# Issue: Business Accelerators

# Business Accelerators

*By: Lisa Roepe*

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### Do they pave the path for startup success?

## Executive Summary

Are business accelerators the key to success for early-stage businesses and startups? Many entrepreneurs think so. Since the first accelerator, Y Combinator, was founded in the United States in 2005, the number of accelerators has increased dramatically. More than 180 accelerator programs worldwide have helped some 6,000 companies attract in excess of $22 billion in funding from all sources. Yet, not everyone agrees that participating in an accelerator guarantees that a startup will succeed.

Among the key takeaways:

- Not all accelerators are equal: Startups should research their options before committing to an accelerator and, once accepted, be clear about what they want to gain from their experience.
- Accelerators involve trade-offs: Entrepreneurs give up equity in return for seed money and a chance to pitch potential investors.
- Joining an accelerator isn't the only way to grow a new business. There are a number of free resources available to entrepreneurs.

## Full Report


Alexis Ohanian, of Reddit and Y Combinator, and TechCrunch co-editor Alexia Tsotsis at TechCrunch Disrupt NY 2015, where startups pitched investors. Y Combinator was the original accelerator. (Noam Galai/Getty Images for TechCrunch)

When the financial technology startup [Factom Inc](). was accepted by [Plug and Play](), a business accelerator, in 2015, a colleague told Factom CEO Peter Kirby that he might as well take his seed money and flush it down the toilet because accelerators are completely useless.

Kirby says his colleague told him that accelerators – programs that seek to expand the size and value of a startup company as quickly as possible – "are very, very distracting, and while you think you're getting connections from the accelerator, you are really just in a tournament with other startups."

Kirby's experience didn't bear out the warning. Through Plug and Play, he says, he got a meeting with the U.S. Department of Homeland

Security that led to a $199,000 award from the agency. [1] "We had a wonderful experience with Plug and Play," says Kirby, whose Austin, Texas-based company builds software for blockchain, a data structure that creates a digital ledger of transactions for things such as bitcoin.

And yet, Kirby says, in some respects his colleague's caution might be right. An accelerator can indeed be a distraction if the startup's creators fail to focus on what they want to achieve during their limited time in the program. And, to some extent, participants are competing with other startups for the accelerator's time and resources, Kirby says. An accelerator doesn't ensure success.

Accelerators differ from other programs to aid startups, such as incubators or "angel" investors, in that they compress development time to increase the size and value of the company as quickly as possible and culminate in a demonstration day when entrepreneurs pitch their business to investors. The emergence and popularity of accelerators reflect the growing reliance of the U.S. economy on startups to generate growth.

Accelerators focus solely on businesses in their initial stages of development, which typically means the startup is seeking capital, is still building an employee team and hasn't settled on a strategy for attracting customers. [2]

To achieve rapid growth, most accelerators require the business owner to move into a shared workspace for three months to get daily mentoring and advice from the accelerator's founders. Often, startups receive seed money to spend however they would like, typically $15,000 to $20,000. In exchange, most accelerators require the entrepreneur to give them an equity stake in the company, usually 6 to 9 percent. [3]

Since the first accelerator, Y Combinator, was created in 2005, the more than 6,000 companies worldwide that have gone through accelerator programs have received in excess of $22 billion in funding from all sources to support their businesses, according to the database Seed-DB.com. [4] The bulk of these accelerators are in the United States; between 2005 and 2015, 172 U.S.-based accelerators invested their own money in more than 5,000 U.S. startups with a median investment of $100,000. [5] Most U.S. accelerators are in Silicon Valley, Washington, New York City or Boston. [6] The concept has been replicated in Europe and Russia. [7]

Accelerators get their funding from three sources, according to Scott Robinson, Plug and Play's vice president for fintech: state and federal agencies, private entities such as banks, and corporate sponsors seeking access to the startups and events associated with the accelerator. The U.S. Small Business Administration supports accelerators through its Growth Accelerator Fund Program, which in 2015 offered $4.4 million to 80 recipients. [8]

## Do Accelerators Guarantee Success?

The odds are low that accelerator participants will become as successful as the online labor market TaskRabbit or cloud storage site Dropbox, startups that partnered with accelerators during their early development. And there are countless startups – think Facebook – that achieved spectacular success without going anywhere near an accelerator. For all of that, many entrepreneurs still see accelerators as the key to early success. [9]

"The myths of accelerators get written up by the success stories," Kirby says. "We're talking about one-in-a-million startups, not the bulk of them. You can't look at what happens with the one-in-a-million and expect that to happen to your company."

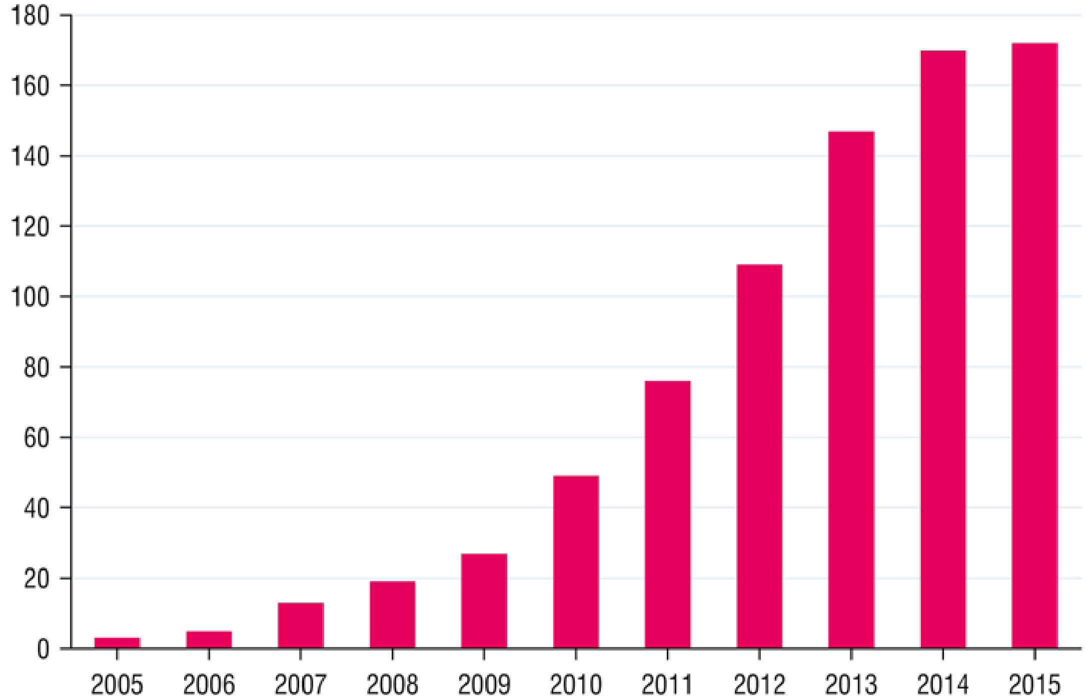
It is unclear whether accelerators improve startups' survival rates. No entity regulates accelerators, and research into the question is insufficient, although one study found that partnering with an accelerator enhances a business' ability to attract investment. The research that does exist shows that the impact of accelerators varies widely, perhaps because accelerators differ so much in terms of size, founders, amount of seed money provided and level of equity required to join. [10]

Each accelerator has unique qualities, and the key is to find the right match for a particular startup, Kirby says. He equates finding the right accelerator to applying to the right college. "There are an awful lot of college students who entered the wrong college for them, and it's an expensive mistake," he says. "If they took the time to interview students and graduates, and think upfront about what they need to get out of the experience, they would spend their money and time more wisely."

The same principle applies to accelerators, Kirby says. Each offers different resources, and most come with a price tag for joining – an investment of time or money in terms of an equity stake in the company, or both. Unless entrepreneurs do their homework before joining an accelerator, they will probably make the wrong choice, he says.

## U.S. Accelerators More Than Tripled Since 2010

**Growth in programs surged after 2008**




Source: Ian Hathaway, "Accelerating growth: Startup accelerator programs in the United States," Brookings Institution, Feb. 17, 2016, http://tinyurl.com/j3zltpw

U.S.-based accelerators have surged in growth since 2008, when there were just 19 programs. The number of accelerator programs steadily increased to 172 in 2015, more than three times the number that existed in 2010.

Robinson agrees. "Just because you're in an accelerator program, it doesn't mean anything will happen," he says. "Nothing has changed with your company except the opportunities are better."

The value of an accelerator is to put participants and their company in front of key decision makers, says Steve Kirsch, CEO of Token Inc., a banking software startup, who also participated in Plug and Play. "We were given an opportunity to pitch people we wouldn't have otherwise known about without the accelerator," he says.

Yet even though Token found an investor through Plug and Play, Kirsch says he's not sure the accelerator made a huge difference in getting his business off the ground. Kirsch says he and his team could have pitched investors without Plug and Play's support.

"You have to be clear what your goals are and what you need," says Amy Millman, president of Springboard Enterprises, an accelerator for female-led, tech-oriented companies. "If you're in it for the journey or to learn or you have an app and you need a community around you to learn this stuff, you can be less picky about the program you go into," she says. "But if this is your life's work, then you need to be really cautious about who you tie in with."

The more participants assert themselves, the more they will get out of the program, Robinson says. His advice is to define objectives, make a people-to-meet list and figure out how to leverage the relationship with the accelerator, because three months is a make-or-break time for any startup.

## Be Careful About Giving Up Equity

For a startup, giving up an equity stake is a big deal, Robinson says. "Make sure your accelerator isn't just doing a horse-and-pony show, but that they are introducing you to strategic partners," he says.

Millman advises startups to think twice before giving up equity. "Right off the bat, you are giving away a percentage of your company, which will have an impact on its growth," she says. "That might come back to haunt you as you grow, and for people in the earliest stages of development, that is often not something they think about at all."

Unlike most accelerators, Springboard Enterprises, a non-profit, doesn't ask for an equity stake. "Ours is not a transaction," Millman says. "Ours is a community."

Some startups will go from accelerator to accelerator because they need money, but every time entrepreneurs give up equity, they could be hurting their company, Millman says. Kirby agrees: "Your chances of getting funded go down the more equity you give away." So before a startup goes to another accelerator and gives up more equity, the founders need to know why they are doing it.

For instance, Kirby says, investors won't be impressed if entrepreneurs have a consumer app that they launched unsuccessfully in Y Combinator, so they decided to give 500startups, another accelerator, a try. But, he says, investors will appreciate the story if there is a sound reason for the experience: for example, the first accelerator experience revealed that the venture would be more successful as a business-to-business product, so the entrepreneurs joined a business-to-business accelerator.

"Failure is a big part of success," Kirby says. "Investors love to hear that you are flexible enough to pivot and not just insist on being right."

## Alternative to Accelerators: Free Resources

Diana Goodwin, founder and CEO of the successful startup AquaMobile Swim School, which offers private swimming lessons, never applied to an accelerator. "I decided I would leverage other resources to make my company grow," she says. Goodwin started AquaMobile five years ago and, she says, the business brings in around $1 million in gross profits annually without the help of an accelerator or venture capital funds.

"To me, it didn't make sense to give up a portion of my company," she says. Instead, Goodwin says she used free resources available through the state of Florida's Small Business Development Center.


Diana Goodwin says she was able to launch her startup without the help of an accelerator.

Christine Souffrant Ntim, founder of the travel website Vendedy, agrees that an accelerator isn't necessary for success. Instead, she suggests taking advantage of free workshops and webinars or applying to pitch competitions such as MasterCard's Priceless Elevator, which she won in 2015.

In 2016, Souffrant Ntim offered free Brand Entrepreneurs Bootcamps in Boston, New York City, Washington and San Francisco, as well as Aruba and Dubai. These daylong programs focus on practical advice for startups on formulating ideas, funding, branding, product development, legal issues, customer acquisition and marketing – the same topics that would be discussed in an accelerator, she says. In 2017, she plans to offer her boot camps in 50 cities in Africa, the Caribbean and Latin America.

A recent study by the Global Accelerator Learning Initiative, a consortium of public and private funding sources, compared the performance of startups that participated in accelerators with those that applied to an accelerator but weren't accepted. The study found, overall, that after one year the businesses that went through an accelerator raised more than eight times the investment money than businesses that were rejected. [11]

Some researchers argue one year isn't enough time to measure the value of an accelerator. Venture Beat, an online publication dedicated to covering technology and innovation, studied five of the best-known U.S. accelerators – Y Combinator, Techstars Boulder, Techstars Chicago, Techstars Seattle and DreamIt – and determined that accelerators need at least four years after a startup leaves their program to determine the quality of their results. [12]

Entrepreneurship professor Yael Hochberg at Rice University, managing director of the Seed Accelerator Rankings Project, said that for most companies that have participated in accelerators, success can't be accurately measured until five to seven years after they've graduated from the program. [13]

At the end of their three months with Plug and Play, most startups probably won't have a firm deal with a financial institution – but, Robinson says, they will have had a series of conversations with every potential investor. "The average response time for most financial institutions is nine to 14 months," he says. "If we can cut that time in half or to one-third, that can really change the trajectory for the startup."

## Different Types of Accelerators

Most accelerators focus on companies that have a technology component to their business model, such as fintech, tech education, medical technology or fashion tech. While most accelerators require the business owner to move into a shared workspace for three months, not all do. Several virtual accelerators, including Circular Board and StartupPlays, offer a collaborative remote workspace.

There are also accelerators that will work solely with female-owned startups, including Springboard Enterprises, Women's Startup Lab and MergeLane, as well as accelerators focused on minority-owned startups, including DreamIt Access, a partnership between DreamIt Ventures and Comcast Ventures; NewME; and PowerMoves.

Critics say accelerators are not diverse enough. A recent survey of eight high-tech U.S. accelerators by the Boston-based nonprofit Institute for a Competitive Inner City found that only 20 percent of the businesses supported by accelerators were owned by women and only 23 percent were owned by minorities. [14] The research also found different levels of engagement: Female- and minority-owned businesses did not participate in the programming and resources offered by accelerators to the same degree as their white, male counterparts. [15]

Carolyn Rodz founded Circular Board, a virtual 90-day accelerator, in 2015 to support women who didn't want to give up an equity stake in their business. It also provides support to female entrepreneurs whose business models aren't technology-intensive along the lines of startups such as Uber or TaskRabbit, but are focused instead on retail, energy or health care.

### How Startups Apply to Accelerators

Be prepared for unfavorable odds: Most competitive accelerators have an acceptance rate of less than 5 percent. [16] And have no illusions about motivation. Accelerators "are not your friends," Springboard's Millman says. "They like what you're doing, they've done the math and they look at this as a way to make money."

Experts recommend that startups apply to 15 to 20 accelerators to increase their likelihood of being accepted. For example, an entrepreneur should consider applying to Techstars in Utah, where it is less competitive than in Chicago, New York City or Boston, Vendedy's Souffrant Ntim says.

The application process generally includes questions about the business idea, market and competitors as well as current successes and potential challenges. [17] The typical applicant is in the early stages of business development and may not even have a finished product to sell yet. "If you don't have a product, if you have nothing to accelerate, you could be wasting your time," Souffrant Ntim says.

Amy Millman is president of Springboard Enterprises, an accelerator for female-led companies.

When businesses are deciding which accelerator to join, experts suggest evaluating the following: the terms of the agreement; the founders and mentors; and whether other companies in the same field successfully graduated from this accelerator. Most of an accelerator's value comes from its network of graduates, mentors and leaders, experts say.

Before joining an accelerator, get to know the founding partners, Rodz of Circular Board says. "Make sure there's a good match and great interest," she says. "If you don't jell in the interview process, even if you get selected, if you don't have a personal relationship with [the accelerator's] founders, it will be very hard to get the traction you need."

Find out what other startups have gone though that accelerator, Robinson suggests. If accepted to a program that has no notable graduates, ask what will be gained by going through the program and giving up equity, he says. Also be wary of joining a tech accelerator that isn't located in a big tech scene. States such as Arkansas or Mississippi might have a big biotech program but are not as strong in fintech. Robinson also recommends interviewing alumni from the accelerator as well as venture capitalists who have participated as mentors.

It's also important that any entrepreneur who joins an accelerator has the time to participate fully, Kirby says. Many companies don't understand they will need a person dedicated to taking every meeting, going to every cocktail party and participating in every event the accelerator offers, he says. Those meetings, he says, increase the likelihood of your company connecting with the right investor.

Plug and Play's Robinson agrees. There are plenty of startup founders who will blow all their financing on a good apartment and not apply themselves during those three months, he says. "There is a certain level of entrepreneurship tourism that happens," he added. "Focus on the core competencies of the accelerator, not just being an alumni of Techstars or Y Combinator."

Robinson says that while there is little risk of a large and established accelerator stealing an idea from a startup, technical expertise is another story. "I have heard horror stories where startups have lost an employee to either the accelerator or another startup," he says. "We try to tell the founders to leave their technical talent at home because we have seen quite a few good coders get picked up from Google or Facebook before the startup got off the ground."

## About the Author

Lisa Rabasca Roepe is a journalist who writes about the culture of work, personal finance, the media and technology. Her work has appeared in Fast Company, Good, Quartz, The Week, Men's Journal and Eater. She is also a Forbes contributor.

## Chronology

| | |
|---|---|
| **2005** | The first accelerator, called Y Combinator, opens in Mountain View, Calif. Its success stories include file-hosting service Dropbox, homestay marketplace Airbnb and Zenefits, which provides human resources software. |
| **2006** | Condé Nast acquires social news aggregator Reddit from Y Combinator for an undisclosed amount. |
| **2007** | A second accelerator, called Techstars, opens in Boulder, Colo. Ridesharing service Uber and online content platform Contently are among Techstars' successes. |
| **2009** | Techstars opens a second location in Boston. |
| **2010** | Startupbootcamp, the first accelerator in Europe, opens in Copenhagen. |
| **2011** | TexDrive, Russia's first accelerator, opens in Moscow. |
| **2012** | Minority-owned startups get an accelerator when DreamIt Ventures teams up with Comcast Ventures. |
| **2013** | Twitter acquires startup MoPub, an online ad server, from AngelPad for $350 million, making it one of the largest exits for an accelerator. |
| **2014** | MergeLane, an accelerator for female-owned startups, is founded. |
| **2015** | The U.S. Small Business Administration expands its accelerator funding program to offer a total of $4.4 million to 80 organizations throughout the United States. |
| **2016** | The top two accelerators in the United States are still Y Combinator, which has provided $10.2 billion in financing since its inception, and Techstars, which has given nearly $3 billion in funding since it began. |

# Resources for Further Study

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### Books


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Stross, Randall, "The Launch Pad: Inside Y Combinator," Portfolio, 2013. A journalist offers a unique inside tour of the world of software startups.


### Articles


"Startup competition guide: A Giant List of The Best Business Contests," Grasshopper Blog, http://tinyurl.com/hr2stvy. A blog compiles a list of pitch competitions across the country, including entry fees, prizes and eligibility requirements.

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Hathaway, Ian, "What Startup Accelerators Really Do," Harvard Business Review, March 1, 2016, http://tinyurl.com/jtmpq86. A Brookings Institution scholar provides an overview of U.S. startup accelerators and what they have accomplished.

Wasik, John F., "Help for a Business Idea Trying to Catch Fire," The New York Times, Oct. 12, 2016, http://tinyurl.com/zcg8g3u. A New York Times writer investigates how accelerators help startups.


### Reports and Studies


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Dempwolf, C. Scott, Jennifer Auer and Michelle D'Ippolito, "Innovation Accelerators: Defining Characteristics Among Startup Assistance

Organizations," Small Business Administration, October 2014, http://tinyurl.com/z8madvy. This study discusses the metrics that should and could be used to measure the impact of accelerators on startups.

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## The Next Step

### Financial Incentives

MacBride, Elizabeth, "Dubai Has $300 Million To Entice The World's Best Startups To Its Accelerator," Forbes, Dec. 29, 2016, http://tinyurl.com/zkzdjzt. The accelerator program Dubai Future Foundation has a $275 million fund to invest in startups, and in addition Dubai will award about $30 million in government contracts to emerging companies.

Theis, Michael, "Accelerator raises millions to help immigrants start Austin businesses," Austin Business Journal, Dec. 21, 2016, http://tinyurl.com/hpbnul8. In an attempt to help foreign-born and immigrant entrepreneurs in Austin, Texas, an area business accelerator is raising more than $5 million to help 50 businesses get off the ground.

Vanian, Jonathan, "Samsung Pumping Millions into Artificial Intelligence and Virtual Reality Startups," Fortune, Jan. 4, 2017, http://tinyurl.com/h962tdr. Tech giant Samsung's startup investment arm is looking to spend its recently created $150 million fund to finance artificial intelligence and virtual reality startups.

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Smith, Ryan K., "Bitcoin-Based Startup Aims to 'Decolonize' the Diaspora," Ebony, Oct. 20, 2016, http://tinyurl.com/jgf9c7p. BitMari, the first bitcoin accelerator for African women, targets improving farming productivity among Zimbabwean women while educating them about bitcoin technology as a financially empowering option.

## Organizations

**AngelPad**
https://angelpad.org/
In the past five years, AngelPad helped launch more than 130 companies.

**Brand Entrepreneurs Bootcamps**
http://brandentrepreneurs.com/
The group offers free daylong sessions providing practical advice for startups in New York City, Boston, San Francisco and Washington.

**DreamIt Ventures**
3401 Market St., Philadelphia, PA 19104; or 116 W. Houston St., 3rd floor, New York, NY 10012
http://www.dreamit.com
This accelerator has made 210 investments in 194 companies.

**500startups**
444 Castro St., Suite 1200, Mountain View, CA 94041; or 814 Mission St., 6th floor, San Francisco, CA 94103
http://500.co/accelerator/
This accelerator manages $200 million in assets and invests in more than 1,300 technology startups.

**Startupbootcamp**
International House – Rainmaking Loft, 1 St. Katharine's Way, London, E1W 1UN
https://www.startupbootcamp.org/
This was the first accelerator in Europe.

**Techstars**
1050 Walnut St., Suite 202, Boulder, CO 80302

http://www.techstars.com/
Located in multiple cities including Austin, Texas, New York City, London and Berlin.

**Y Combinator**
320 Pioneer Way, Mountain View, CA 94041
https://www.ycombinator.com/
The original accelerator, it has funded more than 1,200 startups since 2005 and typically invests $120,000 in each.

# Notes

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[17] Ibid.