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# A LOOK INSIDE ACCELERATORS

## *Building Businesses*

**Bart Clarysse, Mike Wright and Jonas Van Hove**

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# FOREWORD

Startups are an important means by which new ideas are brought to life – especially those ideas which challenge established industries or do not find ready support inside existing companies. They are core to the process of creative destruction and crucial for increasing employment. They exert competitive pressure on prevailing businesses, which drives improvements in productivity and prosperity. In short, the starting – and scaling – of new ventures is vital for innovation and economic growth.

As the UK's innovation foundation, Nesta has a long-standing interest in this field. The study of startups, accelerators and incubators forms a significant strand of our innovation research, complemented by practical support such as toolkits for entrepreneurs. We have sponsored several incubators and accelerators to learn about what works, and we invest directly in early-stage firms with growth ambition and the potential to create impact at scale.

This report is one of two commissioned by Nesta to describe the changing landscape of startup support. The past decade has seen a profusion of programmes offering to make the entrepreneurial journey less solitary for founders. As with startups themselves, many of these programmes are yet unproven; some will undoubtedly fail. However, by providing a clearer definition and analysis of the models in use, it is hoped that these studies will aid startups, policymakers and programme developers alike in navigating that landscape, and in finding sustainable models which help startups thrive.

**Christopher Haley**
**Head of New Technology & Startup Research, Nesta**

# EXECUTIVE SUMMARY

Accelerators constitute a new incubation model, which has developed into an umbrella term for any programme providing structured mentoring, networking opportunities and access to funding. The challenge is to understand the service profiles geared towards reinforcing business startups. How do accelerators assist their startup clientele and strategically position themselves?

This report is intended for programme managers, policymakers and investors with an interest in grasping the opportunities established by the newer incubation models. Its main objective is to extend our understanding of the emerging number of accelerator initiatives across Europe without conducting a comparative analysis of the regional ecosystems. This inductive study investigates a number of accelerators across Europe and explores their internal systems.

Three emerging archetypes can be distinguished based on the strategic foci of the accelerator: **ecosystem builders**, **investors** and **matchmakers**. We find that ecosystem builders operate as a tool to create business ecosystems as well as trying to reduce early-stage failure rates. These are typically publicly funded and tend to select entrepreneurial teams from the idea stage onwards, whereas investors and matchmakers prefer ventures with a working prototype and more mature teams. As expected, investors have a business model of a high-risk investment fund, and are sponsored by private investors and/or corporates. In contrast matchmakers are a type of programme that focus on customers and implement structured methods towards this aim. The rationale behind different accelerator models lies in their ability to target a wide range of startups, as well as having different objectives and key stakeholders.

These organisational designs provide accelerators with useful strategic indications of how and where to position themselves. This is essential to match tenant expectations with the internal organisational factors of the accelerator.

Our research shows that starting an accelerator needs a very clear vision and strategy about the objectives that one wants to achieve. The diversity of archetypes we have identified also has implications for policy evaluating the role of these accelerators and supporting them. Rather than evaluating the effectiveness of all accelerators on the same criteria, there is a need to develop measures that take into account the different foci and objectives of different types of accelerator.

Key words: **Incubators; accelerators; high-tech startups; microfinance**

# 1. INTRODUCTION

Over the last decade accelerator programmes have continued to spread globally as a popular form of support for early-stage ventures. Funded by a mix of investors, public bodies or large corporates, these programmes typically provide space, money, mentoring and guidance to batches of entrepreneurs to help them rapidly grow and scale their business idea.

However, despite their growing popularity, there is little known and documented about the different models and methods that have emerged as the field has continued to adapt and grow. While most accelerators draw on the pioneering models of Y Combinator and Techstars to some extent, we are increasingly seeing variety in the way new accelerators structure and fund their programmes of support. This research sets out to explore how different accelerators operate, how they differentiate themselves from each other, and why.

The aim of this work is to build on the early body of research on accelerators such as Nesta's *Startup Factories*,[1] the Seed Accelerators Ranking Project[2] by Yael Hochberg and Susan Cohen, Telefonica's *Accelerator and Incubator Ecosystem in Europe*,[3] and the lessons shared by networks such as the Accelerator Assembly[4] and Global Accelerator Network,[5] in order to demystify accelerator programmes for practitioners, funders and policymakers.

## Background

We believe that ambitious, innovative startups are a key source of economic growth for the UK. Previous Nesta research shows that just 6 per cent of fast-growing UK businesses generate the lion's share of employment growth in the UK.[6] While these high-growth businesses can be found across all sectors and in all stages of the business lifecycle, new ventures are a significant part of this group.

From the existing body of research, we know that new ventures often face a number of challenges or major hurdling blocks when they start out. For example, startups might struggle because of limited financial resources (Smilor 1997), a lack of startup experience in the founding team (Gruber et al., 2008), a lack of legitimacy to attract good employees (Zott and Huy 2007) or a lack of knowledge or understanding of how to seize certain opportunities (Ambos and Birkinshaw 2010).

Over the decades a range of investment vehicles, business support services and incubator facilities have evolved to meet these needs, backed by policymakers, private investors, universities and corporates.

Incubators became widespread in the early 90s (Hackett and Dilts 2004), providing support for small ventures, mainly with physical and financial resources (Smilor and Gill 1986; Allen and McCluskey 1990). However, the incubator model has been criticised over the years for its lack of exit policy (Bruneel et al., 2012) and its reliance on long-term public funding to be sustainable.

When incubators emerged, many of the innovative new ventures were active in sectors such as biotechnology, micro-electronics and electrical equipment which are typically capital intensive (Wright et al., 2007). Since then, advances in technology and the rise of the digital economy has changed the landscape in which many startups operate, rapidly reducing the costs and time taken to bring a product or service to market.

Accelerators were specifically set up to assist these new digital ventures early in their lifecycle (Birdsall et al., 2013), using a lean startup approach. They differ substantially from typical incubators which were designed for capital-intensive startups or formal IP-based technology spin-offs. First, they are not primarily designed to provide physical resources or office support services, and second, they are less focused on venture capitalists as a next step of finance, but are more closely connected to business angels and small-scale individual investors.

To our knowledge, the first accelerator, Y Combinator, was established in 2005 in Cambridge, Massachusetts, and has been a source of inspiration for many accelerators to follow. Four years later in 2009 the Difference Engine kick-started the European accelerator sector. In 2013, Seed-DB[7] reported over 213 accelerators worldwide, which have supported approximately 3,800 new ventures.

Building on Miller and Bound (2011), we define accelerators as having the following six characteristics:

1. **Possible offer of upfront investment (£10k – £50k), usually in exchange for equity (~5–10 per cent).**
2. **Time-limited support (three to six months) comprising programmed events and intensive mentoring.**
3. **An application process that is 'in principle' open to all, yet highly competitive.**
4. **Cohorts or classes of startups rather than individual companies.**
5. **Mostly a focus on small teams, not individual founders.**
6. **Periodic graduation with a Demo Day/Investor Day.**

Most accelerator programmes are modelled on the format of Y Combinator (founded 2005) or Techstars (founded 2006). Y Combinator funds two batches of entrepreneurs a year and the programme runs for three months at a time. Startups are asked to move to the Bay Area but they primarily work out of their own offices or houses. The cohort meets together for weekly speaker dinners and startups have regular office hours with the Y Combinator team and mentors. Techstars also runs for three months, but in contrast to Y Combinator it offers a more structured programme where startups physically move into the accelerator's co-working space for the duration of the programme, the cohorts tends to be smaller (around 12 startups compared with around 50 in Y Combinator), and there is a more regular and intensive approach to mentoring (Christiansen 2009).

An archetype is a pattern of mutually supporting organisational elements (Ambos and Birkinshaw 2010). While these two accelerators programmes could be viewed as 'archetypes', we know very little about how new models of accelerators have emerged in different political, economic and technological contexts. This is what we aim to investigate in our research.

## The research

We set out to interview a range of different types of accelerators from three leading startup ecosystems in Europe: London, Paris and Berlin.[8] These three cities are ripe environments for accelerators to operate in – they have a sufficiently dense population of entrepreneurial ventures and a very dense seed stage funding supply, resulting in better circumstances for startups and startup programmes to make an impact (Salido et al., 2013). Given the newness of the phenomena and thus the lack of comparability between the regional ecosystems, this research is fitted to answer the question: what do accelerators do?

During our research, we identified 41 accelerators in these cities, using the six accelerator characteristics outlined above. We then categorised these programmes by:

- **Funding model** (public, private, hybrid).
- **Sector focus** (vertical, horizontal).
- **Type of investment** (equity, convertible loan).

In choosing our sample we looked for a representative selection across the different categories. We also favoured programmes that had developed a track record and had a strong differentiator, either in terms of programme, venture focus or link to industrial partners. Interviews were conducted during the second half of 2013 and early 2014, with the managing directors of the 13 programmes selected.

The remainder of this paper unfolds along the following lines: first we present our framework for understanding the internal functions of each accelerator – we call this the building blocks of an accelerator. Then we explore the three emerging archetypes that we distinguished based on the strategic focus of the accelerator: ecosystem builders, investor–led and matchmakers. Finally, we explore the practice and policy implications of our research.

Table 1 **Examples of finance from accelerator programmes**

| Accelerator | Location | Date created | Length of programme | Investment size[9] | Equity stake taken | Output (# active companies/follow-on funding) |
|---|---|---|---|---|---|---|
| **Techstars London** | UK, London | 2013 | 3 months option conv. loan | £ 12,500 + | 6% | 22/~£10,4M |
| **Healthbox Europe** | UK, London | 2012 | 4 months | £50,000 | 10% | 7/undisclosed |
| **Fintech Innovation Lab** | UK, London | 2012 | 3 months | / | / | 14/undisclosed |
| **Bethnal Green Ventures** | UK, London | 2011 | 3 months | £ 15,000 | 6% | 34/~£9,3M |
| **Climate-KIC Europe** | Europe | 2010 | 12-18 months | Max. of £75,500 | / | 45/~£46,5M |
| **Microsoft Ventures Acc.** | Germany, Berlin | 2013 | 4 months | / | / | 16/undisclosed |
| **Axel Springer Plug & Play Acc.** | Germany Berlin | 2013 | 3 months | £ 19,900 | 5% | 46~£6M |
| **ProSiebenSat.1 Accelerator** | Germany, Münich/ Berlin | 2013 | 3 months | £ 19,900 | 5% | 26/undisclosed |
| **Startupboot-camp Berlin** | Germany, Berlin | 2012 | 3 months | £ 11,900 | 8% | 16~£4,9M |
| **Le Camping** | France, Paris | 2010 | 6 months | £ 3600 | 3% | 72~£14,8M |
| **TheFamily** | France, Paris | 2013 | Indefinite | / | 3% | undisclosed |
| **L'Accélérateur** | France, Paris | 2012 | 4 months option for more | £ 7,900 + | 7-10% | 49/undisclosed |
| **Scientipôle Croissance** | France, Paris | 2002 | 6 months | £ 15,900 - £ 71,500 | / | undisclosed |

N.B: These figures can be negotiable and therefore are for guidance at the time of publication. This data should be treated with caution as it is largely self-reported. It should not be considered complete or up-to-date.

# 2. UNPICKING THE ACCELERATOR MODEL

In analysing the sample of accelerators in our research we identified five important components that shape the structure and design of an accelerator. Each accelerator varied widely in their model, depending on their approach to each of these components.

| 1. Strategic focus | 2. Programme package | 3. Funding | 4. Selection process | 5. Alumni Service |
|---|---|---|---|---|
| • Key objectives<br>• Sector focus (diversified vs specialisation)<br>• Geographic focus (local vs global) | • Standardised Curriculum<br>• Mentoring Package | • Funding of the accelerator<br>• Funding of startups | • Screening criteria<br>• Selection processes | • Alumni interaction |

## 1. Strategic focus

The first core component is the **strategic focus** of an accelerator. This can be strongly shaped by the types of funders or stakeholders supporting the programme. For instance, an accelerator will have different **key objectives** depending on whether it is backed predominantly by private investors, large corporates, or public funders. In Part III we analyse this further and describe the three emerging archetypes that we distinguished, based on the strategic focus of the accelerator.

**Sector/Industry** focus is another important strategic choice. This can range from being very generic (no vertical focus at all) to very specific (specialised in a specific industry or technology domain). For example, Fintech Innovation Lab focuses exclusively on the financial sector, L'Accélérateur is retail oriented, while Healthbox has a health–tech focus.

The managing director of Startupbootcamp Berlin told us that they are focusing their programmes more and more on certain themes, for example financial technology in London:

> *"We think it makes a lot of sense to group mentors and teams on focused themes and aim to be world class in one thing as opposed to generic*

The **geographic focus** of accelerators also varies. They can be focused on a specific local area or very international in their activities. Techstars is an example of a programme that has spread within the US and now internationally, with operations in Boulder, Seattle, New York, Boston, Chicago, Austin and London; whilst the local programmes each operate autonomously, Techstars as a whole aims to share best practice across accelerators.

## 2. Programme package

The second component we call 'programme package'. The programme package consists of a standardised curriculum and a mentoring package. This usually includes:

- A 'curriculum' or 'training programme' that new ventures go through. This can cover a variety of topics, for instance, the ProSiebenSat.1 accelerator includes finance, user design, PR, marketing and legal aspects.
- A programme of events, such as expert workshops and inspiring talks.
- Regular counselling, often in the form of weekly 'office hours'. These regular meetings with the accelerator management team generate mutual trust, and provide the founding teams with business assistance and enable a 'weekly' review of their progress.
- Investor demo days. These can be focused as much on customers as on investors; for example, Healthbox Europe focus their demo day on getting customers in the room for their startups.
- Co–location in a shared open office space, which encourages peer–to–peer learning and collaboration.

The standardised service package is complemented with a carefully planned **mentoring package**. Mentors are typically experienced entrepreneurs and they are heavily vetted before being included in the programme. They can be matched to specific ventures through speed dating or matchmaking events. One accelerator we interviewed described their 'matchmaking' process as follows:

> *"The only method that we found that works is: rent a room in a restaurant, bring in food, a lot of alcohol, close the doors, and in four hours the magic happens.*

Mentors can help ventures to define their business model, and to connect with customers and investors. Although there are variations in how the mentoring model is applied, there is evidence of a formal programme of mentoring across all accelerators.

## 3. Funding structure

There are two important elements to the funding structure of an accelerator: the funding of the accelerator itself, and the funding available to startups.

When looking at the **funding of the accelerator**, we found that most programmes received the major part of their working capital from shareholders, such as investors, corporates and public authorities. Few of the programmes we interviewed were able to get revenue from investments in the startups which they support, but this could be because these programmes are still relatively new and it will take some time before they have noticeable exits in their portfolio companies.

Similar to the findings of Nesta's *Good Incubation* report, some accelerators were diversifying their model in order to source alternative revenue through the organisation of events and workshops. For example, TheFamily organises a lot of events which they sell tickets for online, and this has turned into a profitable event business.

With the **funding of startups**, we found that most programmes (eight out of 13) followed the traditional accelerator model of offering a small amount of funding in exchange for equity (this ranged from £3,600–£50,000 for 3–10 per cent). Two accelerators offered no funding or equity (both of these were corporately backed), a further two programmes offered funding (£15,900–£75,500) but took no equity (both publically backed), and one programme, The Family, offered no funding but took 3 per cent equity in return for the value of the programme.

The equity stakes were typically made on a dilutable basis with pro-rata investments in ensuing rounds being optional case-by-case, with only a small handful of accelerators offering them on a non-dilutable basis. Some accelerators also offered some form of follow-on funding for their startups, which reflects the challenges that startups face in securing investment directly after an accelerator. For example, Healthbox Europe has shaped an Angel Fund that acts as a co-investment fund to be invested alongside the accelerator as a separate legal entity.

## 4. Selection process and criteria

The design of the screening and selection process is the fourth core component. Entrepreneurial teams are typically selected in batches, but the 'how' and 'why' they are selected, differs among the accelerators. The method of screening can range from a simple two-staged process to a rigorous multi-staged process. Usually, an open call is organised during a period of time where portfolio companies can register and apply online, often on a software platform such as F6S.com, Fundacity and Angel.co.

Some programmes, like Startupbootcamp and Climate-KIC, go one step further and actively scout startup events before the application period. Then, a standardised screening process is organised in which external stakeholders tend to participate. For example, Healthbox Europe use a selection committee, comprising mentors, investors and alumni, to help shortlist companies in its programme. The portfolio companies are expected to present their ideas and they are screened in person.

It is remarkable that all the accelerators we interviewed claimed that teams are the main selection factor, and single founders are only selected by exception. A representative example is the screening process of the Paris-based accelerator TheFamily. It is perceived as a 'founder-friendly' application process, where the team as opposed to the idea is the dominant decision factor for the accelerator.

> *"The only thing you have to do is to send an email to apply at thefamily.co, nothing else. And actually we never ask anything about your business. The only thing we do is that you talk about yourself and who you are.*
>
> **Founder, TheFamily**

Single founders are only selected by exception, but some accelerators will help founders with matchmaking and team formation, which is also of benefit to teams missing a specific skill set. For example the Paris-based accelerator Le Camping organises an event called 'Adopt a CTO' before opening the call to submit applications. This event offers single founders the opportunity

to find a CTO and form a team. Other accelerator programmes such as Startupbootcamp and Climate–KIC have entrepreneurs–in–residence. These are entrepreneurs with a specific skill who could join entrepreneurial teams, become co–founders, or build their own companies. They give more than advice (compared to mentors), they work together with the teams. Some are paid, others are in a programme for the opportunity and personal growth.

## 5. Alumni service

The last core component we identified was the alumni service. The accelerators in the study put a lot of emphasis on keeping close and active relations with the companies that graduated from their programmes. Most accelerators run regular events for alumni and invite them back into the programme to share their experiences where possible. Accelerators that take equity in their startups have an added incentive for providing continued support to help their alumni succeed. Once an accelerator has developed over a number of years, the alumni network can be an important source for mentors and investors, as successful graduates are more likely to invest back into the community which supported them in the first place.

# 3. ACCELERATOR ARCHETYPES

There were remarkable differences in the accelerators in our study based on their approach to these five core components. However, we were able to distinguish three broad groups of accelerators, based on their strategic focus:

1. **The investor–led archetype**
2. **The matchmaker archetype**
3. **The ecosystem archetype**

## The 'investor–led accelerator'

The investor–led archetype of accelerators receives funding from investors such as business angels, venture capital funds or corporate venture capital. This accelerator type resembles most of the original concepts of Y–Combinator and Techstars developed in the US. Its objective is to bridge the equity gap between very early–stage projects and investable businesses. Hence, the screening criteria in these programmes tend to favour ventures that will take on follow on capital and become attractive investment propositions. These accelerators typically provide some form of seed financing to startups in exchange for equity.

A representative example in Europe of an investor–led accelerator is Axel Springer Plug & Play Accelerator. The CEO said the programme helps them to invest in promising startups:

> *"We do it because we really would like to have an investment case and when we look back in eight years, I would like to have two big exits.*

Often, we see that these accelerators begin to focus on startups that are in the later stages of development. They tend to select ventures which already have some proven track record, and in some cases have already raised pre–seed finance. For example the managing director of Techstars London said that because they get such a high number of competitive applications that they're able to pick more developed startups to work with:

> *"We have a team from Estonia, that has raised over a million dollars which is just about to start. We have a team from California that has raised one million dollars. They are all seed funded teams.*

As mentioned previously, one of the strategic decisions of an accelerator is whether to be generic or industry specific. Investor–led accelerators often choose to specialise within a specific industry. By concentrating on one specific sector, the accelerator management team can develop the necessary sector–specific knowledge and expertise to identify and exploit the economic potential of entrepreneurial teams. The mentors used in these accelerators are often active business angels themselves and play a further role in follow up investments. One accelerator director described their mentors as 'investors in disguise'.

## The ‘matchmaker accelerator’

This type of accelerator has typically been set up by corporates who want to provide a service to their own customers or stakeholders. An example is FinTech Innovation Lab in London, which is run by Accenture; its main focus is to create a platform for the financial services industry to collaborate on innovation with early-stage ventures – and in the process, Accenture can strengthen its relationship with its banking clients. Similarly, one of the motivations behind the Microsoft Ventures accelerator is to support startups whose solutions will benefit Microsoft’s vast SME customer base across Europe.

These accelerators actively involve their corporate stakeholders in the selection process of their ventures. For instance, senior executives of large financial banks sit in on the selection process of FinTech Innovation Lab. Hence, only those ventures are selected which attract the attention of highly placed individuals in these corporates. Mentors are often selected from within the corporates, and they play an important role in helping the startups find their way through the internal decision-making system of the corporate.

Interestingly, there is often no profit orientation among these accelerators, and they offer no finance to the startups that participate on the programme. Instead, these accelerators add value by helping the startups to connect with potential customers. Their network is therefore almost exclusively oriented towards the potential customer base. They are financed on a yearly basis by the corporate and often adopt soft performance measures or engage in symbolic actions (Zott and Huy 2007) such as broadcasting, newsletters, and showcase events to illustrate their legitimacy in the absence of hard KPIs.

## The ‘ecosystem accelerator’

These accelerators typically have government agencies as a main stakeholder. The government agencies are interested in stimulating startup activity, either within a specific region or within a specific technological domain. For instance, the European Commission stimulates the establishment of accelerators within the major technological programmes (Knowledge and Innovation Communities or KICs), which it finances.

The ultimate objective of these programmes is to develop an ecosystem of startups within the region or the technology. Hence, selection criteria and processes in these accelerators are organised to attract companies that fit within that vision. For example, Climate KIC organises specific calls focused on ‘smart grid’ technologies within the research institutes that have activities in that domain. Paris-based Scientipôle Initiative promotes its programme to unemployment agencies in order to encourage unemployed entrepreneurs to apply to the accelerator, and they focus heavily on the potential for job creation in their selection criteria. These accelerators typically select ventures in a very early stage in the lifecycle. Often, a value proposition has not yet been developed, and sometimes it is just an individual with an idea.

The ecosystem accelerators have the most in-depth developed curriculum among the three archetypes. They typically organise training sessions, workshops and practical learning-oriented events to help the ventures develop their idea and value proposition. In some cases mentors can also be consultants or business developers, who – often on a paid basis, as with Climate-KIC – help to commercialise the technology or sell the product/service idea. Their involvement with the ventures is much more hands on than the typical mentors or internal coaches that are predominantly present in the two previous examples.

For most ecosystem accelerators, the business model is rather unclear. Typically, their operations are developed to satisfy the needs of the government stakeholder. But at the same time, most public sponsors require some form of revenue model after an initial financing period. Although most accelerators present the typical investment model as a potential,

some experiment with other forms of revenues like asking for payment of tuition fees for the training courses. As the managing director at Scientipôle Initiative expressed it: *"To enter 'Scientipôle Growth', it costs €190 per year. So it is a very low admission cost for the startups, they are offered support programmes but in fact it is actually for free."*

The Paris-based accelerator Le Camping can be considered as a typical ecosystem accelerator: it is set up as a non-profit organisation, backed by public and private partners. In November 2013 the accelerator moved to NUMA, a 1500m$^2$ space in the centre of Paris, designed to be a community hub for digital entrepreneurship and innovation. The managing director believes their investment scheme (a small investment of €4,500 for a small equity share of 3 per cent) is a successful strategy in helping young ventures. She told us that the goal of their accelerator is to help young startups to grow by providing the best environment. *"The most important thing is to create sustainable startups in the long term,"* she said.

Another interesting example is the social impact accelerator Bethnal Green Ventures, based in London. They receive funding from the UK Cabinet Office, Nominet Trust and Nesta, and in many respects they run like a traditional tech accelerator, investing £15,000 in exchange for 6 per cent equity in tech startups. However, they focus exclusively on technology-based ventures that leverage products and services for social good. They are strong advocates of 'Tech for Good' and play a role in hosting meetups and events in order to foster the community around this.

Table 2 **Summary of key elements from archetypes in accelerators**

| | Investor-led | Matchmaker | Ecosystem |
|---|---|---|---|
| **Accelerator Strategy** | Key stakeholders are investors; goal is to look for investment opportunities | Key stakeholders are corporates; goal is to provide a service for the customer base 'matching potential customers with startups' (NO profit orientation) | Key stakeholders are government agencies; goal is to stimulate startup activity and create an ecosystem |
| **Programme package** | Fixed programme length; Mentors comprise of serial entrepreneurs and business angels; often sector specific | Fixed programme length; Internal experts from corporates are used as coaches and mentors | Fixed programme length; Mentors comprise serial entrepreneurs and business developers; most developed curriculum |
| **Screening Process and Criteria** | Open application; Cohort-based system; favour venture teams in later stages with some proven track record | Open application; cohort-based system; favour venture teams in later stages with some proven track record | Open application; cohort-based system; favour venture teams in very early stages |
| **Funding Structure** | Funding from private investors (business angels, venture capital funds and/or corporate venture capital); standard seed investment and equity engagement | Funding from corporates; seldom seed investment or equity engagement | Funding from local, national and international schemes; experimenting with funding structure and revenue model (search for sustainability) |
| **Examples** | Techstars, Startupbootcamp, ProSiebenSat.1 Accelerator, Axel Springer Plug & Play Accelerator, L'Accélérateur | Fintech Innovation lab, Microsoft Ventures Accelerator | Climate-KIC, Le Camping, Bethnal Green Ventures, Scientipôle Croissance |

# 4. DISCUSSION AND IMPLICATIONS

Our research has uncovered some of the different ways in which the accelerator model has developed in Europe. The three archetypes, investor–led, matchmaker and ecosystem developer, demonstrate how accelerator programmes adopt different ways of structuring and running their programmes depending on the objectives of their key stakeholders. For instance, the investor–led model focuses heavily on mentoring by serial entrepreneurs and business angels who know how to create legitimacy for follow–up investments. The matchmaking model is mainly focused upon helping ventures through the complex decision–making structures in corporate customers. Instead of mentors, internal coaches in these corporates tend to guide the entrepreneurs to the right decision makers. Finally, the ecosystem builders tend to be more programme–led and develop intensive workshops and training sessions to help the ventures finding their way to applications or first customers. Often, the accelerator team is complemented with commercial skills such as business developers which test the idea on the market.

## Hybrid archetypes

Within our sample we note that a number of accelerators have hybrid elements. These hybrid elements can be explained by the differences between the benchmark which is used as a source of inspiration (e.g. Y Combinator) and the emerging stakeholder realities within the context in which these accelerators are funded. For instance, one of our accelerator cases, Bethnal Green Ventures, has a clear ecosystem focus and is financed by public sources, but nevertheless copies the mentorship model typically found in the investor model. In another example, an accelerator we interviewed had a clear matchmaking focus but it also provided some capital to the startups. Hence, the objective becomes hybrid: does it want to realise returns while keeping the corporates' customers happy? It is questionable whether these different elements will hold over the long term.

The situation becomes particularly difficult when different types of stakeholders are involved. For instance, in some cases public sponsors require the attraction of private funds (e.g. investor funds) or corporate involvement alongside their funding. For example, the UK Cabinet Office's £10 million Social Incubator Fund requires accelerator programmes to match their grant with external funds (which can come from corporates, investors or other public funders). However, these private funds come with their own expectations and hence dual objectives have to be managed by these accelerators. Since these accelerators are extremely small organisations, often with only two or three employees, it is questionable whether this is possible. We observe in our data, traditional ways to deal with different stakeholders such as 'decoupling' (Meyer and Rowan 1977). An example of 'decoupling' would be when an accelerator with a clear ecosystem focus takes small slices of equity in its early–stage ventures and places a relatively large potential valuation on that equity in the future. They do so because the public authority expects that after, say, five years the accelerator might become self–sustainable. Decoupling enables the accelerator to maintain its formal structure as ecosystem builder while its activities and communication vary in response to practical considerations. However, this could create a potential conflict between objectives and reality that public funders and accelerators need to be aware of.

## Practice and policy implications

### 1. ENTREPRENEURS NEED TO CHOOSE THE RIGHT TYPE OF PROGRAMME FOR THEM

The three archetypes we have developed can be used to position different accelerators within the overall ecosystem. We suggest that initial advisors to early-stage ventures (e.g. government support agencies; university student and alumni entrepreneurship offices) should consider this framework, and the underlying objectives of different programmes, in order to orient nascent entrepreneurs towards particular types of accelerators that may best meet their needs.

### 2. DIFFERENT OBJECTIVES REQUIRE DIFFERENT METRICS

The diversity of archetypes we have identified has implications for policymakers in evaluating the role of these accelerators and supporting them. Rather than evaluating the effectiveness of all accelerators using the same criteria, there is a need to develop measures that take into account the different objectives of different types of accelerator. Policymakers typically have regional development and employment as an objective. This is fine, but they then have to realise that the accelerators they finance cannot be profitable in the short or even medium term. The ventures they invest in, the programme they have to develop in order to be successful in their objectives and their strategic focus on the local environment do not allow this. The systematic research evidence is sparse, but only investor-led accelerators in very dense ecosystems such as Silicon Valley appear to have a proven business model. Unfortunately, we often see that policymakers expect ecosystem accelerators to have similar outputs as investor-led ones.

### 3. CORPORATE ACCELERATOR PROGRAMMES NEED TO BALANCE DUAL OBJECTIVES

Not only policymakers but also corporates play an active role in setting up accelerators. Looking at the accelerator scene in Europe, it is remarkable how much interest large corporates show in setting up accelerator programmes, particularly in Berlin. In this case, we observe that investor-led accelerators are often a source of inspiration. However, it is unlikely that these accelerator forms can be fully adopted by corporates. Their success is very much based upon the ability to track deal flow and spot early opportunities which need follow-up investment. In contrast, corporates often have dual objectives and also see these accelerators as technology-scouting opportunities. Well known examples such as Telefonica's Wayra accelerator offer their support to the ventures to further develop their technology and test it as an operator. This means that the corporate accelerator also has a 'matchmaking' objective, which implies the need for a different structure from the investor-led accelerator. The latter type deploys mentors to evaluate the ventures and assist them in making the business plan ready for the next capital round, while the former makes use of internal coaches to integrate the new venture's sales process into the corporates decision-making structure. Since 'investor-led' and 'matchmaker' objectives do not entirely match, it will be interesting to see which objectives dominate as these programmes evolve over the next few years.

### 4. IF YOU'RE STARTING AN ACCELERATOR YOU NEED TO BE VERY CLEAR ABOUT THE VISION AND OBJECTIVES THAT YOU WANT TO ACHIEVE

As accelerators have grown in popularity, many nascent entrepreneurs and organisations such as universities, companies and regional development agencies feel attracted to the idea of starting an accelerator. Universities see it as a way to promote student entrepreneurship, companies as a way to tap into startup innovation and talent, and development agencies as a way to create employment. Examples of university-led

accelerators include 'Beta Foundry' at Oxford University, InnovationRCA at the Royal College of Art and the pre-accelerator 'Imperial Create Lab' at Imperial College, London. Our research shows, however, that starting such an accelerator needs a very clear vision and strategy about the objectives that one wants to achieve with the accelerator. Given the results so far, it seems unlikely these accelerators will be profitable or even sustainable without continued financial support for a number of years. Although they fill an important role, the need for this type of support needs to be legitimate. If not, the accelerator initiatives will disappear as soon as the financial support for them decreases.

### 5. ACCELERATOR SUPPORT NEEDS TO BE TIME-LIMITED TO AVOID THE 'LIFE SUPPORT' INCUBATION TRAP

Finally, our findings suggest that accelerators may help solve some of the problems noted earlier that are associated with traditional incubators. In the past, some incubators have been accused of merely acting as life support and keeping tenants alive in order to secure rent and fill their incubation space. As most accelerators invest in their startups in contrast to some traditional incubators, they have an added incentive to make sure that the selected startups survive and scale. Accelerators are a way to shorten the journey of startups, resulting in either quicker growth or quicker failure. However, some accelerators do allow alumni to remain in the space after the programme has ended and there is the potential that this may create adverse consequences if it is not time limited.

## Future research

This study is based on accelerators primarily located in three of the largest startup ecosystems in Europe: London, Paris and Berlin. These different European regions created different contexts in which accelerators need to function and be sustainable, but may not be representative of all types of regions in Europe. As spatial context may have an important influence on entrepreneurial and innovation ecosystems (Levie et al., 2014), further research is needed both to compare similar regions in other countries and also to compare our findings with different environments, for example regions outside major metropolises.

As accelerator programmes develop, our framework, comprising the three accelerator models, can serve as a basis for more rigorous evaluations of accelerator performance and can be used to define suitable success metrics in achieving certain objectives. Although we have identified three archetypes, subsequent analyses might also usefully examine the challenges faced by particular accelerators as they attempt to evolve over time into different models, depending on the success or otherwise of their initial configuration.

Whilst beyond the scope of this paper, which has focused on the accelerators themselves, an interesting avenue is to study the impact accelerators have on the trajectory of the new ventures that participate in these programmes. The type and phase of the entrepreneurial journey of startups is likely to have an important impact on the approach used by the accelerator and on the value they would add. Further research on the entrepreneurial process can offer interesting insights on the relative influence of accelerators on that process. This would enable identification of best practices with the aim of implementing a customised acceleration strategy to propel startups.

Importantly, in order to truly gauge the effectiveness of different models there is a need for studies that compare accelerated ventures to a control group of non-accelerated ventures in order to provide robust insights into the contribution of accelerators. Furthermore, explicitly focusing solely on one sector or technology is perceived as an interesting strategic option by decision makers. Assessment of differences in effectiveness and value-added contributions to the startups can improve our understanding of the possible benefits of specialised accelerators.

## Conclusion

This qualitative research extends Miller and Bound's (2011) study about accelerators and what its implications are on the entrepreneurial ecosystem. Their study has provided a wealth of insights regarding the categorisation of accelerators; however, a lot of questions remain outstanding due to the paucity of data. We, therefore, followed the call for more in–depth research on the origins and features of accelerator models and the heterogeneity of their strategies and operations.

Against a background of sparse research prior to this, our study has produced several interesting results that have novel implications for the incubator and entrepreneurship literatures and practice. First, in order to categorise accelerators and to avoid confusion, we have slightly adapted the definition of Miller and Bound (2011). Second, the report provides a comprehensive set of diverse features to describe the architectural blueprint of an accelerator. Third, we can draw from the results that accelerators can fit into at least three different configurations, some with more than one variant. Each of the different archetypes has its own actionable principles, depending heavily on the affiliated strategic partners (investors, corporates, government agencies etc.). The model of the accelerator and its services is often dictated by or related to, the capital structure i.e. the type of funding it receives. As each stakeholder strives to invest in something they believe in to generate the right output, we also remain cautious of whether hybrid archetypes have the ability to meet the different expectations of their stakeholders.

Of course, because the phenomenon is so new, uncertainty still exists about the future success of accelerators. What is undeniable, though, is the compelling economic logic of such organisations. We hope that the findings of our study will open the way for further systematic analyses of the processes and impacts of accelerator programmes.

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# ENDNOTES

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4. http://www.acceleratorassembly.eu/
5. http://gan.co/
6. NESTA (2009) 'The vital 6 per cent: how high-growth innovative businesses generate prosperity and jobs.' London: NESTA. Available online at http://www.nesta.org.uk/publications/vital-6
7. Seed-DB is a platform which analyses accelerators as well as the startups that had gone through those programmes.
8. One programme operates mainly from Munich (ProSiebenSat.1) However, it has an additional office in Berlin to take advantage of its local entrepreneurial ecosystem.
9. Euros converted to British Pound Sterling at a rate of 0.79.

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