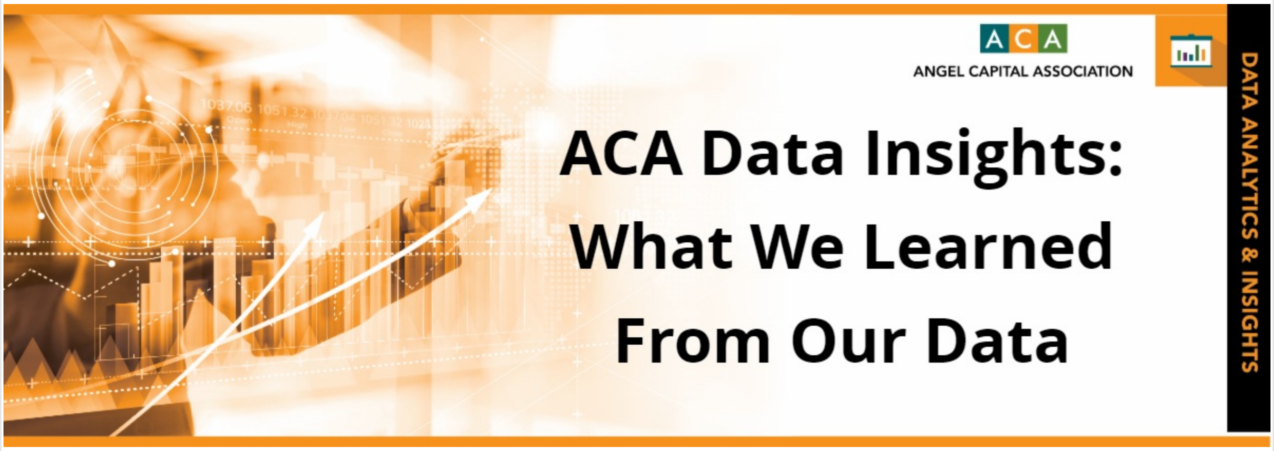


In support of ACA's Data Insights initiative, once a month we will be sharing charts illustrating useful learnings from analyzing data on angel investing and portfolio returns.

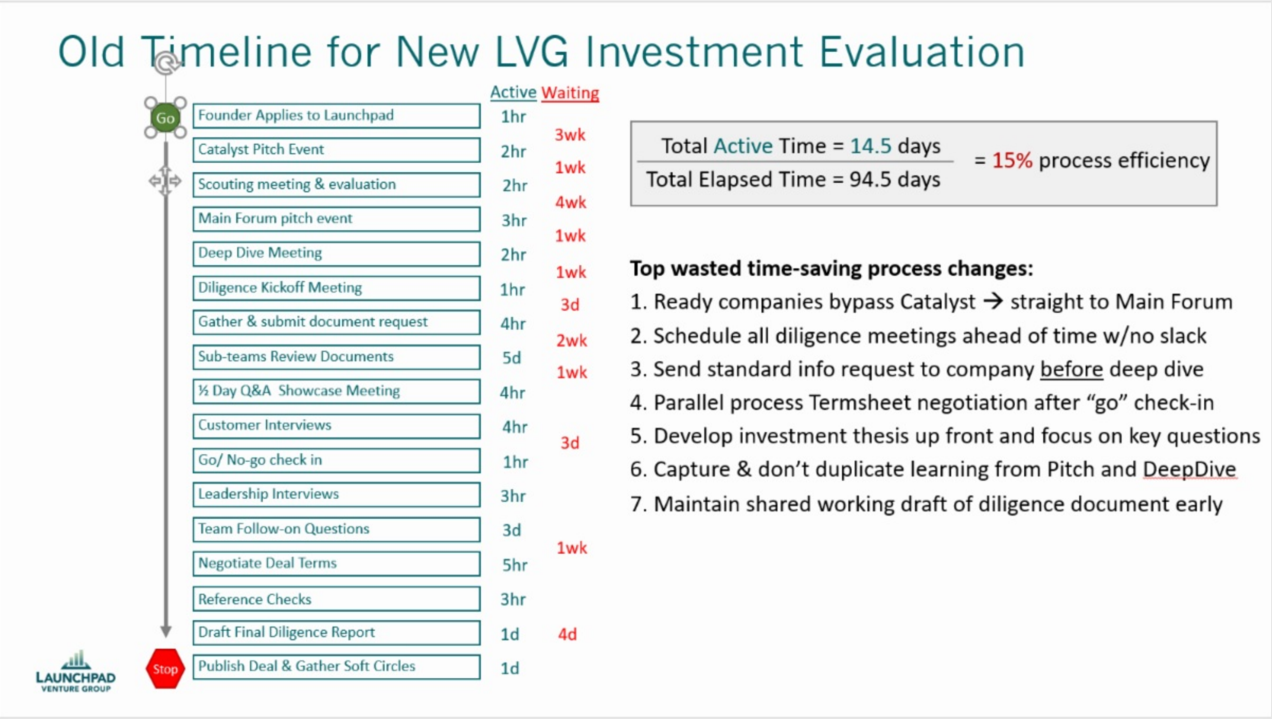
APPLYING ANALYTICAL LENS TO INTERNAL INVESTMENT PROCESS

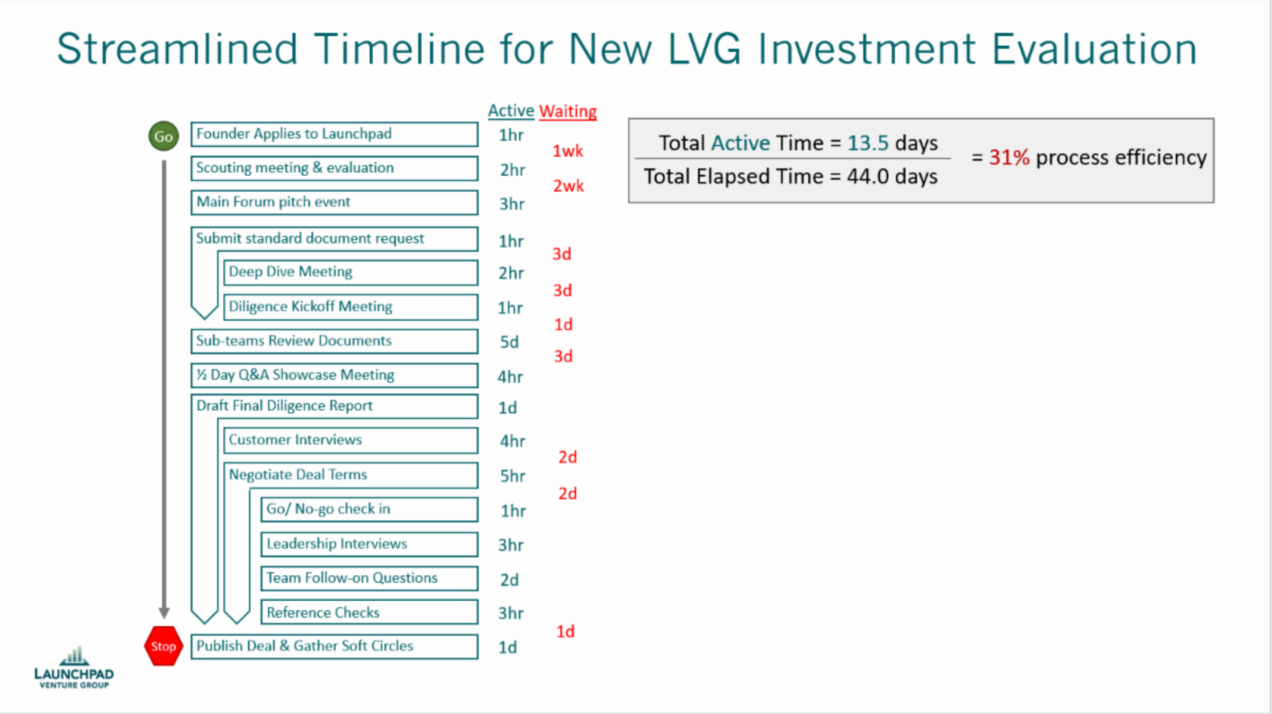
Launchpad Venture Group

At Launchpad Venture Group, we devote a majority of our analytical effort to making better decisions as investors and helping the companies we invest in to succeed. However, another area where we sometimes turn our analytical focus is internal process improvement. These include efforts to make our core activities of: 1) scouting new companies; 2) completing diligence; 3) aligning in terms and filling investment rounds; 4) providing ongoing support to the portfolio; and 5) enabling successful exits as seamless and efficient as we can for both investors and founders as we can.

One example is the recent process re-engineering of Launchpad’s diligence flow shown below. There is a lot of value-adding activity in Diligence that should be completed to improve returns. However, diligence in particular runs the risk of becoming a parking lot for checks to prevent all of the past bad investment experiences a group has had from ever happening again. Like well-written software, without periodically returning to “refactor” the process, it can become needlessly bloated and ineffective. Since this is often a founder trope of Angel Groups in general, we work hard not to let it happen to our process. We already include several intermediate decision points where we can decide not to take more of a founder’s time if the trajectory isn’t promising, but we realized that as a result, successful entrepreneurs were experiencing longer times to funding than they should.

The two slides below show the “before” and “after” value stream maps for Launchpad’s diligence process, from a founder’s perspective. It covers the process between when a founder applies for funding and when they ultimately receive a positive funding decision. By making each step of the process visible and distinguishing between active value-adding time and waiting times, we are able to calculate our “process efficiency” (value-adding time divided by total elapsed time) We then used this to identify key sources of waste in our process and remove them. Through this analysis, we were able to halve the cycle time (total elapsed time) from first application to positive funding decision.





From this work, we identified and modified several activities that were introducing delay into the diligence process without adding value. In order of greatest to least impact on the timeline, these were:

- In response to Covid and not being able to meet founders in person, we had started inviting companies first into our Catalyst meeting before coming to present at the main forum. This gave us another opportunity to interact with the founding team. Many early-stage companies do benefit from warming up to the main meeting, but because of the once-per-month cadence, it also introduces a 30-day delay in the overall process. We have switched to expediting ready companies directly into pitching to our Main Forum event.
- In our attempts to respect the time of founders who didn't end up getting funded, we had introduced numerous intermediate checkpoints into our diligence to avoid continuing when the outcome looked doubtful. Ironically, these numerous checkpoints and the resulting delays from not scheduling the next step of the process until after clearing each checkpoint were delaying the decision for founders who did ultimately get funded. We removed more minor checkpoints and shifted our approach to schedule all meetings up front assuming a successful outcome to reduce scheduling delays
- In our old process, each step was conducted more or less sequentially. We moved some activities

with longer durations to completion in parallel to collapse the overall timeline

- We realized that the mindset of our diligence had evolved over time to an exhaustive look at every possible risk in each diligence. We shifted this mindset to focus first on "What Needs to Be Believed" to make a given company an attractive investment, and then use diligence to test those key assumptions and risks. This "hypothesis-based" diligence approach allows us to just use the necessary tools in our extensive diligence toolkit.

At first blush, a 15% process efficiency seems pretty bad, and even a 30% process efficiency leaves much room for improvement (which we intend to keep working on). However, if you take a good hard look at your own process, you may see many of the same inefficiencies creeping in and be surprised at the magnitude of potential improvement lurking there.

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About Launchpad: Boston-based Launchpad Venture Group is a diverse 180-member network of talented Angel Investors that has been successfully investing both financial and human capital in over 200 New England-headquartered tech-enabled B2B service companies since 2001.

We hope you are enjoying these Monthly Data Insights. If you have an insight (chart with narrative) that you'd like to share in a future edition, please send us your submission to insight@angelcapitalassociation.org. Our goal is accelerate learning from each other.

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