Business accelerators: A user’s manual for entrepreneurs

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Does participating in a business accelerator offer a shortcut to startup success? It can help, but it’s no guarantee, according to Peter Kirby, the CEO of Factom Inc. He spent three months in 2015 under the wing of Plug and Play, a Silicon Valley accelerator program, despite a colleague’s warning that he would be wasting his time. The colleague was wrong; through Plug and Play, Kirby landed a meeting with the U.S. Homeland Security Department that yielded a deal worth nearly $200,000.

“We had a wonderful experience with Plug and Play,” says Kirby, whose Austin, Texas-based company builds software for blockchain, a digital ledger of transactions for things such as bitcoin. And yet in a way his skeptical colleague was onto something, Kirby tells SAGE Business Researcher freelance correspondent Lisa Rabasca Roepe. Entrepreneurs in an accelerator program are competing with others for time and resources. If you don’t home in on what you want to achieve, the accelerator can become a distraction, Kirby says.

Whatever their ultimate value, accelerators are becoming increasingly popular in the turbocharged world of startups, Roepe writes in her Business Researcher report. Since the first one, Y Combinator, was created in 2005, more than 6,000 companies worldwide have gone through accelerator programs and have pulled in more than $22 billion in funding from all sources, according to the database Seed-DB.com, which has tracked the accelerator phenomenon. Most accelerators are located in the United States, chiefly in Silicon Valley, Washington, New York City or Boston, although the concept has now spread to Europe.

An accelerator’s raison d’etre is to expand the size and value of a startup as fast as possible. Accelerators focus exclusively on businesses in the initial stages of development, which typically means the startup is looking for capital, still building a team and hasn’t settled on a strategy for attracting customers.

To further the central goal of rapid growth, most accelerators require the business owner to move into a shared workspace for three months to get daily mentoring and advice. Often, startups receive seed money to spend as they like, typically $15,000 to $20,000. In exchange, most accelerators get an equity stake in the company, usually 6 to 9 percent.

Each accelerator has unique qualities, and it's vital to find the right match, Kirby says. He equates it 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 tells Roepe. "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." Similarly, each accelerator offers different resources, and most come with a price tag for joining: an investment of time or money, or both. Unless entrepreneurs do their homework before joining an accelerator, they run the risk of choosing poorly, Kirby says.

And be aware of alternatives to accelerators. Diana Goodwin, who founded the successful startup AquaMobile Swim School, says it didn't make sense to her to give up a piece of her company to an accelerator. Instead, she leveraged free resources available through the state of Florida's Small Business Development Center. Her company, which offers private swimming lessons, now brings in around $1 million in gross profits annually.

It isn't clear whether accelerators definitively improve a startup's chances for survival. No regulatory body tracks or measures accelerator performance, and research into the question is inconclusive, although one study found that partnering with an accelerator enhances a business's ability to attract investment. The main 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.

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Notes:

- *This post is based on the SAGE Business Researcher report, Business Accelerators, by Lisa Roepe.*
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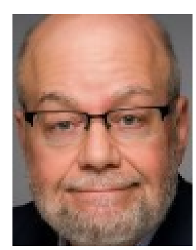

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