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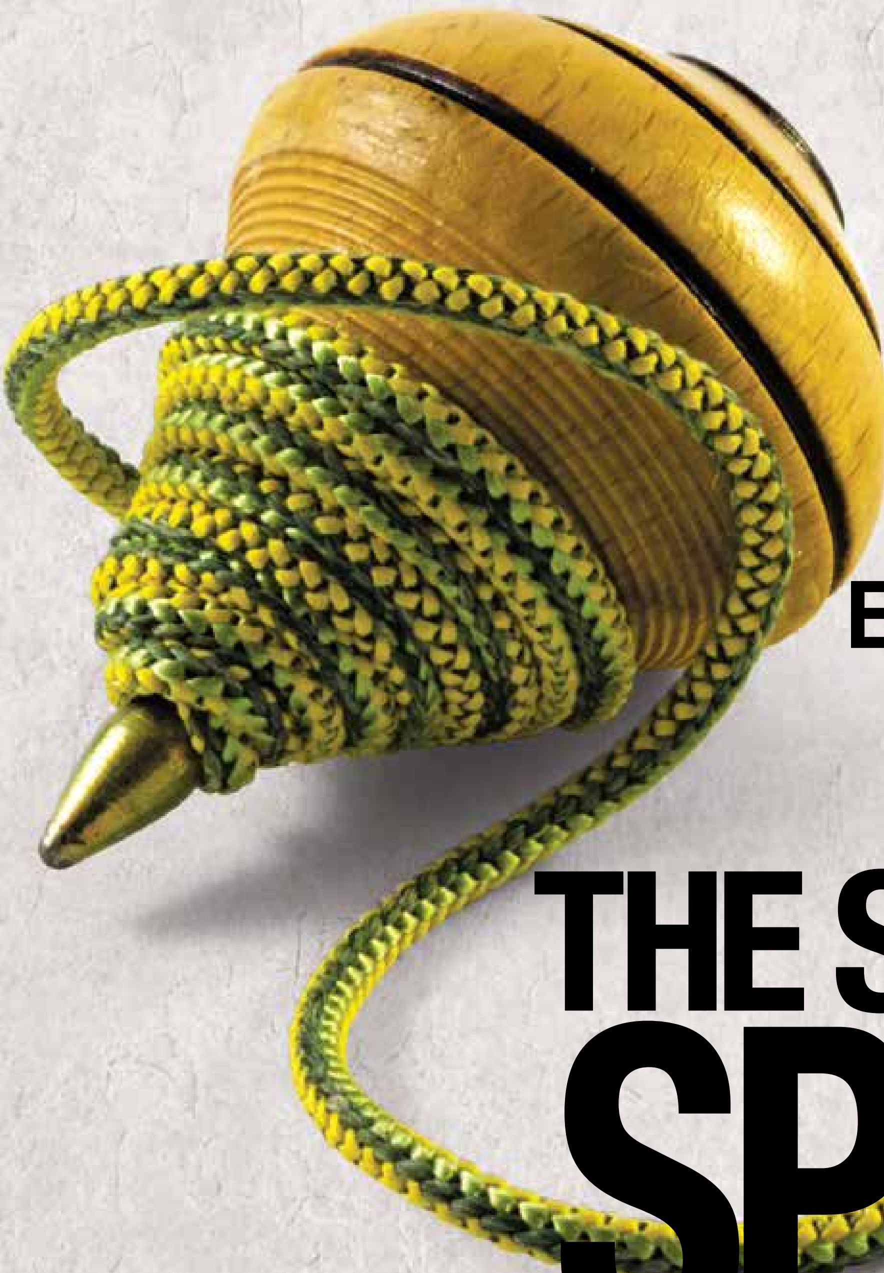


ROLE OF ACCELERATORS AND INCUBATORS

FEASIBILITY OF ADOPTING WESTERN MODELS

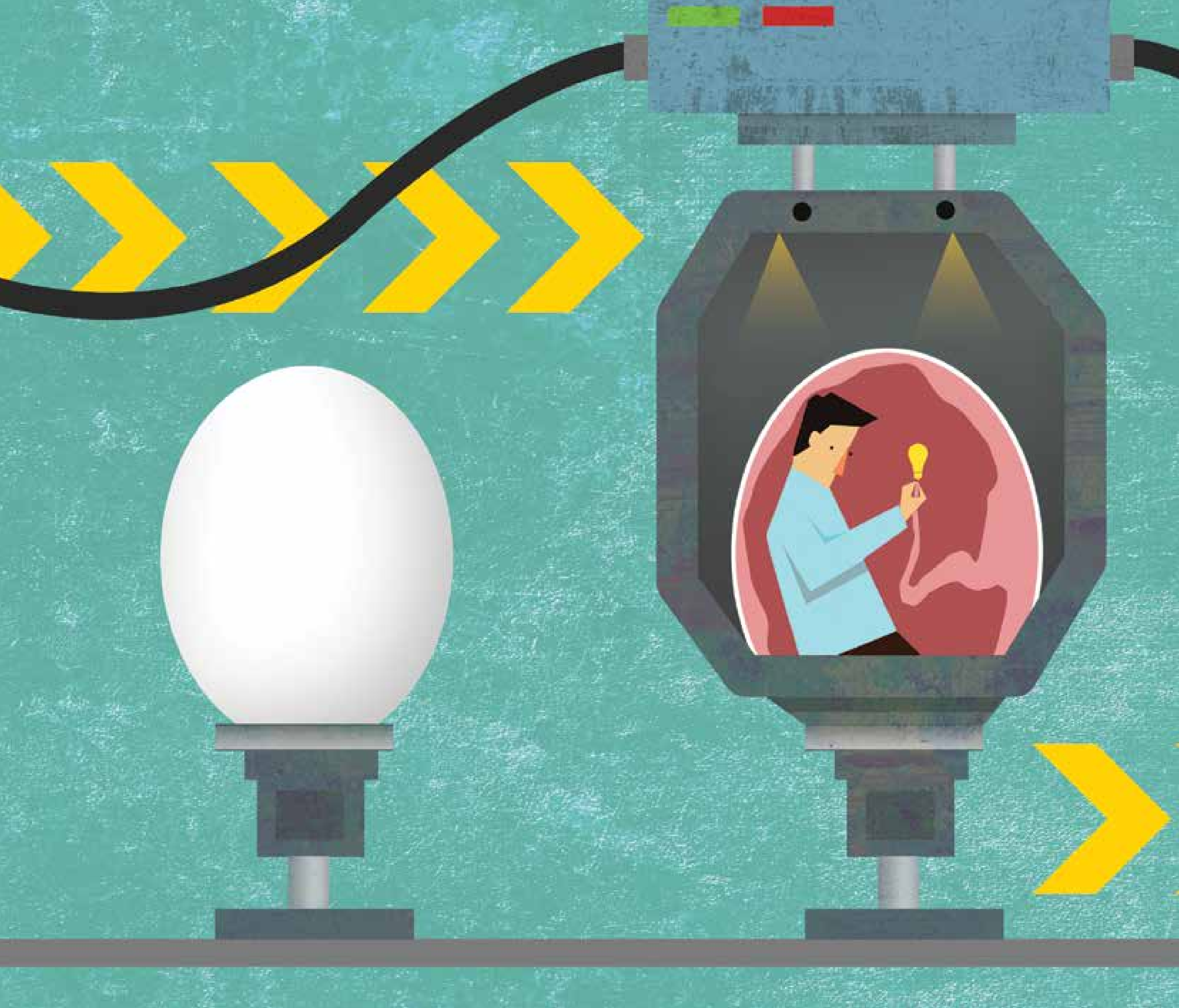
IMPACT OF POLICY INITIATIVES

THE ART OF SECURING FUNDS

CULTURE IMPERATIVES

HOW ENTREPRENEURS ARE REWIRING THE WORLD

THE STARTUP SPIN



Hatching success?

Are many accelerators and incubators delivering too great a share of the wins only to themselves, leaving a long road behind them littered with failed startups and sterling intentions?

✦ FAISAL HOQUE, SHADOKA

According to the *2015 Kauffman Index: Startup Activity*, American startups are on the rebound—there are 310 entrepreneurs for every 100,000 adults in the US, translating to 530,000 new business owners every month.

This is hardly an American trend. According to a recent report, there are presently more than 48 million small businesses in India[1], almost double the number of small companies in the US (28 million)[2].

India's Prime Minister, Narendra Modi, is a champion of small business growth. On January 16, 2016, he launched the Startup India Action Plan to facilitate small-business growth in the country. His plan includes a fund of ₹ 10,000 crore for backing startups. Yet, the rate of failure for new businesses will remain high[3]. It is that very failure rate that has led to the creation of an entire industry of startup support programmes designed to help entrepreneurs beat the odds. It is working—for some, anyway—even if they are not who you think.

Accelerators as far as the eye can see

There are thousands of startup accelerators, incubators, coworking spaces, innovation hubs, government-funded small business associations, and university programmes around the globe. AngelList alone shows over 4,200 incubators on offer, while F6s lists 3,851 accelerators. And these are just the tip of the iceberg when it comes to the range of resources available to startups.

In India, Microsoft Ventures, TLabs, GSF, The Startup Centre, Kyron, and a few other startup accelerators have been making strides to support local entrepreneurial ecosystems. The Startup India Action Plan further pushes for entrepreneurial support programmes by introducing the Atal Innovation Mission (AIM) for promotion of research and development—500 tinkering labs, 35 public-private sector incubators, 31 innovation centres at national institutes, seven new research parks, and five new bio-clusters.

Of course, support programmes for new businesses are not a new phenomenon. In *The Wizard of Menlo Park: How Thomas Alva Edison Invented the Modern World*, Randall E Stross argues that entrepreneurial incubators and accelerators have existed, in all but name, since the late 19th century—the most famous of which were the Menlo Park, New Jersey, facilities that powered Edison's creativity from 1876 until 1882. What has arguably changed quite a bit since then is

the degree of confidence we are apt to place in entrepreneurship as a means to progress and profit alike.

Despite what one observer characterises as increasing chatter about "a possible accelerator bubble" and scepticism for "the viability of the accelerator model," this confidence remains largely intact. It may be true that, as *Forbes* columnist Brian Solomon writes, only 2% of companies to emerge from even the top 20 accelerators have a successful exit[4]. However, it is also true that some of the leading accelerators, such as Y Combinator, Techstars, and a handful of others, have produced major successes like Airbnb, Dropbox, and Reddit. It is these home runs that, in many cases, leads to an overblown impression of opportunity—which in turn benefits the accelerators.

How accelerators earn money

The impact and success rates of programmes vary widely, often according to how each one is structured, operated, and financially sustained. At the same time, all of them face roughly the same challenge: as the UK innovation charity Nesta frames the issue, "how do you charge a startup/client that has very little resources today and may never make money?"

Accelerators and other ventures tend to take one of three broad approaches to generating income from startups (see Table 1):

- Growth-driven: programmes are primarily dependent on growing the startup as it generates revenue from equity
- Fee-driven: programmes charge clients member and service fees as well as rent

(Table 1)	GROWTH DRIVEN	FEE DRIVEN	INDEPENDENT
Startup phase	Early to later stage	Startup to later stage	Pre-startup to early stage
Examples	* Activeseed investors * Accelerators	* Incubator * Coworking	* Course * Startup weekend * Business creation competition * Hackathon
Risk profile if startup quality reduces	High	Medium	Low
Workspace	Optional, benefits include closer links with portfolio	Essential, but threshold size not apparent	Optional
Number of participants	Low (example, 6-12)	Medium (example, 50-150)	High (example, 50 to thousands)
Selectivity of participants	High	Medium	Low
Performance measures	IRR Valuations Funds raised Time to exit	Area of workspace/number of rooms Number of tenants Capacity ratios Turnover of tenants	Number of participants Number of new ventures established Hours of teaching Winners and prizes
Reliance on startup ecosystem and business environment	Access to startups with high-growth potential. Access to finance for the programme to plug the gap before returns can be secured.	Access to affordable or subsidised phase. Access to enough startups to meet capacity or memberships.	Fees from individuals rather than startups, which may mean being near or part of colleges and universities. Attractiveness of programme is linked to prior outcomes and speakers by association with a startup ecosystem or directly.

- Independent: programmes are supported not by income from startups, but by sponsors, public funds, and events.

Three issues with startup support services

While most entrepreneurial support programmes try to provide tangible benefits—from funding and mentorship to access to investors—they often miss some of the basics. In the process, unfortunately, they wind up doing a disservice to those they are ostensibly trying to help, while still appearing to justify their own existence. Here are three of the most common issues:

Evaluation process is not scientific enough

Companies in accelerator programmes usually create a business plan—a static document that describes its market opportunity, products and services, differentiations, and a five-year forecast for income, profit, and cash flow.

In real life, the business plan rarely holds true during the execution phase. More often than not, it soon becomes necessary to revaluate how a company is doing—checking its growth potential while balancing new innovation against operational execution, developing processes to reach revenue growth while keeping an eye on cash flow, and pushing out a sustainable brand strategy, just to name a few.

These are big-ticket, interlocking issues, and it is tough to fault accelerators, incubators, and other support programmes for failing to evaluate them rigorously. However, that failure does end up getting passed on to clients, which in turn too often fail themselves. These programmes need better ways to consistently monitor every new business team's capabilities and capacities to adapt and evolve.

Lack of real, hands-on mentorship

Any support programme can put a list of well-known mentors on their website who agree, for a fee, to provide their advice. The best accelerators develop relationships with a select group of mentors who can offer hands-on expertise.

The US Small Business Administration (SBA) reports (based on a 2014 survey by The UPS Store) that 70% of small businesses that receive mentoring services survive for five years or more—roughly double the rate of non-mentored entrepreneurial ventures[2]. There is little doubt that good mentorship can make an enormous difference. However, when there is disconnect between what a mentor can add and what the startup requires or expects, the momentum can stall quickly.

Many programmes do not have brand recognition to attract high-quality startups

Every support programme needs a sustainable pipeline of new companies to stay afloat. Too many are under-delivering while being propped up by the enormous demand for services.

As with any other business, accelerators, incubators, and others—especially those that are not in the top tier—need to get their names and messages out there. Brand equity takes time to build; a strong, well-justified reputation does not come easily or overnight. However, there are a few proven ways to start. Thought leadership content that creates a sense of differentiation, added value, and excitement among entrepreneurs is a good first step. The use of social platforms such as LinkedIn, Facebook, Twitter in the business world is evolving; this can help programmes build deeper connections with entrepreneurs they can later deliver on. IM

ABOUT THE AUTHOR

Faisal Hoque is a serial entrepreneur and founder of Shadoka. He is also author of several books, including *Everything Connects* and *Survive to Thrive.*

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