

Accelerators: The Basics

Accelerators are entrepreneurship support programs primarily aimed at helping participating startups scale-up and access early customers.

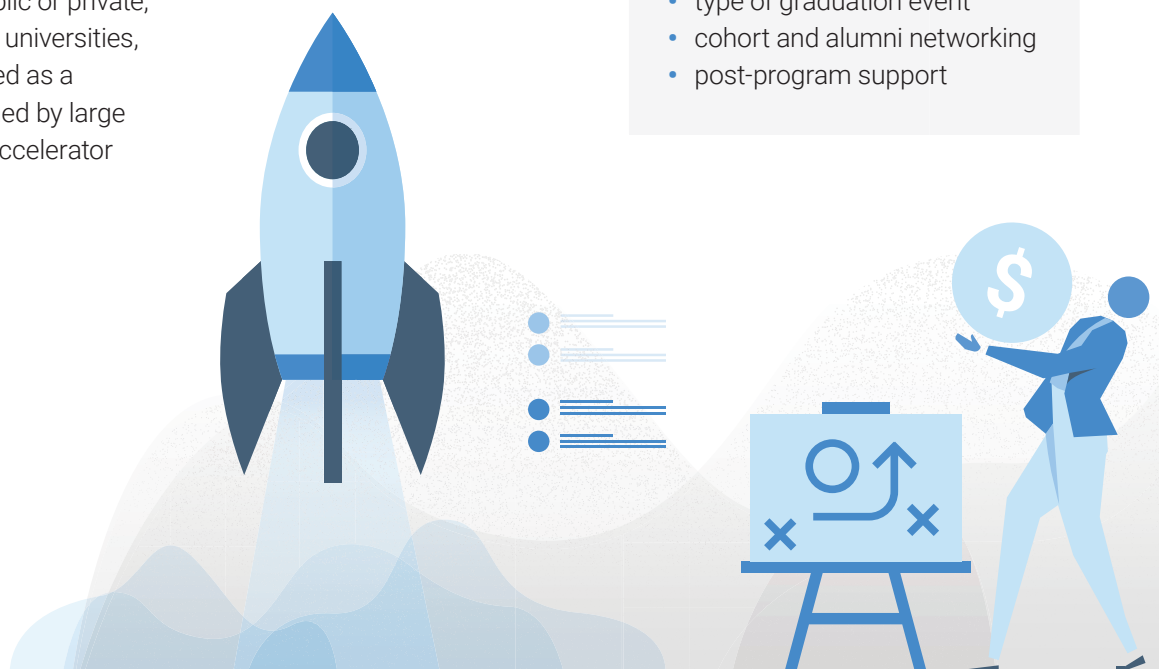
Popular since the mid-2000s, accelerators are cohort-based programs that provide access to supportive services like mentorship and trainings. Accelerator programs run for a fixed-term, usually several months, after which participating startups “graduate.” Graduation events are often “demo days” where startups pitch to selected groups of investors, media, and other stakeholders.¹

Accelerators vary by sponsor type, founder background, target participants, and selection criteria. They also differ based on if and how much equity they take. Accelerators can be public or private, sponsored or located in universities, run by students, operated as a business, and even owned by large existing corporations. Accelerator

founders have backgrounds as entrepreneurs or investors, working at universities, corporations, or government. Accelerators can target specific demographics of entrepreneurs, industries, or business activities. For example, some accelerators might focus on women entrepreneurs while others might focus on biotechnology startups or specific geographic regions. Accelerators apply different selection criteria: some look for specific characteristics like experience or background of the entrepreneur or team.

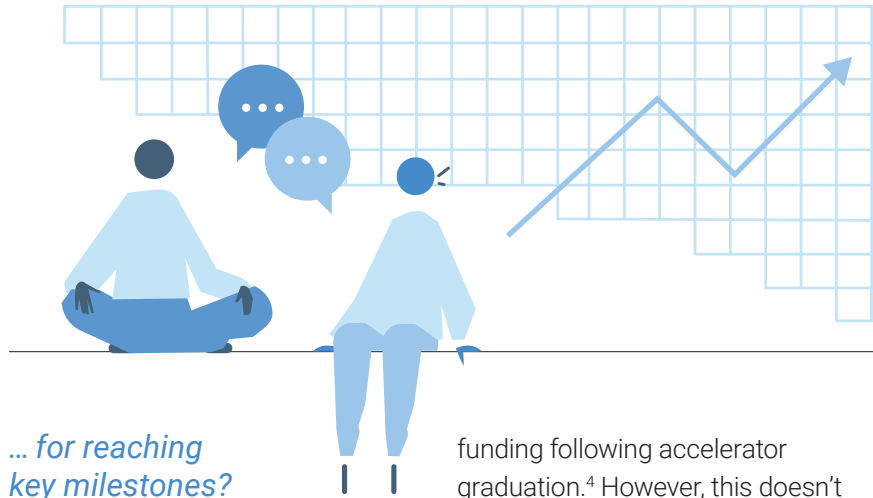
The structure and types of program offerings in an accelerator can vary. Some examples of design choices in accelerator program offerings include:

- duration of the program
- amount of funding provided
- whether equity is taken and in what amount
- cohort size
- mentoring structure and activities
- curriculum content and structure
- space and equipment provided
- engagement with investors
- type of graduation event
- cohort and alumni networking
- post-program support



Do Accelerators Matter ...

Findings from the research are mixed. Accelerators are still a relatively recent phenomenon, and information about their impact on participating startups and the broader economy is still being gathered and studied.



... for raising funds?

A recent study of nearly 6,000 startups that participated in an accelerator found the average amount raised was \$3.37 million, and 23% raised more than \$500k within a year of graduation.¹ But is this more than these businesses would have raised if they had not participated in an accelerator program? Research is still not clear on this. One study found that accelerator participants raised less money than comparable non-participants.³ Another showed that some accelerator participants, but not all, raised more money, and raised it faster than non-participants.⁴

... for reaching key milestones?

Startups participating in accelerators are more likely to be acquired and have shorter time to acquisition than comparable startups that receive angel funding, but do not participate in an accelerator program.⁵ Accelerator participants have also been found more likely to achieve longer-term outcomes like employment growth.⁴

... for all entrepreneurs?

Some research indicates that entrepreneurs with previous founding experience and startups with more web traffic receive more

funding following accelerator graduation.⁴ However, this doesn't mean that first-time entrepreneurs don't benefit. Accelerators often provide consultation from many different sources, including internal program directors, mentors, peer ventures, alumni, and industry experts. First-time entrepreneurs may be able to gain access to advice and capital that would be difficult to obtain otherwise.

... for the broader regional economy?

Beyond effects on participating startups, accelerators can affect the broader ecosystem. The arrival of an accelerator to a region is associated with an increase in seed and early-stage funding across the area, not just for participating startups. This increase comes both from investors outside of the region as well as the emergence of new local early-stage investors, suggesting accelerators may increase overall regional capacity for supporting startups.⁶



Early and well-known examples of accelerators are Y Combinator (started in 2005) and Techstars (started in 2006). Combined, these accelerators have helped launch over 2,000 startups that have collectively raised more than \$16 billion in funding. Y Combinator invested \$20,000 of seed money into Airbnb, after which it raised \$600,000 from a VC firm, followed by \$7.2 million and \$100 million additional investments.² Other well-known alumni of Y Combinator include Dropbox, Door Dash, Reddit, and Stripe.

What Does This Mean ...

... for entrepreneurs

→ Is an accelerator the right choice?

Accelerators are designed to accelerate growth and can provide entrepreneurs with access to multiple resources in one place. Entrepreneurs that don't seek immediate or rapid growth may not need an accelerator.

→ Does an accelerator have the program offerings you need?

Entrepreneurs can better identify accelerator fit by considering what they are missing – like capital, mentoring, or access to networks – and looking for programs that provide these services.

→ What are the tradeoffs?

Accelerator participation might temporarily slow down trial and error learning in the early life of

a startup. But it also can offer intensive and periodic consultation that can help identify opportunities to explore and to avoid.^{3,4} This can save time and money for new and often under-resourced entrepreneurs. Entrepreneurs should be clear up front about what an accelerator requires in exchange for participation, whether ownership of intellectual property or in the business itself. Entrepreneurs can ask if and how much the accelerator takes in equity to determine if that makes sense for their business.

... for investors, entrepreneurship supporters, and policymakers

→ What might an accelerator bring to my region? Accelerators can be promising tools to advance local and regional economic goals given

their direct effects on participating startups and indirect effects on the flow and volume of capital in a region. In fact, more than 90% of accelerators outside of technology “hotbeds” have an economic development or ecosystem objective.⁶

→ How can we best measure success?

Measuring accelerator performance is an important issue,⁷ as this will help accelerator programs determine and demonstrate the value they provide to participating startups, and it will help donors and policymakers determine if partnering with or funding accelerators makes sense for their objectives. Thinking through both short- and long-term performance metrics and what matters most are necessary.

References: (1) Cohen, S., Fehder, D. C., Hochberg, Y. V., & Murray, F. 2019. The design of startup accelerators. *Research Policy*. (2) Miller, P., K. Bound. 2011. *The Startup Factories: The rise of accelerator programmes to support new technology ventures*. NESTA. (3) Yu, S. 2016. *How Do Accelerators Impact the Performance of High-Technology Ventures?* SSRN Working Paper 2503510. (4) Hallen, B. L., Cohen, S., & Bingham, C. 2019. *Do Accelerators Work? If So, How?* SSRN Working Paper 2719810. (5) Winston Smith, S., & Hannigan, T. J. 2016. *Swinging for the fences: How do top accelerators impact the trajectories of new ventures?* Working Paper. (6) Fehder, D.C. and Hochberg, Y. 2019. *Spillover Effects of Startup Accelerator Programs: Evidence from Venture-Backed Startup Activity*. Working Paper. (7) Dempwolf, C.S., Auer, J., and D'Ippolito, M. 2014. *Innovation Accelerators: Defining Characteristics Among Startup Assistance Organizations*. Report prepared for Small Business Administration Office of Advocacy.

Authors: Sameeksha Desai,
Jessica Looze

Please cite as: Ewing Marion Kauffman Foundation (2020) *Accelerators: The Basics*, Entrepreneurship Issue Brief, No. 1, Kansas City, Missouri.

This is a publication by the Ewing Marion Kauffman Foundation utilizing content and data from multiple sources and external contributors. Every effort has been made to verify the accuracy of the information contained herein and is believed to be correct as of the publication date. Nonetheless, this material is for informational purposes and you are solely responsible for validating the applicability and accuracy of the information in any use you make of it.