

Economic Assessment of Startup Accelerators

Tony Willis, Josie Keenan, & Jared Wein



Michigan State University EDA University
Center for Regional Economic Innovation

2018 Co-Learning Plan Series

MICHIGAN STATE
UNIVERSITY

Center for Community
and Economic Development
University Center for Regional Economic Innovation



EDA
U.S. ECONOMIC DEVELOPMENT ADMINISTRATION

This project is supported in part pursuant to the receipt of financial assistance from the United States Department of Commerce - Economic Development Administration. The statements, findings, conclusions, and recommendations are solely those of the authors and do not necessarily reflect the view of any federal agency or Michigan State University.

Cover artwork provided by: pngtree.com

CONTENTS

Introduction.....	3
Definition	4
Who Starts Accelerators and Why?.....	5
Growth of Accelerators.....	7
Performance and Trends of Accelerators	8
Methodology for Selection Process of Interviewees	11
Results from Interviews	12
Accelerator Interview Conclusions.....	23
Recommendations for Economic Development	25
References.....	26

INTRODUCTION

Despite the upsurge in visibility and glamorization of the startup lifestyle (think Shark Tank, HBO's Silicon Valley, and Elevator Pitch), coupled with the successes of notable startups who were alumni of named accelerators (such as Airbnb, Dropbox, and Stripe, to name a few), there does not appear to be a study which illustrates the actual economic impact a startup accelerator has on its local region.

Startup Accelerators have become a crucial component in the startup ecosystem as they provide capital, guidance, and set objectives for startups. This role is needed to assist startups that have either graduated from the incubator phase or are on a trajectory that needs a certain amount of working capital and industry connections to prove its viability.

This Co-Learning Plan is an analysis of accelerators on multiple levels consisting of:

- Common denominators of the most successful accelerators
- How accelerators and local community partners view success in their accelerator programs
- Hurdles and challenges regarding to starting and sustaining an accelerator

By compiling this information and investigating whether the perceived benefits exist (along with where, how, and when they present themselves), we can help create a guide that will assist communities on managing expectations, resource allocation, credibility, and more when deciding to either start or continue an accelerator program.

DEFINITION

The following section provides definitions along with generally accepted terms for both a Startup and an Accelerator:

Startup: an entrepreneurial venture which is typically a newly-emerged business that aims to meet a marketplace need by developing a viable business model around a product, service, process, or platform. A startup is also a temporary status, as this period/phase can end as the company grows to an enterprise or full corporation.

Accelerator (Startup Accelerator): fixed-term, cohort-based programs designed to help startups access the support and resources they need. In addition to a cash investment for each company, accelerators provide a collaborative workspace, educational programming, guidance on available resources and how to utilize them, and either match or have a pool of mentors with which companies can pull on for expertise and assistance. Accelerators usually culminate in a pitch event or “Demo Day” where both public and private investors are in attendance to support the cohorts progress and accelerate growth through investment (1-Citation-Global Accelerator Network).

DISTINGUISHING ACCELERATORS FROM INCUBATORS AND ANGEL INVESTORS

For many there may be confusion regarding the differences between an Accelerator, Incubator, and Angel Investor. These represent the most common funding sources entrepreneurs seek out. To help resolve any confusion for the reader, we created a differential chart that lays out the distinguishing factors between each type of entity:

Table 1: Differences between Accelerators and Incubators (Cohen 2013 “What do Accelerators do?” Author’s Adaptation)

Differences between Accelerators vs Incubators and Angel Investors			
	Accelerators	Incubators	Angel Investors
Funding	Yes, \$20k-\$120k	No	Yes, \$50k-\$250k
Equity	Yes, 5%-10%	No	Yes, 5%-20%
Cohorts	Yes	No	No
Duration	3-6 months	1-5 years	Ongoing

Business Model	Investment, Corporate Partners	Rent, Corporate partners, Community Funding	Investment
Selection Process	Competitive, certain application period	Non-competitive, open enrollment	Competitive, ongoing
Stage of Startups	Early to second stage companies.	Beyond ideation	Development, Growth
Education Programing	Seminars, roundtables	Ad hoc, workshops	Informal, as needed by investor
Mentorship	Yes, intensive	Varies, usually by key staff	Informal, as needed by investor

Please note that the above chart is not absolute when it comes to what each category does or does not offer. Like the entrepreneurs and startups, themselves, continuous innovation and modifications are always happening with the ecosystem and support organizations. There are several hybrid programs that have adopted elements from another category, but the chart allows for a clear understanding of the base elements of each model.

WHO STARTS ACCELERATORS AND WHY?

There are several groups likely to start and operate accelerators, and each have their own reasons to support a startup. Here are the four most likely candidates:

Independent/Private Organizations: The clear majority of startup accelerators are formed and run by privately held organizations that typically act as early stage scouting for larger venture capital initiatives. These investment fund-backed accelerators have a mission to screen, support, and assist with finding additional funding for the startups so that the investors of the accelerator can minimize their risk of investment by having outside dollars involved.

Universities: Over the last five years there has been an increase in which academia, specifically Universities, maintain involvement within the startup/entrepreneurial space. Universities have adopted the accelerator model to support entrepreneurial growth of both faculty and students. Universities see accelerators as way to reach the following goals: increasing the number of alumni with successful businesses (possible future donors), creating additional offerings in the ever more competitive educational space, and increase the number of university-based technology licensed to major corporations (new revenue sources).

Corporations: Corporations have been early adopters when it comes to partnering with accelerators and have recently started creating their own accelerator programs both to help spur internal innovation also known as “intrapreneurship” as well as to give the public, who might have insights into leading trends, a

place to interact with them. These options allow for increased employee and customer engagement and help to diversify their research & development divisions.

Economic Development Agencies: These organizations have recently started exploring the accelerator model as way to further promote economic growth/activity within their region. Only a percentage of economic development agencies offer entrepreneurial support, let alone in the form of an accelerator model. Those that do usually have strong relations with either one or more of the other groups (Private, Universities, Corporations) that have an interest in this space. The goals of an economic development agency running an accelerator are to assist with the growth of startups, to create jobs and further investment in region, and to support the endeavors of the larger economic drivers in the region.

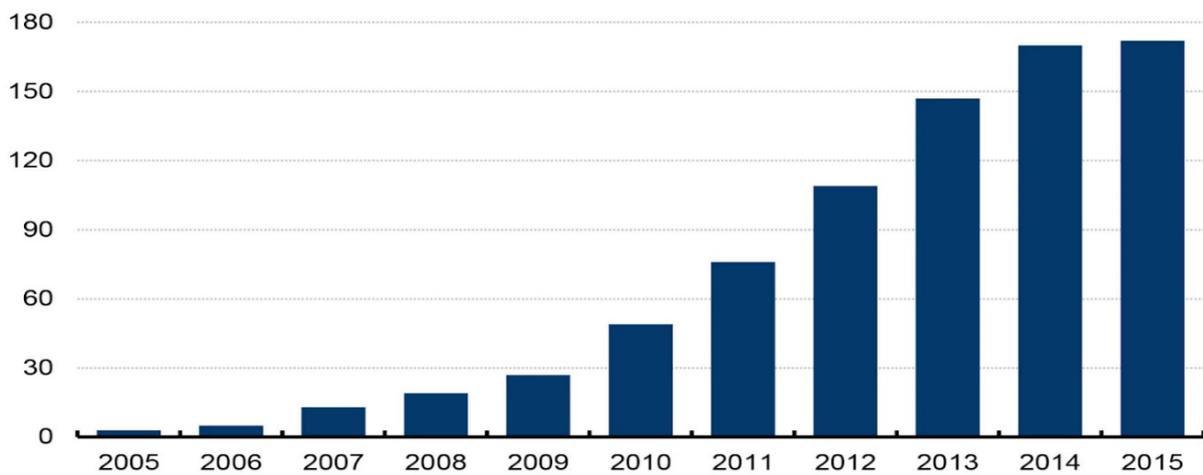
GROWTH OF ACCELERATORS

Given the benefits and successes of the startups in the leading accelerators (Y Combinator, TechStars, etc.), there has been a huge increase in the number of accelerators being created in the United States.

The 2016 Brookings report, *Accelerating Growth: Startup Accelerator Programs in the United States*, which researched the rate of growth of accelerators starting in 2007, stated “They [Accelerators] grew from 16 programs that year to 27 in 2009 and to 49 in 2010, before eventually reaching 170 programs in 2014 and holding mostly steady. All told, the number of American accelerators increased an average of 50 percent each year between 2008 and 2014.” The following chart (Hathaway, 2016) clearly depicts the large boom in accelerator formations over the years:

Figure 1: Rate of Growth of Startup Accelerators by Year (Hathaway, 2016)

United States accelerator pool by year



B | Metropolitan Policy Program
at BROOKINGS

Not only have accelerator formations skyrocketed, they have also spread out geographically through the United States, as depicted in the chart below.

Figure 2: Startup Accelerators in US by MSA (Hathaway, 2016)

Accelerator programs by MSA (2015)



Source: Pitchbook data, primary research, author's calculations



The increase and expansion of accelerators can be tied to several factors such as:

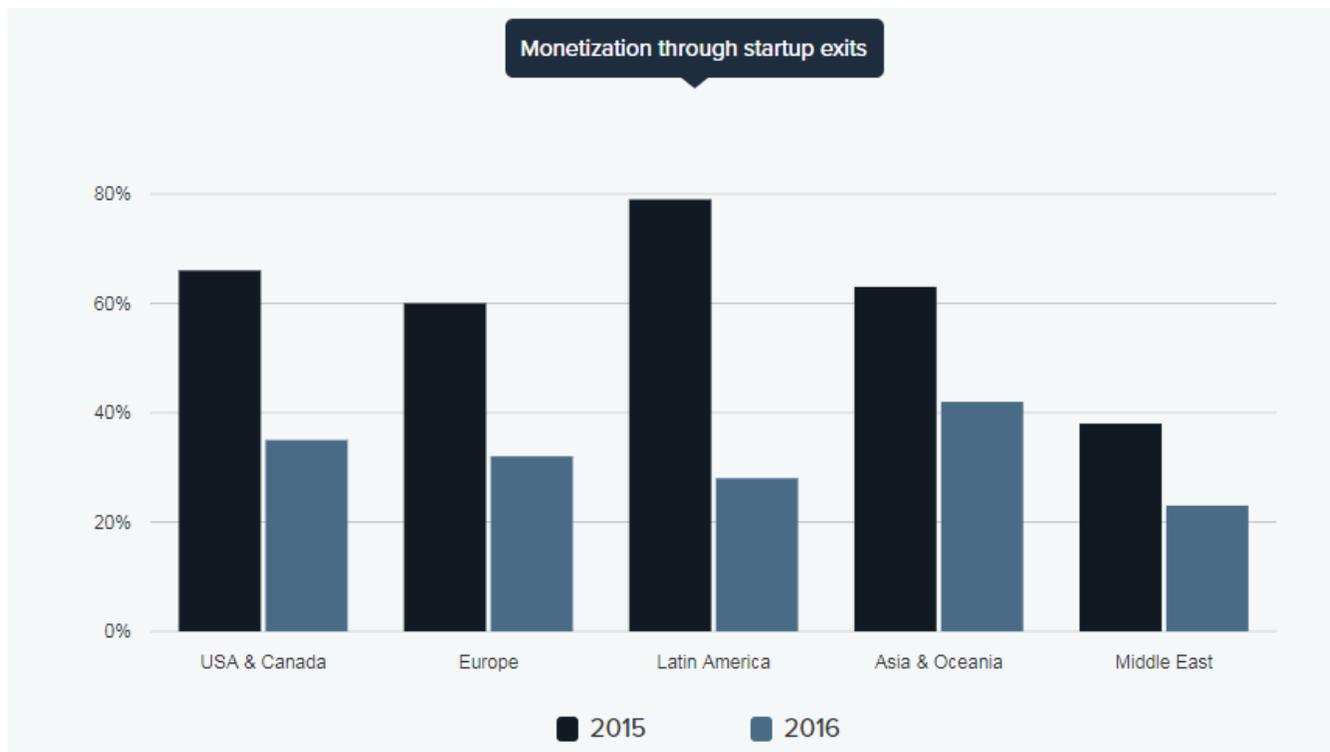
- The perceived benefit to the local entrepreneurial ecosystem by having an accelerator. There have been studies showing that with an accelerator in the region, communities see an increase in angel and venture funding.
- Fear of being left behind. Communities know that with an ever-growing mobile workforce, globalization, and disruptive tech innovations, there is a serious threat that once-thriving communities may not exist the way usually have. Communities are desperate to compete and ensure that their region is on the winning side, and accelerators are viewed as an amenity/element of large economic metropolitans.

PERFORMANCE AND TRENDS OF ACCELERATORS

With the increase in visibility, the glamorization of the startup lifestyle, and the unbounded growth in the number of startup accelerators, it could be assumed that accelerators are performing incredibly well. However, that depends on how success is measured.

As stated earlier, one of the primary purposes of a startup accelerator is to help startups secure additional outside funding and develop desirably for acquisition by a larger VC or corporation (known as “exits”). By looking at figure 3 below, we can see that monetization through exits has decreased from 2015 to 2016.

Figure 3: Change in Monetization of Startup Exits (2016 Gust Accelerator Report)



The Gust Accelerator report gives some additional details regarding how accelerators are pivoting to make up for the decreased financial earnings through exits.

Figure 4: Diversification of Monetization Sources (2016 Gust Accelerator Report)

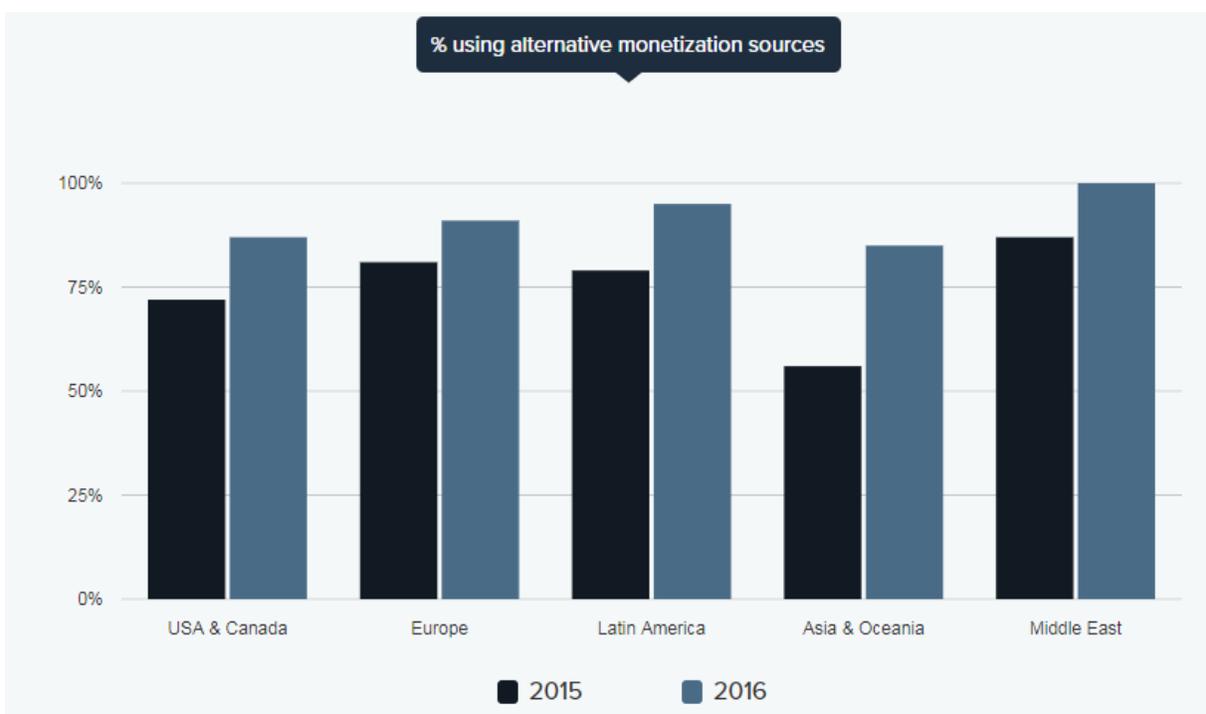
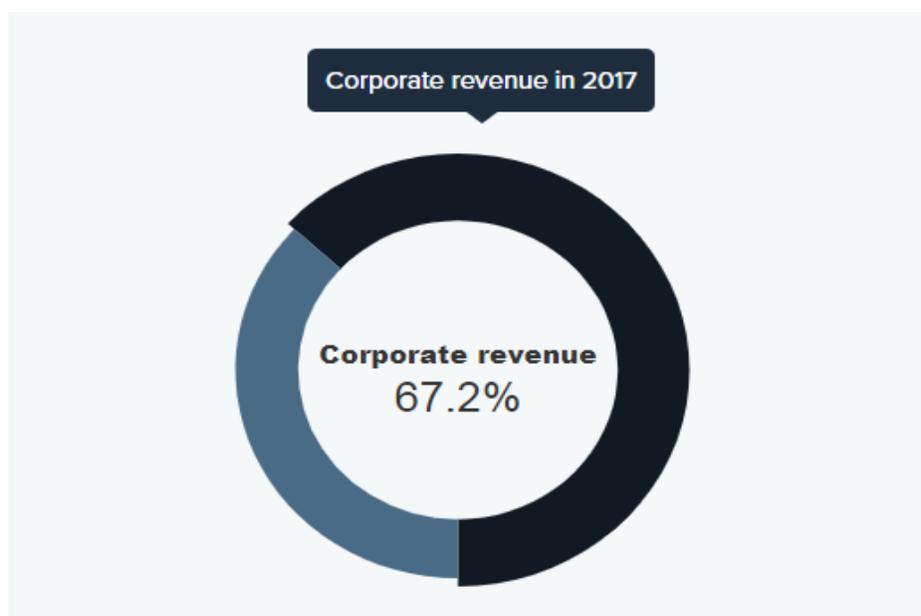


Figure 5: Percentage of Accelerators Operational Revenue (2016 Gust Accelerator Report)



The trends and data shown from the Gust Accelerator Report correlate with our findings from interviews with accelerator managers. Each of the top performing accelerators (mentioned in next section) have a corporate partners program or sponsorship. We noticed that the university-backed accelerators in Michigan didn't have this feature, whereas Seamless IOT in Grand Rapids was completely funded by its corporate partners and stakeholders.

METHODOLOGY FOR SELECTION PROCESS OF INTERVIEWEES

We decided to interview two groups of accelerators: those that are located outside of Michigan but are considered top performers, and those based in Michigan.

Since 2015, the Seed Accelerator Rankings Project has issued a list of the top performing accelerators by interviewing, surveying, and ranking them based on the performance metrics of Valuation, Qualified Exits, Qualified Fundraising, Survival, Founder Satisfaction and Alumni Network.

Figure 6: 2017 Rankings of Accelerators (2017 SEED Accelerator Report)



We interviewed the following high-ranking accelerators per the 2017 Seed Accelerator Project: Gener8tor (Gold Ranking), The Brandery (Silver Ranking), Capital Innovators (Silver Ranking), AlphaLab (Bronze Ranking).

The Michigan accelerators we reached out to were Seamless IOT, Cool house Labs, Conquer, and Desai. We were only able to interview Seamless IOT and Conquer, as Cool House Labs has closed and Desai didn't respond to our multiple messages.

This process allowed us to compare and contrast Michigan-based accelerators with the best in the nation.

RESULTS FROM INTERVIEWS

ACCELERATORS OUTSIDE OF MICHIGAN



Interview with Louis Condon, Managing Director of Gener8tor, Madison/Milwaukee (July 12, 2018)

Program Overview

Launched in 2012, Gener8tor is now a nationally-ranked industry agnostic accelerator for high-growth startups. They select just 5 teams for each 12-week program, which runs 3 times a year, to focus deeply on each team and establish connections to mentors, technologists, corporate partners, angel investors and venture capitalists.

Funding

Gener8tor launched in 2012 as an equity-based accelerator, with one program based in Milwaukee and one in Madison, Wisconsin. They have not received public funding. The accelerator includes a variety of equity and non-equity based programs throughout the Midwest. Equity-based programs include three cohorts run through Gener8tor and one through The Brandery, and non-equity based programs include Backline, a funding and educational initiative in partnership with Radio Milwaukee to support musicians in the region; gBETA, a free program to prepare companies for an accelerator; and Fellowship.art, an accelerator for artists in Milwaukee. They also run corporate-sponsored activities including On Ramp, a vertical-specific conference series to bring together startups with corporate venture capital and innovation executives.

The equity-based programs operate like venture funds, while the non-equity based programs are funded through sponsors such as universities, nonprofits, community organizations, and corporations. While Gener8tor does not actively seek to acquire accelerators as part of their business model, they do welcome new opportunities. In 2017, they took over the operations and management of The Brandery.

Companies Invested In

To date, Gener8tor has invested in 76 companies. They now focus primarily on high-growth startups, and see upward trends in startups within software, IT, web, SaaS, life science, medtech, e-commerce and hardware. They have done everything “from cat litter to cyber security.” When Gener8tor first launched and was developing their reputation, most teams were local to Wisconsin. With their increased prominence on the national stage, more companies come from out of state. Only 1 team member is required to relocate for the duration of the program, and most return back to their home states.

Throughout the years, their core programming has remained largely the same. They have capped cohort size at 5 teams in order to retain a close, hands-on experience. However, the companies selected now tend to be further along on the business development cycle, so there is an increased emphasis on making introductions and refining product fit rather than more foundational business plan development.

Success

Success for Gener8tor is defined by uplifting the broader entrepreneurship community in Wisconsin. Their goal is to develop a broad, diverse ecosystem of resources and a community for startups in the region. To

that end, they measure success by how many cities they can establish a presence within as well the number of companies they support and the health of those companies, the fundraising they achieve, the jobs created, and their revenue.

89% of Gener8tor alumni have raised more than \$250K in follow-on financing or have been acquired, while 58% of Gener8tor alumni have raised more than \$1M in follow-on financing or have been acquired. Their companies have created 1,500+ jobs.

Entrepreneurship Ecosystem

Entrepreneurship is developing slowly but steadily in Wisconsin. For the last three years, Wisconsin has been ranked last for business startup activity by the Kauffman Index. The Wisconsin entrepreneurship community recognizes that and want to collaborate, share resources, and lift each other up. They believe the biggest success they have brought to their region is a hub for shared connection and excitement to galvanize the community to invest in the best and brightest, be that in music, art, or technology.

Gener8tor recognizes that they are most valuable when the community gets behind them, and local universities, corporations, and mentors get involved.

Investments have also shifted in recent years, with significantly more venture capital coming in to Wisconsin from the coasts. There is also an increase in corporate activity related to innovation and intrapreneurship. Corporations are realizing they need to innovate and relate to their community.

While Gener8tor does not specifically measure economic impact of their programs, they do measure the health of their portfolio businesses and jobs created. And while they prioritize the best companies they can find for their equity-based programs, they also launched gBETA, a free accelerator focused specifically on local economic development.



Interview with Jeff Boeh, Managing Director of [The Brandery](#), on July 9, 2018

Program Overview

The Brandery is a 16-week, nationally-ranked accelerator that offers early-seed startups \$50,000, a year of free office space, mentorship, and over \$200k in additional benefits in exchange for 6% equity. Unlike other accelerators, The Brandery pairs each company with world-renowned creative agencies to help them develop their brand and positioning. Last year, The Brandery merged with Gener8tor, a national accelerator, to support their operations and continue their growth.

Funding

The Brandery was founded in 2010 with support from the Ohio Third Frontier Fund, which is the funding arm of the state of Ohio, and from Centrifuge, which is a syndicate fund that supports community development. In 2017, The Brandery merged with Gener8tor which now provides funding, operational support, and other resources. The Brandery is a 501c3 and has created an additional for-profit LLC to raise funds for companies. Corporate partners provide funding in exchange for co-branding opportunities and programming.

Companies Invested In

To date, The Brandery has supported 73 companies through their accelerator. Nearly half of those teams were local to the region, and of those who attended the program from out of state, around 30% remained in the area. In the past, The Brandery has focused on consumer-centric, seed-stage startups from all industries which could benefit from brand development. Recently, however, they have focused on companies within marketing tech, ad tech, and tech-enabled CPG (Consumer Packaged Goods) companies (like Dollar Shave Club) since they are best positioned to take advantage of the Cincinnati market and engagement with a creative agency. The Brandery provides companies with talented brand marketing experts, industry leaders, entrepreneurs, venture capitalists, legal support, and technologists so that companies just starting out have the benefit of the resources and expertise of the country's most successful and enduring companies, as well as introductions to potential partners and customers.

In the past, the first 8 weeks of the program were structured like an academic course, which has since evolved to become less structured and more hands-on. The Brandery continually revises their program in order to best facilitate productive working relationships between the creative agencies and companies. They are expanding their mentorship program and devoting more attention to actionable milestones and metrics. To do this, they have reduced their cohort size from 7-10 teams to 5-7.

Success

Consistently ranked in the Top 20 accelerators, The Brandery measures success by the rate at which companies grow, become successful, and pay it forward. Their goal is to be a strategic, impactful investor and lend their legitimacy to upstarts and the region. They track metrics like acquisitions, exits, and startup founders building their next startup or becoming an angel investor and reinvesting in the region. Out of their 73 portfolio companies, 15 have been acquired and many of those founders have returned to mentor and invest further. The Brandery companies have raised \$130 million in follow-on funding, and 67% have raised \$1 million and/or been acquired after the program. Through their portfolio companies - including Upshift, a company which provides on-demand blue collar labor - The Brandery has helped create 700 jobs in the greater Cincinnati area.

Entrepreneurship Ecosystem

Since The Brandery launched in 2010, the Cincinnati region has experienced a steady growth of startups and accelerators, a community formalized through [StartupCinci](#). There are more resources, programs, and opportunities than ever before, but with that comes additional challenges in finding quality companies and assisting more companies to the growth stage. The Brandery seeks to provide the right resources and support to assist companies to either fail quickly or grow. Fail quickly is a methodology in the startup environment where it is believed to fail quickly is a better outcome than to continue to use resources, time and energy only to have the same result.

The surrounding community thinks highly of The Brandery as a value-add accelerator which creates more opportunity. However, because most companies are digitally-native brands which tend to be distributed, the jobs created, and company development is not always seen. The Brandery did measure local economic impact when they first launched and were receiving public funds, however, now that they are entirely supported by enterprise, venture funds, and Gener8tor, they no longer devote resources to specifically measure economic impact. They remain conscientious of their role in the community and are taking steps to increase access through open office hours and programming. Through their partnership with Gener8tor, they have created [gBETA](#), a free, part-time accelerator program for very early-stage companies which does not take any equity from participating startups. This 7-week program is now in 9 cities across the Midwest.



Interview with Trevor Tune, Director of Operations at Capital Innovators based in St. Louis, MO (June 28, 2018)

Program Overview

In 2010 Capital Innovators Accelerator program became the first seed accelerator program in St. Louis and has been nationally ranked since 2013. Their team of four runs two cohorts per year, supports startup alumni, and actively pursues opportunities to expand their accelerator programming. Their core accelerator program provides teams with \$50,000 in funding and a 12-week structured program, including expert mentorship from 50 mentors, office space, and up to \$600,000 in perks and discounts for legal, accounting, and marketing services and Amazon web hosting credits. In exchange, Capital Innovators receive 5-10% equity.

The Accelerator originally focused on early stage seed funding. In addition, they are now able to provide later-stage seed funding outside the accelerator program and have developed an industry-specific accelerator program in partnership with Ameren Energy and the University of Missouri.

Funding

In the early 2000s, there was a single organization called i10 that connected startups to mentors. Judy Sindecuse founded Capital Innovators in 2010 to support this mission and provide startups with capital and resources, supported by angel investors and a single venture fund. During the first year of the program, they received public funding to provide housing for the startups and transform the retired Macy's Headquarters building into co-working space. Capital Innovators then developed the T-REX co-working space in which they are still an anchor tenant and provide work space for startups in their accelerator program. Since the emergence of a startup culture in St. Louis, \$6-7 million has been invested to develop the Cortex District into an entrepreneurship hub.

Companies Invested In

To date, Capital Innovators has invested in 98 portfolio companies, 90% of which are still in operation and 70% of which continue to maintain a presence in St. Louis. Of the six teams per cohort, on average one or two come from St. Louis while the remaining four relocate to the region for the duration of the program. They look for teams attracted to their immersive, hands-on program and those with a capable founding team, a meaningful idea, and a provable business model. These teams are best poised to benefit from the capital and connections provided by Capital Innovators. The focus on early stage companies and not on a specific industry aligns with their model of initial stage seed funding assistance and creates a diverse portfolio. They believe that a great team with the right resources, regardless of their industry, stands the best chance of success.

In 2017 Capital Innovators developed an industry-specific accelerator to pursue innovation in the energy sector. The Amereen Accelerator is the first collaborative project of its kind to bring together a public university (University of Missouri), a Fortune-500 energy corporation (Ameren), and a top-ranked Accelerator (Capital Innovators) to advance the traditional corporate accelerator model.

In partnership with Maritz, a sales and marketing services company focused on behavioral design, they also expanded into supporting innovation within enterprises with their corporate accelerator program.

Success

Capital Innovators define success as growth in companies immediately after the program and the value they have received with respect to funding and connections. While the building blocks of the accelerator's curriculum have remained the same, the team actively seeks feedback from the participating startups and constantly adjusts to ensure inclusivity and deeper understanding, as well as to develop comfort with pitching and establishing connections. Capital Innovators also aids in looking for exits and long-term sustainability of funds for individual companies and their accelerator. The team at Capital Innovators believe their biggest success was to be the first to launch the accelerator, make it work, and demonstrate grit. Today there are several venture funds in the region and Missouri is in the top 5 states for accelerators.

The community understands the effect of the program and respects that Capital Innovators was pioneering in its role in the development of an entrepreneurial ecosystem. The ecosystem is growing and there are now several popular accelerators bringing wealth into the area. Capital Innovators is seen as the elder, thought leader among them. When investors from San Francisco and New York come to St. Louis, the community is proud. Development is seen as a positive way to bring new ideas and money to the region.

Entrepreneurship Ecosystem

Capital Innovators has been ranked as a top 20 accelerator for the last 4 years, which helps their startups access further resources. Capital Innovators has excelled at being a business mentoring accelerator that provides teams and founders with solid foundations and equips them to then enter industry-specific accelerators. Capital Innovators is also a member of the Global Accelerator Network (GAN), a network of top accelerators in the US, which allows companies to connect with a global investor base and additional, exclusive perks.

When Capital Innovators launched, there was a single life sciences venture fund in St. Louis. They had a unicorn company (valued at over \$1 billion) in their first cohort who received funding from St. Louis investors and jumpstarted excitement and belief in the region. The entrepreneurship ecosystem is growing, and now Capital Innovators is just one of several popular accelerators bringing wealth into the area.



Interview with Jim Jen, Director of [AlphaLab](#), on July 6, 2018

Program Overview

Founded in 2008, AlphaLab is one of the nation's oldest accelerators. They provide early-stage software companies with \$25,000, office space, expertise, and services including legal, marketing, and business plan development in exchange for 4% equity. The accelerator runs two cohorts per year, consisting of 6-8 teams from across the nation. Teams are encouraged to take advantage of the AlphaLab mentorship program, including leading founders, investors and industry experts in Pittsburgh and nationally, and AlphaLab alumni. AlphaLab has been consistently ranked among the top accelerators in the US. In 2013, Jim Jen helped launch the AlphaLab Gear accelerator for hardware and robotics companies.

Funding

AlphaLab was launched in 2008 out of Innovation Works (IW), Pittsburgh's largest, nonprofit seed-stage investor funded in part by the Ben Franklin Technology Partners, an initiative of the state of Pennsylvania. AlphaLab is a nonprofit, so they also receive some foundation support from local grantors. Today, their funding is a diverse mix of state funding, foundational support, returns on investments and corporate partnerships. AlphaLab Gear, their sister accelerator focused on hardware rather than software, also has a partnership with a venture fund that helps with operational costs and investments.

Companies Invested in

AlphaLab chose to specialize on software and services broadly to build a diverse, inclusive ecosystem because their program allows them to tailor their services to each team. AlphaLab runs 2 cohorts per year, while AlphaLab Gear runs 1, each with 6-8 teams. They accept teams best able to take advantage of the resources offered. Around $\frac{2}{3}$ of teams are from Pittsburgh because their ideas have matured with the resources, connections, and opportunities available locally. Of those who come to AlphaLab from other states, 75% of those who are successful remain in Pittsburgh as their connections were established there. Many times, even when a founder fails, they remain in the area to join another company.

Companies attend this program understanding that AlphaLab seeks to support their tech startup as well as the greater Pittsburgh tech culture and economy. The program is structured in a way that allows entrepreneurs to establish roots in the community with the AlphaLab alumni network, funding opportunities, Innovation Works, and Riverfront Ventures.

Throughout the years, AlphaLab has transitioned away from a curriculum with heavy emphasis on speakers and lecture-based education toward increased mentor involvement and interactive work. They implemented office hours and reduced the cohort size to increase communication and support and encourage 1:1 working relationship. Their programming constantly evolves to stay current with marketing tactics, trends in customer acquisition, the realities of funding and the startup market at large.

Success

AlphaLab has defined success with 3 goals: building companies, building community, and building capabilities of entrepreneurs. They have supported several very successful companies ranked on companies "To Watch" lists, and startup founders are a lot more connected to each other, to resources, and to their city. Jim is most proud of the role AlphaLab has played in creating community within Pittsburgh, as well as their ability to attract attention and resources from outside Pittsburgh.

AlphaLab has built an extensive alumni network that remains engaged with current AlphaLab companies. Offering expertise and experience, many alumni return for educational sessions and one-on-one mentorship. Several high-growth startup companies that originated in AlphaLab include JazzHR (formerly The Resumator), NoWait, Shoefitr, SolePower, BlackLocus, The Zebra, and Ikos.

Innovation Works has invested over \$69.2 million in more than 350 technology startups (through both AlphaLab and AlphaLab Gear) who have gone on to raise over \$1.7 billion. AlphaLab has supported 110 companies, while AlphaLab Gear has produced 40.

Entrepreneurship Ecosystem

Pittsburgh was home to a budding tech ecosystem in 2008 with several startups funded, but there was not yet a feeling of community. In the 10 years since, there's been growth in the amount of capital, number of startups and community activity in Pittsburgh. Because AlphaLab is consistently nationally ranked, they bring attention and pride - and outside investment - to Pittsburgh.

AlphaLab does not specifically measure local economic impact, however they do keep in contact with their alumni, the jobs they create, and their follow-up funding (now approaching several hundred million dollars). They are perceived by the surrounding community in a positive light as a source of company creation and connection. Entrepreneurs feel connected to each other and to the region. Oftentimes, when a founder doesn't succeed they join another local startup, and when companies leave, their founders often come back to Pittsburgh to launch again.

AlphaLab strives to be integrated within their community. To that end, they often partner with the nearby universities (Carnegie Mellon and the University of Pittsburgh) and host meetup groups in their space.

ACCELERATORS WITHIN MICHIGAN



Interview with Mike Morin, COO at Start Garden & [Seamless](#) (July 3, 2018)

Program Overview

The Seamless IoT (Internet of Things) is a 12 week commercialization accelerator program that operates on a rolling basis and facilitates proof of concept engagements in collaboration with large enterprises. The Seamless program matches each startup with 1-2 enterprise partners (established corporations) through the Seamless Consortium - a global network of large enterprises that help guide and validate commercialization opportunities - and provides access to the Seamless network of experts and leaders in their field as well as free or discounted engineering, prototyping, technology development, design, marketing, legal and accounting services. By working with leading startups, these partner enterprises are better equipped to make significant steps toward a distant future, rather than diminishing the technology of the future to fit their current comfort and capacity.

Funding

The idea for Seamless began in 2000 when its founders saw two problems: enterprises struggling to keep up with the innovation disrupting their industries, and startups emerging in IoT that were unable to create standalone businesses, but rather would need to produce products able to interact with the capacities of large enterprises. Seamless IoT officially launched in 2014, based on the learnings from Momentum and Start Garden.

While Seamless IoT operates out of Start Garden, which is supported in part by public funding, Seamless itself is funded entirely by its enterprise partners. The original founding members include Meijer, Spectrum Health, Faurecia Automotive, Steelcase, Amway, and Wakestream Ventures.

Companies Invested In

Seamless IoT supports seed or early-stage startups with IoT products in the areas of smart homes, connected buildings, healthcare and wellness, workplace solutions, customer products, mobility and retail. These sectors are growing rapidly, are ripe for disruption, and align with the interests of the enterprise partners.

Startups who join Seamless need to already have a prototype and operating business in order to engage effectively with enterprise partners and benefit from the Seamless model-a sandbox in which they can test

product efficacy, run low-friction experiments rapidly, and explore commercialization opportunities. Because Seamless supports businesses already in operation, most companies do not relocate to Grand Rapids. However, some do choose to do so and are provided office space at Start Garden.

Seamless does not take a fixed percentage of ownership in the startup companies, however they can provide a \$20,000 uncapped convertible note if applicable. To date, Seamless has supported 25-30 startups.

Success

Seamless IoT defines success by their ability to connect each startup with investors, new markets, and the partners required to build a stronger business. Depending on the team and the product, Seamless will set up a startup with strategic partnerships, pilot programs, co-development opportunities, licensing agreements, customers, or direct investment from the Seamless Consortium partners or other outside investors. There are additional funding opportunities through Wakestream Ventures and the Seamless consortium partners.

Success is also defined by helping enterprises move forward and innovate. From an economic development perspective, when these West Michigan corporations do well, the whole region flourishes. To support this mission, Seamless has moved from a marketing-based approach to a sales-based approach, actively recruiting the best and brightest startups from all over the world to help them achieve funding and success in Michigan. Seamless aims to support West Michigan's continued success as a leader in technology and an attractive place where top talent wants to locate. They point to a trend in which people do not follow the companies to new regions, but companies set up where the top talent resides. This can make Grand Rapids a better place to live for everyone.

Entrepreneurship Ecosystem

Michigan has a history of embedding technology within products, and the vendors and partners experienced in integrating technology, industrial design, and human-centered design are still here. West Michigan in particular has a disproportionate number of large enterprises focused on the built environment. With the rise of service-based businesses like ride-sharing or grocery delivery, companies are seeking to partner with software companies more than ever.

Now, enterprises need to innovate faster, while startups need domain expertise. Seamless recruits nationally and internationally to bring the best minds to Grand Rapids. Their unique commercialization program and partnership with Start Garden, an MEDC-originated program funded in equal measure by philanthropy, enterprise, and government, facilitates the necessary connections to help Seamless projects succeed. Upcoming projects include an air quality monitoring solution and autonomous shuttles, both of which would be impossible without community and municipal support.

The team at Seamless also monitors their success as an organization. When they noticed a lack of diversity within the entrepreneurship community at large and the leadership of their organization, Seamless flattened their leadership structure and recruited Darel Ross and Jorge Gonzales, leaders from the African American and Hispanic communities, respectively. They also launched the 100 Ideas initiative, a project aimed at increasing inclusivity and gathering ideas from all corners of Grand Rapids neighborhoods. In the first round, each winning idea received \$1,000 to develop and in the second round, winning ideas will receive \$20,000 to push the concepts even further.

Mike Morin, COO, describes inclusivity as a social justice issue as well as an issue of competition. He notes that the most successful, fastest growing cities are places where diversity is flourishing and ideas of all backgrounds and perspectives can emerge.

With more community-based and public-facing programs, the community will be able to see more of what Seamless can do. However, because most of their projects to date have been heavily focused on behind-the-scenes work with enterprise and startups, there is not yet much public perception of Seamless IoT and their place within the Grand Rapids ecosystem and the broader world of innovation.



Interview with Paul Jaques, Director of Student and Community Engagement at Spartan Innovations and Program Director at Conquer Accelerator (June 7, 2018)

Program Overview

Conquer Accelerator, established in 2016, selects 5 teams per cohort. Each team receives \$20,000 in funding and a 10-week program, including mentorship, support, and creative working space. The program is open to both students and the public, and the structure and content of the program has remained largely unchanged since its launch. The Accelerator has chosen not to specialize with a specific industry or service because they have not seen outcomes data to support specializing in one industry over another.

Funding

Conquer Accelerator is funded through the MSU Foundation and its \$5M venture investing subsidiary, Red Cedar Ventures.

Companies Invested in

Conquer Accelerator has invested in 14 companies to date. 10 were originally from the Greater Lansing area, with 4 temporarily relocating from elsewhere in the state. 5 of the 14 remain the Greater Lansing area.

Success

Success is generally defined as gaining additional outside funds and increasing profitability of the supported companies, though it is specifically defined by the unique goals of each team. Success is when a student utilizes Conquer Accelerator resources to land a great job, or the team proves their business model, starts making money and is able to seek additional funding from angel investors or venture capital firms. The recent acquisition of Golfler LLC by Supreme Golf was a huge success, as was The York Project, which is thriving on their own in Detroit.

Community perception of the accelerator is very positive. Community members support the program, are eager to come speak and work with the teams, attend demo days, and invest in the teams. Conquer measures economic impact and determine their own success through tracking metrics such as team sales, user base growth, and outside investment. They are understood by the community as an organization that puts their time and money behind their belief in local teams with potential.

Entrepreneurship Ecosystem

The broader landscape around entrepreneurship and startup development has expanded dramatically in the last 10 years, from having few, disconnected resources for entrepreneurs to MSU launching their Innovation Center and an innovation minor for undergraduates. The increased connection and collaboration help people better access and utilize the various resources. There has been increasing awareness and public interest and positive perception of entrepreneurship in the region,

with thanks in part to demo days, during which startups demonstrate their products and ideas to the public.

Conquer Accelerator works with Desai Accelerator in Ann Arbor to develop ideas, discuss workshops, deals, and attend each other’s events. It is one of only two accelerators in Lansing open to both the public and to students.

Table 2: Comparative Table of Accelerator Programs Interviewed

	Teams per cohort	Cohorts per year	Companies Supported	Program Length
Seamless	2-4	Rolling	25-30	10-12 weeks
Conquer Accelerator	5-6	1	15	10 weeks
AlphaLab	6-8	2	110	12 weeks
Capital Innovators	6	2	98	12 weeks
The Brandery	5-7	1	70	16 weeks
Gener8tor	5	3	76	12 weeks

Table 3: Comparative Table of Funding from Accelerators Interviewed

	Funding Given	Industry Specialization	Stage
Seamless	Up to \$20K	Yes	Mid-late
Conquer Accelerator	\$20K	No	Early-mid
AlphaLab	\$25K	Yes	Early
Capital Innovators	\$50K	No	Early
The Brandery	\$50K	No	Early-late
Gener8tor	\$90K	No	Early-late

ACCELERATOR INTERVIEW CONCLUSIONS

Do More with Less

Nearly all accelerators either had already or were moving away from class-like, structured programming and toward deeper mentorship and one-on-one interactions. Conquer Accelerator selects only 5 teams per cohort, Capital Innovators selects 6, while Seamless has found they can support 2-4 teams at a given time. This year The Brandery has decided to reduce their cohort size from 7-10 teams to 5-7 in order to support more customized, intimate engagement with the teams. Similarly, AlphaLab has moved away from lecture-based programming in favor of project-based work and more time with mentors. They also implemented office hours and reduced their cohort size to increase communication and support and encourage 1:1 working relationship.

Back it Up

Several top accelerators had close relationships with venture funds or were forming for-profit arms to raise funds for their portfolio companies. While several had utilized state funding to launch, only AlphaLab continues to use public funds.

AlphaLab was formed out of Innovation Works, a seed fund, while Seamless was formed out of Start Garden, a non-profit strategic investor, and works in collaboration with the Wakestream Ventures fund. The Brandery has created a for-profit LLC to raise funds for their portfolio companies, while Conquer Accelerator is supported by Red Cedar Ventures.

Use What You Have, Where You Are

Top performing accelerators used their region's existing infrastructure and local economy to their advantage. While each accelerator said their priority was to recruit the best teams, several accelerators had a higher rate of local teams accepted thanks to the entrepreneurial ecosystem which had developed around the region's industry, through universities, and thanks to accelerators. Only Seamless, a commercialization accelerator which supports global and distributed enterprises, did not host a high percentage of local teams. (They did, however, begin initiatives to bring more of the community into the entrepreneurial ecosystem through the 100 Ideas Initiative and changes in leadership.)

The Brandery leveraged StartupCinci and their region's high density of creative agencies to their advantage, while AlphaLab grew out of a rising need for general software development. When there was proven to be a need for hardware development in the region as well, they started an additional accelerator: AlphaLab Gear.

Filter By Fit

In an era in which walls between industry verticals are collapsing every day, these accelerators demonstrated the power in specializing by capacity rather than industry. Seamless recruited teams with products or services able to engage at the enterprise level and The Brandery sought companies with a digital-first approach that would most benefit from storytelling. Meanwhile, Capital Innovators carved a niche as a first-step accelerator that would prepare startup teams with a business and team foundation to pursue industry-specific accelerators.

Partner Up

Each accelerator interviewed had partnerships with longstanding enterprises and/or universities. This not only served to sustain their funding for the long-term but provided startup teams with additional resources and vital industry and/or academic insight they could not get on their own.

Capital Innovators established a unique partnership between the University of Missouri and Ameren Energy to create a sector-specific accelerator, while Seamless formed its commercialization program in

direct collaboration with global enterprises headquartered in Grand Rapids and The Brandery formed a cornerstone of their programming in collaboration with world-renowned creative agencies based in Cincinnati. AlphaLab and Conquer Accelerator developed collaborative and longstanding relationships with the local universities.

RECOMMENDATIONS FOR ECONOMIC DEVELOPMENT

From our research, interviews, and experience within this subject, there are four final points to be made about accelerators:

- 1) Accelerators do bring a positive economic impact to the communities they are in by attracting new businesses/entrepreneurs to the region, being an additional level of support to the entrepreneurs already established in the region, and leading new investors (Angel and VC) to the region.
- 2) The boom in the number of accelerators being created may be coming to a tipping point where we may see several programs begin to phase out and/or to start merge with larger more established programs (i.e. The Brandery).
- 3) Accelerators do support local economic development, but that is not their main priority. Even though they may be partnered with or even formed by local foundations/philanthropic groups, accelerators begin to take a life of their own in order to increase operational capacity and better attract new startup companies (i.e. AlphaLabs, The Brandery, and Capital Innovators).
- 4) Accelerators can be looked at as more of a talent attraction and retention strategy than necessarily a startup initiative. Each of the accelerators we interviewed either have or are increasing their focus on mentorship. This mentorship and alumni network keep both the accelerator and its participants current with the most innovative and creative thinkers and possible opportunities to pursue.

REFERENCES

- Cohen, S. (2013). "What do accelerators do? Insights from incubators and angels." *Innovations: Globalization*, 8(3-4), 19-25.
- Grof, M., and Brunet, S. (2016). "Global Accelerator Report 2016." *Gust*. Retrieved from: http://gust.com/accelerator_reports/2016/global/
- Hathaway, I. (2016, February 7). "Accelerating growth: Startup accelerator programs in the United States." *Brookings*. Retrieved from: <https://www.brookings.edu/research/accelerating-growth-startup-accelerator-programs-in-the-united-states/>
- Hochberg, Y., Cohen, S., and Fehder, D. (2017). "2017 Accelerator Rankings." *Seed Accelerator Rankings Project*. Retrieved from: http://seedrankings.com/pdf/sarp_2017_accelerator_rankings.pdf