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STARTUP ACCELERATOR PROGRAMMES

A Practice Guide

Acknowledgements

Nesta's Practice Guides

This guide is part of a series of Practice Guides developed by Nesta's Innovation Skills team. The guides have been designed to help you to learn about innovation methods and approaches and put them into practice in your work.

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Nesta...

Nesta is an innovation charity with a mission to help people and organisations bring great ideas to life.

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INTRODUCTION

I n 2005 a new way of supporting startups was born with the launch of **Y Combinator** in Cambridge, Massachusetts. The first accelerator programme of its kind, it invested in a small batch of promising startups – including Reddit and mobile location startup Loopt, which sold for $43.4 million in 2012. Using a lean startup approach, it worked intensively with them for three months to prepare them for pitching to an invite–only audience of venture capitalists.

Less than ten years later, and this model has been replicated, adapted and developed by accelerator programmes the world over. The largest – such as Silicon Valley's 500 Startups, and US and London–based Techstars – are able to pick from thousands of entrepreneurs and founding teams, all vying to gain the advantages their programmes can provide. Many more are also on the look–out for the next big thing, and a new wave of programmes – known as impact accelerators – are using the model in order to find startups with the promise of social as well as financial return.

This explosion of startup accelerator programmes is not altogether surprising. Advances in digital technology have led to huge decreases in the cost of launching a business, and the corresponding increase in startups means that developing effective ways of incubating early–stage businesses is more relevant than ever. At the same time, the decrease in startup costs has created the opportunity to invest much smaller amounts of money than previously.

There have been some huge successes among accelerated businesses, including household names such as AirBnB and Dropbox – both graduates of Y Combinator. But a significant number of the companies formed by these programmes fail to set the world alight, and the majority of accelerated startups struggle to find follow–on funding. And it is not just the accelerated companies that may struggle – accelerator programmes themselves face challenges and becoming financially sustainable is no easy task. Focusing as they do on the earliest stages of venture formation, acceleration itself is inherently risky. The average seed accelerator programme is only three years old itself,[1] and therefore has to also cope with many of the same considerations and challenges as its intake. Even Y Combinator, the most lucrative of commercial accelerators, only started to be profitable after five years of operation.

As the accelerator market becomes more crowded, problems could also arise for young programmes; with accelerator programmes more prevalent than ever – 2013 saw a record number launched – and the top programmes continuing to dominate, there is increasing competition to attract the best founding teams and most promising companies.

Any knowledge, therefore, around how accelerator programmes can find and nurture the startups most likely to succeed is of huge significance to anyone hoping to carve a space in the area. Yet the accelerator model is still in its infancy, and the empirical data needed to thoroughly evaluate the success of accelerator programmes and their graduates does not yet exist.

How to use this Practice Guide

With that in mind, this guide doesn't seek to offer a prescriptive method for running an accelerator programme. It is a young and evolving area of incubation, and with little proven research into best practice, we don't wish to claim that there is a set formula – indeed, what works for an accelerator operating in one area may not for another in a different field. There is no one–size–fits–all approach, and research shows that accelerator models vary significantly depending on their objectives.

Instead, the aim of the guide is to help you understand some of the key choices and challenges you'll need to think about if considering building a programme of your own. It does this by bringing together common practices and patterns to highlight and frame the strategic choices facing policymakers, investors or anyone interested in the creation and running of these programmes.

We hope that the guide provides a clear introduction to accelerators, and will contribute to identifying and developing good practice. It combines lessons and excerpts from Nesta's reports – including *The Startup Factories* (2011), *Good Incubation* (2014) and *A Look Inside Accelerators* (working title), a forthcoming report with Imperial College – with our practical experience supporting the accelerator community in Europe.

The guide is divided into three sections:

SECTION A: **WHAT IS AN ACCELERATOR PROGRAMME?**

This section provides a brief introduction to accelerators. It should help you to understand the common characteristics and different roles of accelerators.

SECTION B: **WHY CONSIDER AN ACCELERATOR PROGRAMME?**

This section looks at the reasons behind why you might choose an accelerator programme as an incubation method, as well as the strengths and challenges involved with using this model.

SECTION C: **SETTING UP AND RUNNING AN ACCELERATOR PROGRAMME**

This section gives basic information on how accelerators operate. It covers the key aspects of creating and running an accelerator, and each part comes with a series of prompt questions to help you think about accelerator design in your own context. It also includes a worksheet to capture your initial thoughts about setting up an accelerator.

SECTION A:
WHAT IS AN ACCELERATOR PROGRAMME?

Our Definition

The term 'acceleration' has a broad definition within the startup community. Moreover, as accelerators are still a new and innovative way of developing startups, the model is in flux and this means that precise definitions can be difficult to pin down.

However, in our view, accelerators differ from traditional business incubators in several important ways. Following Nesta's 2011 *The Startup Factories* study, we use 'accelerator' to describe a specific wave of programmes born out of the Y Combinator model, which typically have the following characteristics in common:

- An application process that is open to all, yet highly competitive.

- Provision of pre–seed investment (around £10k to £50k), usually in exchange for equity.

- A focus on small teams not individual founders.

- Time–limited support, usually between three to six months, comprising programmed events and intensive mentoring.

- Cohorts or 'classes' of startups rather than individual companies.

Source: Bound, K. and Miller, P. (2011) 'The Startup Factories: The rise of accelerator programmes to support new technology ventures.' London: NESTA

These characteristics have since been adopted by **Seed–DB**,[2] the worldwide database of seed accelerators, to identify which programmes qualify for inclusion in its listings.

What an accelerator is not

Our definition encompasses a particular type of programme. There are, however, other types of support that are sometimes combined with acceleration. According to our definition, the following types of incubation support are not, in themselves, accelerators – although individual accelerators may offer these services, or be closely aligned with entities that do so:

- **Angel networks** – groups of individual investors who invest their own capital into small or growing businesses, and provide mentoring and business expertise.

- **Business competitions** – aim to stimulate innovations and find talented entrepreneurs.

- **Co–working spaces** – offer flexible desk and meeting space, opportunities to meet other ventures or entrepreneurs, and a programme of events or learning to support ventures.

- **Entrepreneurship courses** – usually run by business schools to teach the theoretical basis of entrepreneurship, although some may also include a practical component.

- **Hackathons/Startup weekends** – very short, intensive, hands–on programmes designed to encourage collaborative development, and test whether an idea may be viable as a startup.

- **Maker spaces/hacker spaces** – community–style spaces where people can come together to collaborate and share knowledge.

- **Mentoring schemes** – focus purely on mentoring and are designed to share expertise and experience.

- **Seed funds** – provide initial equity funding to startups.

- **Social venture academies** – offer programmes to help accelerate learning for social ventures and entrepreneurs, whether they are already working on a venture or just in the planning stages.

Different types of accelerator

Not all accelerators are the same, however. Even when using the definition above – which encompasses a relatively narrow range of activities, and deliberately excludes other support schemes like entrepreneurship courses and co–working spaces – there may be significant differences between schemes. Some important areas where accelerators may differ include:

- Mission

- Specialism

- Funding structure

Accelerators are created for different reasons, and therefore have different missions. For example:

- **Venture–backed** accelerators typically exist to provide **better deal flow** for investors.

- A **government–backed** accelerator may be established with the goal of **local economic development**.

- A **corporate–sponsored** accelerator may be established either to help **tackle specific research issues**, or else (as in the case of the Nike+ Accelerator) to help **develop an ecosystem** around a core technology.

Within their overall mission, many programmes also have a specialist focus, or target a specific set of startups. Lots of accelerators concentrate primarily on digital, and in general they are less likely to target industries that require longer–term investment, for example pharmaceuticals. However, other sector–specific focus can also be found – both within and beyond digital – such as health or education. Specialism might also be in other directions; the **Female Propeller for High Fliers** in Dublin has a gender–specific focus, while the recently launched **EyeFocus Accelerator** in Berlin is dedicated to eye care.

One argument in favour of specialism is that it enables more in–depth treatment of a particular industry or set of entrepreneurs with common characteristics. However, as the accelerator space becomes increasingly occupied (some may even say congested), specialising could become an important way for accelerators to differentiate themselves and compete for attention.

Funding is another key difference between accelerators, and is closely linked to mission. As mentioned earlier, the most common approach is for programmes to be established as a venture capital–like fund, taking equity in the accelerated companies in the hope that this will eventually repay the programme costs.

However, there are other models where programmes may be publicly funded or supported by corporate sponsorship, or a combination of these. For example, Techstars has partnered with a number of corporates, including Nike, Disney and Barclays, to power their own accelerators.

It's also important to highlight that the funding models of many accelerators are, to a large extent, still unproven. For this reason, some programmes have looked to diversify their income to improve financial viability. For example, Paris–based L'Accélérateur has added a paid learning programme, called 'School for Entrepreneurs', which provides theoretical courses, practical field work and internships within the accelerator's startups.

Impact accelerators

There is a widespread belief that social ventures could solve some of our most pressing societal problems – if they could operate at scale. Recognising this, organisations across the public, private and charitable sectors have started to promote 'social' or 'impact investment', which aims to generate social returns alongside (or, for some investors, instead of) financial returns. For governments, social investment is often seen as a way to promote economic growth, support public service delivery and encourage social innovation. For charitable foundations it can be a way to further their mission, and for large private companies, to make good on their commitments to corporate social responsibility.

However, impact investors typically invest in established ventures with proven business models and revenue streams, which stacks the odds against early–stage, pre–revenue enterprises. At the same time, there is a lack of sufficiently mature impact ventures for these investors to work with. Impact accelerators, therefore, aim in part to close this gap and provide support needed for early–stage companies to scale.

Impact accelerators are run along the same lines as mainstream accelerators, although obviously differ in some vital respects. The startups they work with operate in an area of social or environmental benefit, and their objectives are therefore not limited to financial return. Impact accelerators are more likely to be publically funded, and must find ways of ensuring their focus remains on the social/environmental benefit.

The most common areas that these accelerators have focused on so far include employment, economic development, health, and clean energy.

Source: Miller, P. and Stacey, J. (2014) 'Good Incubation: The craft of supporting early–stage social ventures.' London: Nesta.

The growth of accelerators

The number of accelerators has risen in recent years, and a significant factor in this has been the changing economics of the startup landscape. As well as reduced startup costs, it has become less expensive and easier to target new customers, and tech developments such as direct payments, app stores and subscription models have created simpler routes to revenue.[3]

Seed–DB has identified 225 accelerators across the globe, of which 18 have closed or merged with other programmes.[4] The figure below shows where the programmes are based, with the majority of programmes – almost 62 per cent –located in North America and another 25 per cent in Europe.

FIGURE 1.

139	7	57	4	19	7
North America (including Central)	South America	Europe	Africa	Asia	Oceania

A cross–section of established accelerators

Y Combinator, Silicon Valley

The first seed accelerator of its kind, Y Combinator is privately backed and has funded over 500 ventures. Its focus is on web/mobile applications, although it does fund all types of startups.

Programme includes: dinners, events, speakers, office hours, networking, legal and admin support, Demo Day.

Length	**Investment**	**Equity taken**
Three months	Previously $14–20k, now $120k	7 per cent

Techstars, six US cities and London

Founded in Boulder, Colorado, and the first mentor–led training network with a global network and support structures. Privately funded, it has been replicated over 1,000 times globally.

Programme includes: workshops, coaching, Demo Day, networking, legal and banking support, hosting services, co–working space.

Length	**Investment**	**Equity taken**
Three months	£12.5k and optional £60k convertible debt note	6 per cent (standard offer)

Fintech Innovation Lab, London

A corporate funded accelerator backed by Accenture and 12 global banks. Focus is on financial services and tech innovation, and also IT buyers (e.g. banks) rather than investors. Startups must have a prototype.

Programme includes: coaching with bank execs, mentoring, workshops, intros to potential customers, PR, networking, Demo Day.

Length	**Investment**	**Equity taken**
Three months	None	None

Startupbootcamp, eight European cities

A privately funded programme based on a traditional tech accelerator. Focuses on connecting startups to a range of mentors, advisors and experts, with each location specialising in a different industry.

Programme includes: workshops, coaching, weekly evaluation, co-working space, variety of events, Demo Day, networking, financial and legal support.

Length	Investment	Equity taken
Six months	€15k	8 per cent (standard offer)

Bethnal Green Ventures, London

An impact accelerator backed by public funding from the UK Cabinet Office, Nominet Trust and Nesta. Focus is on for-profit early-stage digital startups that have a social or environmental agenda.

Programme includes: workshops, coaching, networking, legal and admin support, mentoring, Demo Day.

Length	Investment	Equity taken
Three months	£15k	6 per cent (basic shares)

Fledge, Seattle

Describing itself as a 'conscious company' accelerator, Fledge helps startups bring products and services to consumers mindful of the environment, health or consumption itself.

Programme includes: workshops, coaching, networking, mentoring, Demo Day.

Length	Investment	Equity taken
Ten weeks	$17k	6 per cent, plus a small percentage of future revenues

Sources: Miller, P. and Stacey, J. (2014) 'Good Incubation: The craft of supporting early-stage social ventures.' London: Nesta.

Clarysse, B. Wright, M. and Van Hove, J. (forthcoming) 'A Look Inside Accelerators: Building Businesses.' (Working title) London: Nesta and Imperial College.

As quickly as new accelerators are emerging, existing accelerators are adapting their models. Accelerators are still a new phenomenon, and in their own quest for sustainability the components of the programmes – such as investment models, mentoring structures and follow-on support – are all fluid factors.

SECTION B:
WHY CONSIDER AN ACCELERATOR PROGRAMME?

Accelerators are one of a variety of ways to support new ideas and ventures. To succeed they must add value from both the programme manager or funder and the startup perspective. This section looks at the reasons behind why you might choose an accelerator programme as an incubation method, as well as the strengths and challenges involved with using this model.

The Programme Manager/Funder Perspective

For programme managers and funders of accelerators, the promise is that they offer a model of startup support that is comparatively resource–efficient.

The hope is that by grouping startups into cohorts, teams can learn from one another, and the accelerator itself can add value more effectively through intensive mentoring and structured events, as well as acting as a focal point for professional service firms.

However, the key question for potential programme managers or funders must be whether an accelerator is the most appropriate vehicle to achieve their ultimate mission. For most organisations, this will entail viewing accelerators within a broader portfolio of options.

For a **venture capitalist** looking for deal flow, accelerators will typically compete with other methods of scouting for deals, such as exploiting personal networks, building relationships with notable entrepreneurs and professional service providers, scouring universities, attending pitching events, and so on. That said, potential benefits of the accelerator model include:

- The opportunity to scout for and filter talent.
- The potential to build a pipeline of investable companies.
- The chance to invest smaller amounts of money into a range of startups.
- The chance to provide hands–on support, guidance and information, and to connect startups with strategic resources.
- The prospect of creating economies of scale for angel investors.

For a **corporate** with a mission to promote ecosystem development or technical innovation, the benefits of running an accelerator will need to be weighed against other alternatives. These might include in–house research and development, open innovation, mergers and acquisitions, corporate venturing, proof–of–concept funds, collaborative research, challenge prizes and so on.

For a **public body or government agency** with a mission to promote local economic growth, an accelerator will likely be assessed against a very broad range of options, including direct grants, mentorship and business advice, business parks, co–working spaces, and much more.

The potential benefits in this instance include the possibility of developing the local startup community and, in the case of impact accelerators, the chance to make a real difference to a particular social or environmental challenge.

Considerations

Deciding whether an accelerator is the best method of incubation is rarely straightforward, however. This is partly because every organisation will have its own definition of success. For example, potential measures of an accelerator's success might include:

- The impact on the startup ecosystem of the area in which it operates.

- The job creation it generates.

- The social or environmental impact of its members.

- Or simply the return on investment brought about by successful exits.

What constitutes a successful outcome will depend on the aim and purpose of the accelerator. But equally as important is the fact that the actual impact of accelerators is unclear: despite the proliferation of programmes, there is still relatively little evidence about exactly what works, and the extent to which accelerators (or, for that matter, many other types of business support) actually *create* success as opposed to *selecting* for success. This means that it is almost impossible to choose between incubation options on the grounds of efficiency or effectiveness alone.

Even just using the narrow measure of financial sustainability, it is unclear whether most venture–backed accelerators will ever break–even; there is reason to believe that most will not. Moreover, as the accelerator space becomes more crowded, competition for good–quality startups will inevitably intensify, making returns for venture–backed accelerators even lower. Programme managers and funders should be aware, then, that accelerators are high–risk bets.

The Startup Perspective

From a startup's perspective there are several reasons why accelerator programmes might be an enticing option:

- They provide initial funding to help get one's idea off the ground.

- They offer access to experienced mentors.

- They provide opportunities to connect with potential customers and investors.

- The cohort structure encourages peer learning and support.

- The intensity of the programme gives startups the chance to really develop their idea.

- They provide hands–on experience and an alternative to entrepreneurial education.

- They may provide (or been seen to provide) validation of the startup.

Considerations

Each accelerator is different, however, so startups should consider the mission of each programme to make sure it aligns with their own. As the number of accelerators grows and the pressure to attract talent increases, startups need to do their research as there can be considerable differences in the quality of programming and mentoring. This might include checking the track record of mentors and talking to previous cohorts, including those companies that didn't finish the programme.

It's also important to understand what the alternatives are. Acceleration can help to develop ideas and find investment, but it might not be the right avenue for every company. Startups need to weigh up the time and equity commitments of an accelerator against the value they will get from the programme.

If a startup doesn't get into an accelerator programme either, they shouldn't feel doomed – there are other types of funding which may be more appropriate for some companies, such as boot–strapping, crowdfunding or funding through existing contacts. If founders already have connections in the startup community, they may also be able to source some friendly angel advice.

SECTION C:
SETTING UP AND RUNNING AN ACCELERATOR PROGRAMME

This section of the guide provides basic information on how accelerators operate. It covers the key aspects of creating and running an accelerator, and each step comes with a series of prompt questions to help you begin to think about accelerator design in your own context. It also includes a worksheet to capture your initial thoughts about setting up an accelerator.

Having read this far, you should have a better understanding of whether an accelerator might be a suitable incubation method for you or not. This part of the guide now looks more in–depth at the accelerator model, and is divided into the following nine steps:

STEP 1

MISSION

What will your accelerator do?

STEP 2

SPECIALISM

Will it have a specific focus?

STEP 3

FUNDING STRUCTURE

How will the it be funded, and what funding will you offer to startups?

STEP 4

ATTRACTING TALENT

How will you recruit startups?

STEP 5

SELECTING STARTUPS

How will you manage the selection process?

STEP 6

PROGRAMME PACKAGE

What support will you offer startups?

STEP 7

ACCESS TO NETWORKS

What networks will you connect them to?

STEP 8

ALUMNI SERVICE AND POST–PROGRAMME SUPPORT

How will you support startups once the programme has ended?

STEP 9

MEASURING AND EVALUATING PERFORMANCE

How will you track the impact of your programme?

1. Defining your mission

The primary objective of accelerators is to speed up startup development through a combination of financial support, guidance and/or training, However, the type of startups they work with and exactly how they support them will depend on their strategic focus and the area in which they work. In short, different strategic objectives require different formats.

This means that being clear on the mission of your accelerator is a crucial first step in developing your programme. As covered in Section A, different types of founders will have different objectives. To recap, some common examples include:

- **Venture–backed accelerators,** which typically focus on creating deal flow for investors.
- **Government–backed accelerators,** which normally aim to stimulate local economic development, or achieve social and/or environmental impact.
- **Corporate–sponsored accelerators,** which often tackle specific research issues or help develop an ecosystem around a core technology.

Some accelerators will also combine these approaches. Defining your own strategic objectives, and then assessing how different incubation approaches compare, should help you to evaluate if an accelerator programme is an appropriate way for you to fulfil your mission.

PROMPT QUESTIONS: **DEFINING YOUR ACCELERATOR**

- What are the unmet needs that your accelerator would work towards meeting?
- How would the accelerator model help in meeting these needs?
- Who else is already providing incubation support in this area?

2. Choosing a specialism

Another factor to consider is whether your accelerator will concentrate on a particular industry, or take on a wider mix of startups. As the number of accelerators has grown, their overall scope and objectives have broadened and they now span sectors including health, food, finance and education amongst others.

Specialisation can be a way of differentiating your particular programme, especially as the accelerator market becomes more crowded, and having a unique selling point can help attract the right startups and investors. For insights into specific industries, accelerators typically partner up with relevant industry players, including executives and external experts. This means that if you do specialise, it's important to have access to a credible network.

PROMPT QUESTIONS: **DIFFERENTIATING YOURSELF FROM OTHERS**

- Does your mission require an accelerator with a specific focus, or a broader approach?
- Why will startups come to you rather than other accelerators?
- What will be your USP for investors?

3. Designing your funding structure

Although there is little concrete evidence around what constitutes a successful accelerator business model, as with any new venture it's important to have a clear idea of cost structure and revenue streams from the outset. Consider how much it will cost to run your accelerator, and what resources will be required to reach your objectives. Using a tool such as the Business Model Canvas can help to map out your accelerator design. Questions to answer include:

- What key resources will you need to run the programme?

- What will your key activities be, and what funding will you need to support these?

- Who might your potential partners be in setting up your accelerator?

- What might your revenue stream look like?

The type of funding that supports an accelerator is often closely connected to its mission. Privately–backed accelerators can be funded by corporates and/or private investors. Those that are financed by business angels, venture capital funds or corporate venture capital usually have profit incentives. Corporate accelerators are usually funded on a yearly basis, and there is often no profit incentive or finance available to startups – instead, startups are provided with access to potential customers.

Public funding may come from local, national or international schemes. There has been a rise in these programmes as governments and foundations increasingly view accelerators as an additional incubation tool to boost economic development. For example Climate–KIC, which focuses specifically on climate change, was launched by the European Commission in 2010.

As this is a new and evolving area, the design of accelerator public funding is particularly important if these programmes are to have some kind of long–term impact. Policymakers typically have regional development and employment as an objective, but these are challenging objectives to meet in the short or even medium term. As a result, a funding programme that lasts only one year may not give the accelerator enough time to build significant traction in its local market.

Investment model

The core business model of investment–driven accelerators is straightforward: funders and investors invest in the accelerator programme, which then acts as a small fund. Some part of the fund goes on the costs of running the programme while some of the fund is invested into startups that are accepted onto the programme.

The accelerator programmes usually take equity in the startups and hope to make a return on those shares. Some programmes take ordinary shares, while others prefer what's called a convertible note, which offers a discount on stock should the company raise further funding. Others have a clause that makes the investment into a soft loan (which generally has flexible terms of repayment at below–market rates of interest) to be returned if certain conditions are met.[5]

The equity taken varies, but around 5 to 10 per cent is the average for most accelerators. Pitching this too high will obviously make it harder to attract a quality intake, and could make the startups less attractive to follow on investors. The funding offered to startups in exchange for this equity also varies hugely, although around £15,000 is typical in the UK and $25,000 in the US.

The ultimate goal for these investor–driven programmes is that the startups mature into quality investment cases. Accelerators therefore have no constant inflow of revenue, and investments in companies can take several years to generate a sizeable return. It's worth bearing in mind that in a recent sample of startups that had participated in an accelerator programmes, only 2.1 per cent had gone through an exit of $5 million or more.[6]

However, making revenue directly from startups is not the primary goal for every accelerator. Some do not invest any amount of cash or take equity in the ventures, such as Fintech Innovation Lab and Microsoft Ventures Accelerator. Instead, all programme costs are covered by the private institutions backing the accelerators, which are usually large multinational corporations. The advantages of this might include access to talent and new innovations in a way that is more cost-effective than traditional in-house research and development, or a boost to the business's supply chain.

Impact accelerators: Keeping the focus on social impact

There is an argument that equity investment can distract a venture from its social or environmental mission, depending on the balance of social versus financial return expected from the investor. For this reason, choosing the right kind of investor is crucial.

Keeping the startups' focus on social impact happens largely through a combination of teaching/training and monitoring. One of the biggest differences between impact incubation programmes and conventional ones is the focus on teaching startups about different frameworks for measuring impact. This can be done through training sessions, workshops or more intensive frameworks. And by telling startups that they are going to monitored (i.e. they will be asked to update the programme managers on their impact), ventures get into the habit of measuring and reporting.

Diversifying revenues

In addition, some accelerators have developed their offering to create extra revenue streams, thus providing them with more opportunities to invest in startups. Examples include:

- Selling their expertise and accelerator model to top-tier firms, such as Techstars.
- Introducing a paid learning programme, such as L'Accélérateur's 'School for Entrepeneurs'.
- Running a profitable event planning business, as Paris-based accelerator TheFamily has done by organising dozens of meetups for the French tech community.
- Renting out desks in a co-working space, as Startupbootcamp has done successfully in London and Berlin.

PROMPT QUESTIONS: DEVELOPING YOUR FUNDING STRUCTURE

- What resources, both financial and non-financial, will you need to run your accelerator?
- What type of stakeholders might be interested in funding your accelerator?
- What type of investment, if any, might you offer to startups? And what form might it take (e.g. equity, grant, loan)?
- Are there other ways that you could potentially diversify your revenue?

4. Attracting startup talent

Increased competition in the accelerator market means that new programmes must create a compelling offer to attract the most promising entrepreneurs. Developing a strong brand is a key element in attracting startups and other stakeholders, but doing this is something of a virtuous circle – choosing the best companies will lead to good results, which will then attract good investors, which will in turn lead to strong applications.

There are multiple organisations, stakeholders and channels that accelerators can engage with to source and attract startups. These include:

1. Referrals from entrepreneurs affiliated with the accelerator.

2. Impact investors (individuals and investment funds).

3. Commercial investors.

4. Entrepreneurial associations (fellowships, scholarships) in the social impact space (for example UnLtd in the UK or the Social Enterprise Alliance in the US) and beyond (for example the Entrepreneurs' Organisation, or Vistage – both started in the US but now operating globally).

5. Universities.

6. Industry associations focused on specific sectors.

7. Sector–specific conferences (e.g. agriculture, education).

8. Social entrepreneurship or impact investing conferences.

9. Inbound requests from programme marketing efforts and social media.

10. Outbound direct, recruitment (e.g. finding and contacting entrepreneurs on the web, Facebook, LinkedIn etc.).

It is important to keep in mind that the quality of applications is of far more importance than the quantity. Attracting startups without growth potential or entrepreneurs for whom the accelerator has nothing to offer will be of no use. Targeted marketing and clear communication about the programme's criteria, what it offers and to whom, is key.

PROMPT QUESTIONS: MARKETING TO STARTUPS

- Which channels or events would be relevant for marketing your particular programme?

- Which networks would be most effective for reaching the type of startups you'd like to work with?

- How could you communicate clearly the criteria for your programme?

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5. Selecting your startups

Choosing the startups to incubate is one of the most important factors in the success of any accelerator. Pursuing the wrong type of venture – those for whom the accelerator doesn't have the means or networks to provide support, or those without the potential to scale – will spell failure.

Matching accelerator services to the needs of firms is particularly important; since new venture activity and business support needs vary between regions, industries, prior entrepreneurial experience and so on, this means that accelerators should also vary accordingly.

The selection process

Most accelerators spend between one to three months recruiting each cohort, although some may spend longer on the process.[7] This investment of time is necessary, thanks to the complexity involved in identifying early–stage ideas or ventures with potential. Business plans, for example, are usually of little interest or value when assessing very young startups; when a venture is pre–revenue, pre–customer and often without a central proposition, any numbers are at best simply guesswork. Instead, the quality of the team or idea becomes a key factor.

Accelerator programmes use a wide variety of methods for selection, ranging from a simple two–staged process to a rigorous multi–staged process. The application period typically focuses around key dates, and is backed by press coverage and marketing.

In impact acceleration, programmes use the selection process to ensure that ventures have the potential to create social impact. By being clear that the programme is specifically for these types of ventures, they can filter accordingly.

Applications

These usually happen online through the accelerator's own software platform or others such as F6S.com, Fundacity or Angel.co. Some programmes, such as Startupbootcamp and Climate–KIC, go one step further and actively scout at startup events before the application period. Initially, the accelerator management team then uses these submitted forms to assess all applicants on the quality of their idea, their experience and their knowledge of the problem.

Interviews

After shortlisting, preliminary Skype meetings can be helpful to learn more about the applicants. Following on from these, specially organised 'selection days' then involve startups having face–to–face interviews and being asked to pitch and present their business.

In each stage, experts from outside the programme can interact in the screening process as individual advisors. The use of a selection committee is common practice. These mostly comprise strategic partners, investors and in some cases even alumni and experts or mentors. Interviews can range from an hour–long grilling to a 20–minute informal chat, depending on the information being sought.

Interviews can be useful for spotting signs of chemistry between founders – do they interrupt each other? Do they know what each person in the team is meant to be doing? These can be early warning signs of potential problems, as later–stage investors will look for a team that gels.

Research by the Seed–DB[8] database indicates that most European accelerator programmes select between five and 15 companies per cohort.

Examples of selection processes

Techstars London

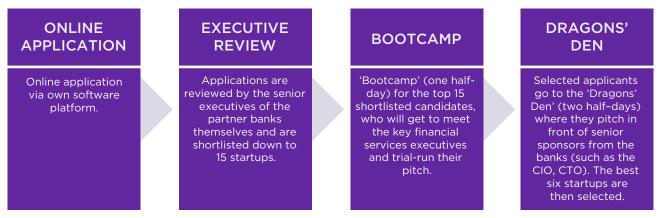| ONLINE APPLICATION	CORE TEAM REVIEW	EXPERT REVIEW	FACE-TO-FACE INTERVIEW
Online application via f6s application software platform asking for a description of the business, or by referral through affiliated investors.	The applications are reviewed by the core team accelerator to select the 75+ most promising startups.	A series of interviews with the accelerator's core team and external experts to reduce the selection to between 20–30 teams for final selection.	Face-to-face interview with a selection committee made up of accelerator's core team, who then select the top 10 startups.

Criteria: **Highly-focused on team and opportunity; looking for full-time founding team; team focus; team background and dynamics; prototype required.**

Fintech Innovation Lab

ONLINE APPLICATION	EXECUTIVE REVIEW	BOOTCAMP	DRAGONS' DEN
Online application via own software platform.	Applications are reviewed by the senior executives of the partner banks themselves and are shortlisted down to 15 startups.	'Bootcamp' (one half-day) for the top 15 shortlisted candidates, who will get to meet the key financial services executives and trial-run their pitch.	Selected applicants go to the 'Dragons' Den' (two half-days) where they pitch in front of senior sponsors from the banks (such as the CIO, CTO). The best six startups are then selected.

Criteria: **Open to all early-stage startups that can take value out of the programme, as well as non-established tech businesses in the financial services; focus on B2B technologies (also B2C focus); full-time founding team; beta-prototype required; team background.**

Bethnal Green Ventures

ONLINE APPLICATION	SHORTLISTING	FACE-TO-FACE INTERVIEW
Online application via f6s application software platform asking for a description of the business.	Applicants are shortlisted down to 30 candidates by the selection committee, which is made up of the accelerator's core team, representatives of investors, alumni and mentors.	Face-to-face interview (30 minutes, pressure-like testing) with the accelerator's core team, who then select the final ten startups.

Criteria: **The following points are taken into account: full-time founding team; team focus; ability to take on new ideas; social impact and ambition (small lifestyle businesses not accepted); team background and dynamic; incorporation of the business is not required.**

Source: Clarysse, B. Wright, M. and Van Hove, J. (forthcoming) 'A Look Inside Accelerators: Building Businesses.' (Working title). London: Nesta and Imperial College.

6. Developing a programme package

Every accelerator aims to provide the support and training necessary to grow its startups into market–ready ventures. A new accelerator needs to consider its offering carefully – what will give it a unique selling proposition? And how will it best ensure that its startups are receiving maximum support, information and advice? The majority of accelerators have adapted and developed their services and their programme structure; there emphatically is not a one–size–fits–all approach. However, most programmes offer:

- **Co–working space** – important for knowledge sharing and collaboration (although some accelerators only bring their businesses together occasionally, such as Y–Combinator).
- **Regular interactions with the management team** – to review progress and provide business advice.
- **Networking opportunities** – with experts and professionals, often in the form of a structured mentoring programme.
- **Training programmes** – which typically include seminars and vocational training courses covering topics such as financing, design, PR, marketing, legal aspects and other subjects.
- **Demo days** – these may also be arranged by the accelerators, where ventures graduate and pitch in front of qualified investors.

Mentoring

One of the most valuable aspects of any accelerator programme is access to its mentor network. The creation and management of this network is therefore crucial. Techstars' mentorship model is the exemplar for most accelerators.

Mentors are rigorously screened on their background before entry and are typically serial entrepreneurs. They provide their time and expertise on a voluntary basis as part of the field's pay–it–forward culture. Some are ad hoc mentors, some have a long–term commitment, while others even invest (earning them the nickname 'business angels in disguise'). The quality of the mentors is typically assessed through feedback surveys completed by the startups.

Increasingly, mentors and mentees are matched through speed dating or matchmaking events, which enable teams and mentors to quickly find out if there is any chemistry between them. Accelerators using this method tend to bring everyone together in a room and divide mentors into groups to circulate around the different teams. These groups then have ten minutes to pitch what they do to each other, before moving on. While this can sometimes become a bit chaotic, it also adds levity to the occasionally dull job of repeatedly pitching and networking.

There are also other options for structuring the mentoring relationship, including:

- **Office hours:** Navigating a large network of mentors with varied skills can be difficult for early–stage ventures, so some programmes offer open sessions with mentors that startups can sign up to as and when they need. These are usually held at the mentor's place of work or at the programme venue.

- **Peer mentoring:** Often the most valuable advice for a startup comes from those who are just a couple of months, rather than ten years, ahead. This is a huge benefit of incubating ventures in cohorts – since they are experiencing the same issues, they can help each other out, on everything from how to hire their first employee to solving complex coding problems.

One potential pitfall to be aware of with the mentoring relationship is mentor 'burn–out'. It is important to determine a realistic sense of work involved for mentors, and properly define their role when ensuring buy–in.

Techstars' Mentor Manifesto, created by co–founder David Cohen, is a good example of a popular approach to managing mentor networks – helping to set both mentor and mentee expectations in advance.

The Mentor Manifesto

- Be Socratic.
- Expect nothing in return (you'll be delighted with what you do get back).
- Be authentic/practice what you preach.
- Be direct. Tell the truth, however hard.
- Listen too.
- The best mentor relationships eventually become two–way.
- Be responsive.
- Adopt at least one company every single year. Experience counts.
- Clearly separate opinion from fact.
- Hold information in confidence.
- Clearly commit to mentor or do not. Either is fine.
- Know what you don't know. Say I don't know when you don't know. 'I don't know' is preferable to bravado.
- Guide, don't control. Teams must make their own decisions. Guide but never tell them what to do. Understand that it's their company, not yours.
- Accept and communicate with other mentors that get involved.
- Be optimistic.
- Provide specific actionable advice, don't be vague.
- Be challenging/robust but never destructive.
- Have empathy. Remember that startups are hard.

Source: Techstars' Mentor Manifesto, available at **http://www.techstars.com/mentoringattechstars/**

The quality and commitment of mentors is one of the most important drivers of accelerator success. Most of the biggest accelerators are highly selective of the mentors they work with, and recruit them on referral only – although an informal interview is not uncommon. If the feedback isn't sufficiently positive, the accelerator doesn't work with the mentor again.

PROMPT QUESTIONS: **CREATING YOUR PROGRAMME PACKAGE**

- What type of support and training would your programme offer?
- What resources might you need to create your programme package?
- Which networks could you tap into to attract high quality mentors?
- How could you facilitate interaction between your past and present cohorts?

7. Accessing customer and investor networks

Startups do not need investment alone, but also access to markets. Successful accelerator programmes have, or can create, access to key customer networks – both nationally and internationally.

Startups also often struggle to access networks of investors. Accelerators attempt to cultivate strong relationships with investors, not simply as providers of capital, but also as the right kinds of investors who understand the investment landscape and who will participate in their investments in the right way.

Accelerators also have a role to play in educating potential investors, particularly with impact acceleration. By making investors aware of the financial gains that can be made through social investment, and by demonstrating the impact of investing to philanthropists, accelerators can encourage both sides to become investors in their own startups. This helps to proactively widen the pool of possible investors.

Demo days are the most obvious way accelerators connect startups with potential investors. While it's rare for investors to write cheques at events, they play an important role in preparing ventures for investment at a later date. Even if investors don't want to invest immediately, they can often be a useful source of advice and connections for the startups involved.

Investor demo days have evolved and often combine an interactive format, such as mini board meetings or speed dating, as a way of getting the startups used to talking to investors, while also enabling the investors themselves to get a better feeling for the team.

PROMPT QUESTIONS: **IDENTIFYING YOUR ACCESS TO NETWORKS**

- What potential networks or markets might you have access to that could help your startups?
- Is there a large enough pool of potential acquirers, or follow–on investors, in your accelerator area?
- What role can you take in helping to educate investors?

8. Building an alumni service and post–programme support

It is easy to see the duration of the programme as a set timeframe for which the demo day marks the end. But this isn't the way that accelerators themselves perceive it. On graduating from an accelerator programme, companies are still extremely young – potentially not yet viable for investment. Everything an accelerator does is geared towards giving their cohorts the best possible chance of survival after graduation, so it makes sense that most offer some sort of post–programme support to maintain or enhance startups' investment (or even acquisition) viability for as long as possible.

The types of post–programme support on offer typically include:

- Public relations opportunities.
- Connections with investors.
- Board participation.
- HR/recruitment support.
- Regional meet–ups.
- Online communities listing funding and promotion opportunities.
- Office space.

Alumni network

All accelerators acknowledge their alumni network as a valuable asset of the programme: maintaining an alumni database is therefore a priority. Some host online communities and alumni events to create and develop the alumni network. Others call in the help of alumni when selecting a new cohort of potential startups. There is also the phenomenon of recycling founders, where startups take in unsuccessful alumni as a member of their own team if they consider them to be of value.

Many programmes now have a strong enough brand that they attract ventures from around the world, and to a large extent, these programmes are international. The ability to capitalise on global networks also gives programmes and their members an advantage as a result of the support startups can access when scaling geographically.

Follow–on investment

Accelerated startups still struggle with gaps between seed funding and successfully raising Series A investment – often the next stage of funding, which ranges from a few million to around 15 million euros or pounds, and is typically provided by business angels or venture capitalists in return for equity. To help combat this, some accelerators offer follow–on investment once the programme is finished; in this way they can sometimes go some way towards bridging funding gaps. This could be by offering staged investments, or an additional capital infusion after graduation.

The latter is possible through a follow–on investment vehicle or a 'match–funding' vehicle. Some accelerators with an investment model, such as Techstars and Healthbox, offer follow–on funding but also position themselves more upstream in the original selection process, i.e. they prefer to choose more fundable, mature ventures for their programme in the first place. Other models, such as the Eleven Accelerator Venture Fund in Bulgaria, combine a seed fund with an accelerator, which gives the startups more certainty and a chance to bridge the funding gap.

- How could you build and manage an alumni network?

- What other post–programme support would you have the resources to offer?

- Will you be able to offer follow–on funding? If so, what criteria will you use for judging startup viability?

- What other ways might you be able to help your startups secure follow on funding?

9. Measuring and evaluating performance

Another key challenge area for accelerators, and for incubators in general, is around measuring impact. As yet an agreed framework for measuring the performance of accelerator programmes does not exist, but common metrics collected and published so far include:

- Number of applications to programmes.

- Number of ventures supported.

- Follow–on investment raised by ventures.

- Survival rate of ventures.

- Number of employees of ventures.

We believe that more attention should be paid to defining performance and metrics for success – but this is particularly difficult given that not all accelerators have the same goal. How do you compare a variety of incubation programmes that have different missions, models, and funding mechanisms? For example, do you measure impact on the venture or on the individual? If the venture fails but the entrepreneur goes on to set up a prospering business in the future, does this count as success? And how about measuring the social or environmental versus financial outcomes for impact accelerators?

Part of the challenge comes from the fact that accelerator data has not been routinely published. As startups themselves, accelerators often lack the time and resources for such measurements[9] – so with limited data available, the impact of individual accelerator methods is difficult to judge.

However, with the number of accelerator programmes growing, the push for transparency has become more intense. In a much more competitive field, startups want to compare programmes, and existing and potential funders want to see the track record of programmes before offering their support.

Many accelerators are now starting to publish results openly. For example, Techstars provides a full breakdown of the companies that it supports on its website,[10] and makes an attempt to measure its impact through job creation and average funding per company. Startupbootcamp has also started publishing its programme results.[11] The Unreasonable Institute in Colorado publishes its data,[12] both by cohort and for its overall portfolio. The UK Cabinet Office has also started to collect data from the programmes supported by the Social Incubator Fund and has published the results from the first four accelerators online at data.gov.uk.[13]

Improving evaluation

The Aspen Network of Development Entrepreneurs (ANDE), which works to promote entrepreneurship in developing countries, recommends that philanthropists or investors who support accelerators should also provide support for data collection and assessment. It has published the following recommendations for improving measurement and evaluation, and while the advice is directed at impact accelerators it is has relevance to all programmes:

- Invest in platforms and systems to encourage and enable quality data collection from the enterprises you support.

- Collect data from all enterprises that apply to your programmes, even the ones that are not accepted or do not receive services, to more comprehensively assess performance against a control group. Simple data collection processes can be built into your application form.

- Collect data from participating enterprises for at least five years post–graduation to track progress and growth over the medium to long term. The impact of accelerator support can take several years to materialise.

- Partner with academic institutions and industry associations to develop stronger data collection systems.

Source: Baird, R., Bowles, L. and Lall, S. (2013) 'Bridging the 'Pioneer Gap': The Role of Accelerators in Launching High–Impact Enterprises.' Aspen Network of Development Entrepreneurs and Village Capital.

By building data collection and assessment into the accelerator design, managers and stakeholders will be able to better understand the overall impact and effectiveness of their programmes.

PROMPT QUESTIONS: MEASURING IMPACT AND EVALUATING SUPPORT

- How could you integrate data collection into your accelerator model?

- What metrics might be appropriate for your particular accelerator?

- How could you attempt to measure the wider impact of your accelerator?

- How could you share best share your data?

ACCELERATOR WORKSHEET

Capture your initial thoughts about creating an accelerator. Discuss key design decisions and test out thinking with a group of wider stakeholders.

WHAT IS THE NAME OR WORKING TITLE OF YOUR ACCELERATOR?

STRATEGY

Mission
What is the mission of your accelerator?

Identify needs
What are the unmet needs that your accelerator will fulfil?

Define aims and objectives
What are your objectives and the impact you intend to achieve?

Select specialism
Will your accelerator have a specific focus?

RESOURCES

Funding
Thinking about your key resources, what funding will you need? And who might your potential partners be?

Networks
What relevant customer or investor networks could you tap into?

SELECTION

Recruiting talent
How will you attract startups?

Filtering
What will your selection criteria be? And how will you structure the selection process?

DELIVERY

Investing
What will your investment model look like?

Support
What support and training will your programme package provide? How long will your programme be? What facilities will you provide?

Post-programme support
What post-programme support will you provide for alumni?

REFLECTION

Assessment
How feasible is your accelerator? Why is this a strong model?

Challenges
What challenges do you foresee when putting this plan into practice and how might you overcome them?

FURTHER RESOURCES AND READING

Publications

Baird, R., Bowles, L. and Lall, S. (2013) **'Bridging the Pioneer Gap: The role of accelerators in launching high–impact enterprises.'** Washington DC: Aspen Network of Development Entrepreneurs and Village Capital.

Barrehag, L., Fornell, A., Larsson, G., Mårdström, V., Westergård, V. and Wrackefeldt, S. (2012) **'A Study of Seed Accelerators and Their Defining Characteristics.'** Gothenburg: University of Technology.

Birdsall, M., Jones, C., Lee, C., Somerset, C. and Takaki, S. (2013) **'Business Accelerators: The evolution of a rapidly growing industry.'** Cambridge: University of Cambridge, Judge Business School.

Bound, K. and Miller, P. (2011) **'The Startup Factories: The rise of accelerator programmes to support new technology ventures.'** London: NESTA.

Caley, E. and Kula, H. (2013) **'Seeding Success: Canada's Startup Accelerators.'** MaRS Data Catalyst.

Christiansen, J. (2009) **'Copying Y Combinator: A framework for developing seed accelerator programmes.'**

Miller, P. and Stacey, J. (2014) **'Good Incubation: The craft of supporting early–stage social ventures.'** London: Nesta

Salido, E. Sabás, M. and Freixas, P. (2013) **'The Accelerator and Incubator Ecosystem in Europe.'** Telefonica.

Blogs and essays

Many of the founders and directors of today's accelerators write regularly about their work. Take a look at the following blogs and essay links:

Paul Graham, Y Combinator

David Cohen, TechStars

Brad Feld, Foundry Group

Paul Miller, Bethnal Green Ventures

Carlos Espinal, Seedcamp

'The Wall Street Journal', **The Accelerators Blog:** Startup mentors discuss strategies and challenges of creating a new business.

ENDNOTES

1. http://seedrankings.com/Seed-Rankings-SxSW.pdf The 2013 Seed Accelerator Ranking Project.

2. http://www.seed-db.com/about/view?page=definition

3. Bound, K. and Miller, P. (2011) 'The Startup Factories: The rise of accelerator programmes to support new technology ventures.' London: NESTA

4. http://www.seed-db.com/accelerators, sourced 25–06–14

5. Bound, K. and Miller, P. (2011) 'The Startup Factories: The rise of accelerator programmes to support new technology ventures'. London: NESTA.

6. Hochberg, Y. and Cohen, S. (2013) 'Seed Accelerator Rankings Project'. Available online at: http://seedrankings.com/Seed-Rankings-SxSW.pdf

7. Aspen Network of Development Entrepreneurs and Village Capital (2013) 'Bridging the "Pioneer Gap": The Role of Accelerators in Launching High–Impact Enterprises'. Available online at: http://www.aspeninstitute.org/sites/default/files/content/docs/ande/Bridging%20the%20Pioneer%20Gap%20The%20Role%20of%20Accelerators%20in%20Launching%20High%20Impact%20Enterprises%20.pdf

8. http://www.seed-db.com/accelerators

9. As a result, some researchers have started collecting their own proprietorial data sets (for example, the Seed Accelerator Ranking Project (Gilani, and Quann (2011), Hochberg and Kamath (2012), Hochberg and Cohen (2013)).

10. http://www.techstars.com/companies/stats

11. http://www.startupbootcamp.org/stats.html

12. http://unreasonableinstitute.org/results-and-impact/

13. http://data.gov.uk/data/viz/investment-readiness-programme

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