

EXECUTIVE SUMMARY

Accelerating the Flow of Funds into Early-Stage Ventures:

An Initial Look at Program Differences and Design Choices

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Introduction

Recent data from the Global Accelerator Learning Initiative (GALI) suggest that the number of organizations with active accelerator programs reached more than 500 in 2017. These relatively young programs continue to test and refine their offerings, figuring out how to best support promising entrepreneurs. As they do, their funders are eager to find out whether accelerators work and what kinds of programmatic choices produce superior venture outcomes.

To address these questions, Social Enterprise @ Goizueta at Emory University and the Aspen Network of Development Entrepreneurs (ANDE) launched GALI in collaboration with a consortium of public and private funders. GALI builds on the work of Emory's Entrepreneurship Database Program (EDP), which works with accelerator programs around the world to collect and analyze data describing the many entrepreneurs that they attract and support.

One of the primary goals of accelerators is to drive funding into promising early-stage ventures so they can stabilize and then scale their operations. This report shows that in a sample of 52 accelerators, the average flow of incremental funds – revenues, equity investment, debt and grant funding – into participating ventures is significantly greater than the average that flows into rejected ventures.¹ In the majority of these programs, this difference exceeds the reported cost of running the program. This is an important finding because it suggests that, in most cases, \$1 spent on an accelerator program translates into more than \$1 of additional funds for participating entrepreneurs. We also show that these superior funding outcomes are accomplished in different ways. Many programs are most effective at stimulating revenue growth, while others are best at increasing the supply of outside equity investment.

¹ Overall, these 52 programs represent 4,463 entrepreneurs. Among those that also provided follow-up data, 526 were program participants and 1,733 were rejected during selection processes.

To home in on differences in accelerator performance, we link the funding-flow data with program-level surveys to provide a more granular look at how different accelerator program choices influence the ability to drive new funding into participating ventures.

Summary of Key Findings

1. How do programs perform overall?

- ▶ One year after application, ventures that participate in accelerators report higher levels of new investment and revenue relative to their rejected counterparts.
- ▶ However, there is considerable variation across programs. For some cohorts, participating ventures report lower funding growth than the rejected pool.

2. How does program design influence cohort performance?

- ▶ We find that several elements anecdotally considered important (such as mentorship and program curriculum) do not significantly affect overall funding outcomes.
- ▶ Some of the elements that are linked to superior performance include emphasizing access to other entrepreneurs, providing guaranteed investments, and focusing on women and minority applicants.

3. What about increasing equity investment versus revenue growth?

- ▶ Programs where increased equity investment was the dominant funding flow tend to specialize in a sector and focus on network development over other program benefits.
- ▶ Programs where increased revenue growth was the dominant funding flow tend to be longer and are likely to work with more mature ventures.
- ▶ Programs where equity growth dominates are more common in North America, while those where revenue growth dominates are more common in Latin America and Sub-Saharan Africa.

PART 1:

Net Flow of Funds

Early-stage ventures need financial resources to stabilize and then grow their operations. These funds come through a finite number of channels, including earnings and investment. As such, this report focuses on the net flow of funds (NFF), a variable that measures the average change in financial resources flowing to ventures that participate in accelerators, compared to their rejected counterparts.

The NFF captures the net flow of incremental funds that a program stimulates during the acceleration year. To calculate the NFF, we first subtract the revenue, equity, debt and philanthropy numbers reported on application surveys from the corresponding amounts reported for the next calendar year. Then, for each program, we compute the average changes for participating ventures minus the average for those that applied but did not participate.

$$\text{NET FLOW OF FUNDS (NFF)} = \text{Net revenue growth} + \text{Net equity growth} + \text{Net debt growth} + \text{Net philanthropy growth}$$

Table 1 breaks down NFF (and its four components) for participating and rejected ventures across the 52 programs in the sample.² After one year, these accelerators were responsible for an additional \$30,846 of incremental funding for each of the ventures they worked with. Relative to the incremental funds reported by rejected ventures, participating ventures earned an average of roughly \$6,000 more dollars in revenue in that first follow-up year, while attracting \$15,000 more incremental equity investment.

NET FLOW OF FUNDS AND ITS FOUR COMPONENTS (N=52 PROGRAMS) ◀ table 01 ▶

	PARTICIPATED AVERAGE CHANGE	REJECTED AVERAGE CHANGE	DIFFERENCE	
Total Flow of Funds	\$56,223	\$25,377	+\$30,846	✓
Revenue	\$16,081	\$10,061	+\$6,021	✗
Equity	\$23,387	\$7,870	+\$15,517	✓
Debt	\$8,300	\$3,249	+\$5,050	✗
Philanthropy	\$8,455	\$4,197	+\$4,258	✗

Difference significant at the p < .10 level: ✓ YES ✗ NO

² Unlike previous GALI reports, the unit of analysis in this publication is the program. Average changes are calculated first at the program level and then presented here as an average across programs. Given the limited sample size, we increase the significance threshold to p<.10 and discuss non-statistically significant differences as well.

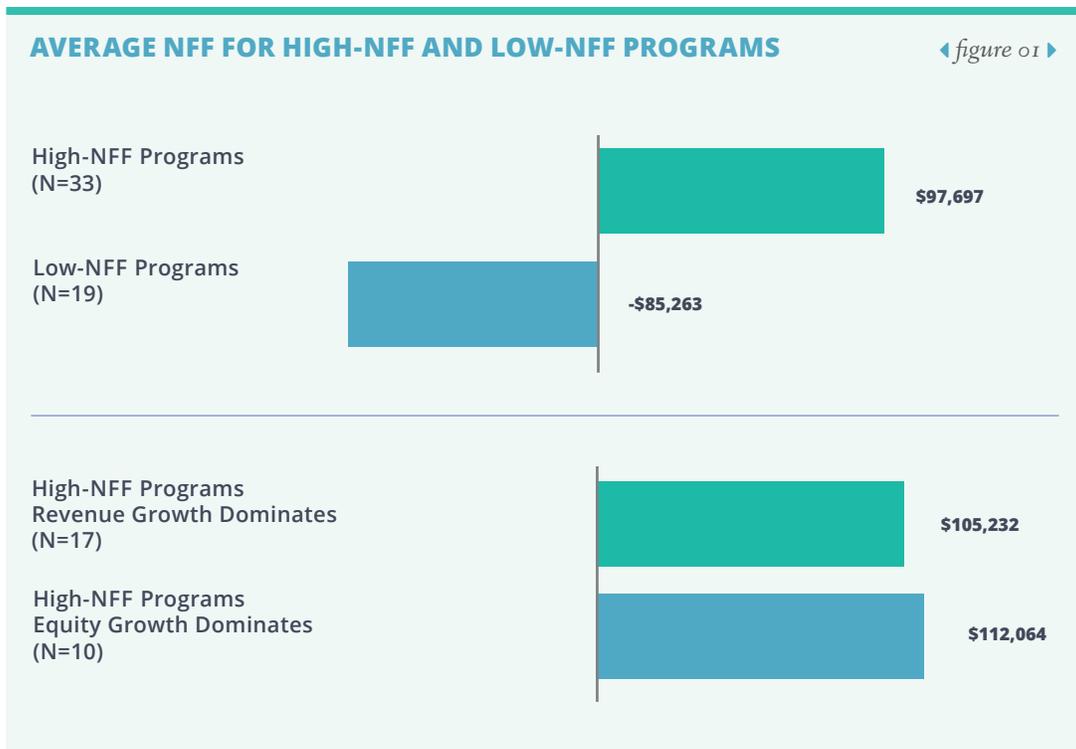
Separating High-NFF and Low-NFF Programs

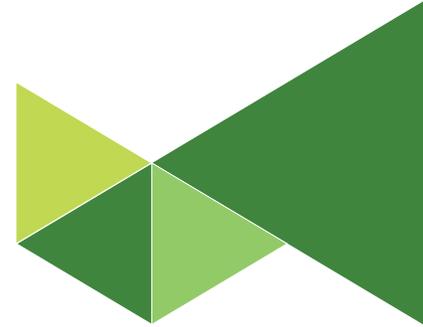
These overall averages mask considerable variance across programs, where the NFF ranges from +\$297,024 to -\$342,734. This suggests that accelerators can have very positive impacts on the flow of funds into participating ventures, but they can also be associated with very negative movements. In light of these differences, we examine a range of variables that might correlate with more positive NFF into participating ventures. To execute this analysis, we split the sample based on programs whose average NFF is greater than the corresponding cost per venture of running the program:

HIGH-NFF PROGRAMS: Net flow of funds > Program cost

LOW-NFF PROGRAMS: Net flow of funds < Program cost

Figure 1 shows that 33 accelerators in the sample are classified as high-NFF programs. Among these, the dominant NFF component is net revenue growth for 17 programs and net equity growth for 10 programs.





PART 2:

A Closer Look at Program Design

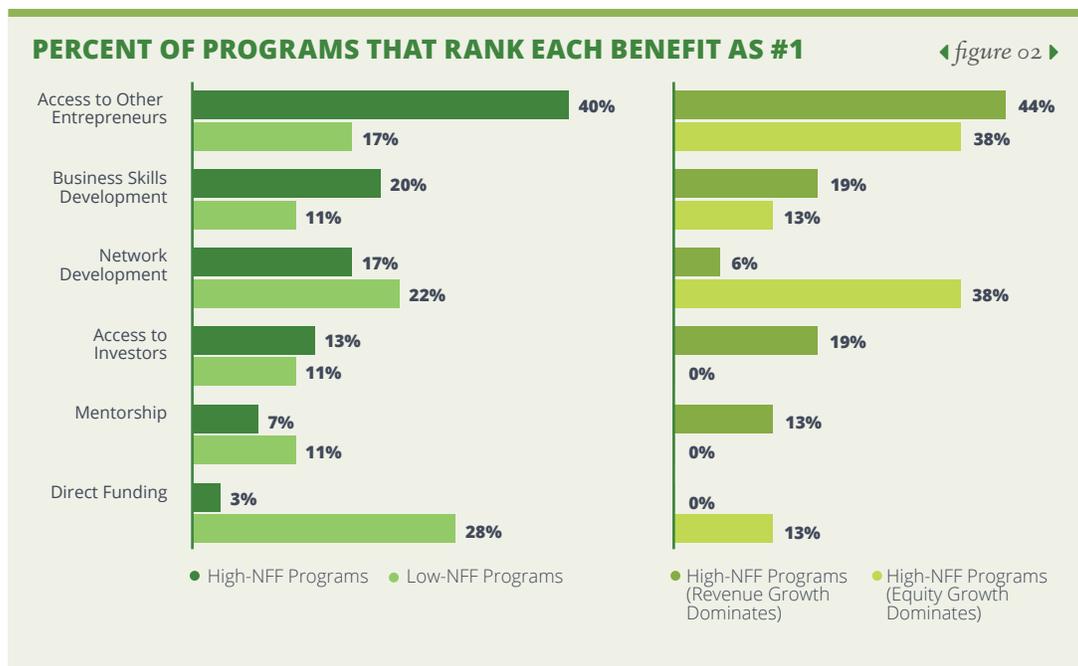
Given these differences in program efficacy and different paths to funding success, we examine how specific program choices correspond with the ability to drive funds into participating ventures. The following is a summary of the main findings from this analysis:

COST, TIME, AND HUMAN CAPITAL REQUIREMENTS

High-NFF programs cost less per venture and take about as much time as low-NFF programs. Looking only across the high-NFF programs, those that drive net equity growth are shorter but tend to require more human resources (like selectors and mentors).

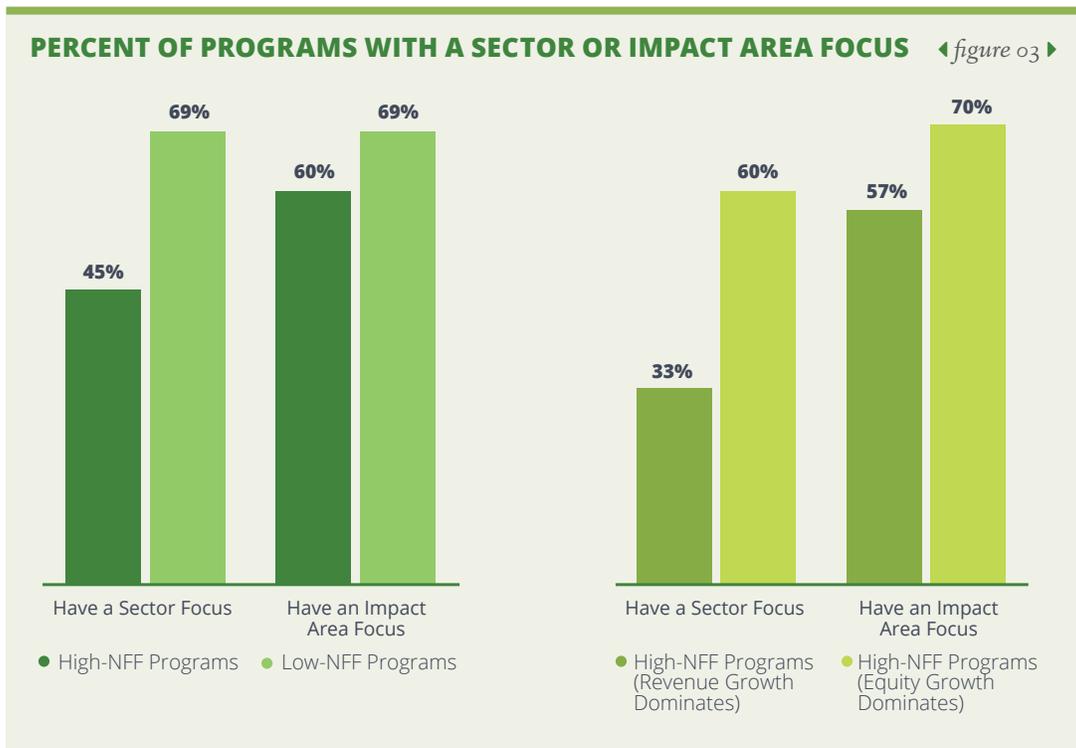
ACCELERATOR BENEFITS EMPHASIZED

High-NFF programs are more likely to list providing access to other entrepreneurs as a primary program benefit. The high-NFF programs that drive net equity growth place more emphasis on networking, while those that drive net revenue growth are more likely to emphasize mentorship and access to investors.



SECTOR AND IMPACT AREA FOCUS

High-NFF programs are less likely to have a specific sector focus. However, among the high-NFF programs, those that drive net equity growth are more likely to be sector-focused.



TARGET VENTURE STAGE

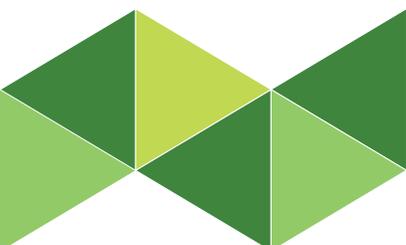
Both high-NFF and low-NFF programs tend to target ventures in the prototype and post-revenue stages. Among the high-NFF programs, those that drive net revenue growth more often target growth-stage ventures.

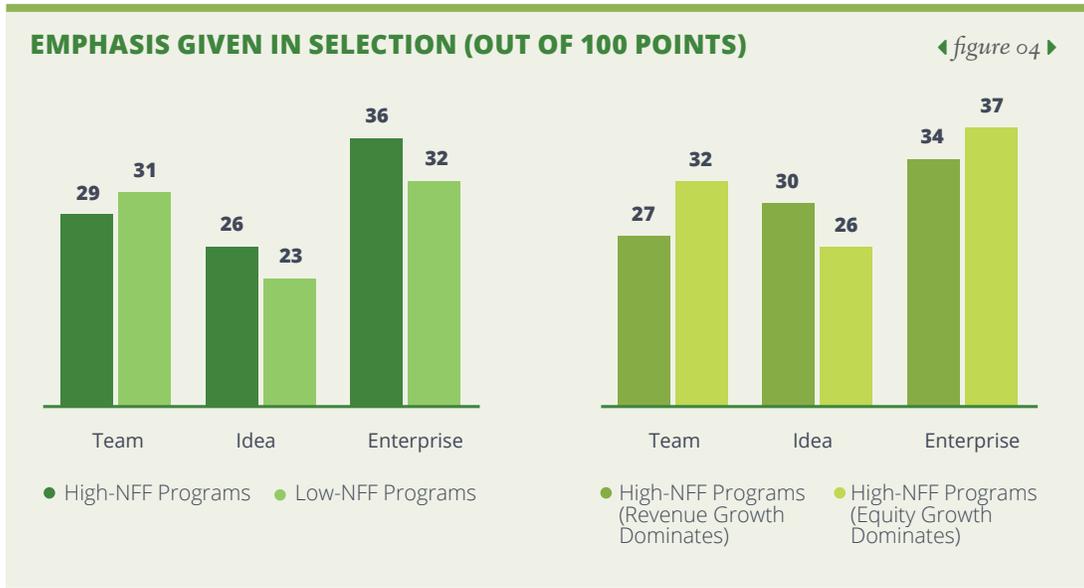
PREFERENCE FOR WOMEN AND MINORITIES

High-NFF programs are more likely to indicate a preference for women or minority applicants (even though these preferences do not necessarily translate to more diverse cohorts).

SELECTOR FOCUS (TEAM, IDEA, OR ENTERPRISE)

When making selections, high-NFF and low-NFF programs place similar emphasis on the quality of the team, the idea, and the enterprise. Among the high-NFF programs, those where net equity growth dominates place slightly greater emphasis on the quality of the team.





CURRICULUM AND CONTENT DELIVERY

There are no obvious advantages when it comes to using a structured curriculum, emphasizing certain topics, or relying on certain types of instructors. However, high-NFF programs report that their ventures spend more time on-site working with the cohort.

STRUCTURE OF MENTORSHIP

Our data do not show any meaningful differences when it comes to the quantitative aspects of mentorship, including the number of mentors, mentor backgrounds, or the amount of time spent with entrepreneurs.

GUARANTEEING INVESTMENT

A similar percentage of high-NFF and low-NFF programs guarantee investment for at least some of their participating entrepreneurs. However, programs that make these direct investments have substantially greater NFF on average (even after accounting for the magnitude of these direct investments). Moreover, the incremental funding benefits also extend to net revenue growth.

AVERAGE NFF BEFORE AND AFTER ACCOUNTING FOR DIRECT INVESTMENTS

◀ table 02 ▶

	PROGRAMS	AVERAGE NFF	AVERAGE NFF (NET OF PROGRAM INVESTMENT)	AVERAGE NET REVENUE GROWTH
Provides direct investment	37	\$48,490	\$31,449	\$13,685
Does not provide direct investment	15	-\$12,674	-\$12,674	-\$12,884
<i>P-value for difference test</i>		<i>p=.11</i>	<i>p=.24</i>	<i>p=.37</i>



Implications for Accelerator Programs

It seems that accelerators – working in a range of sectors and impact areas around the world – are having meaningful short-term impacts on the funds flowing into early-stage ventures.

While these average effects are promising, they are not universal. Because the important questions for accelerator program supporters relate to which programs and program choices are most effective, we must consider a few key take-aways as candidates for further discussion:

- ▶ **MONEY ISN'T EVERYTHING, BUT IT HELPS.** Excellent programs spend less per venture, de-emphasize the importance of direct investment, and are no more likely to make direct investments into companies. However, programs that invest directly in their entrepreneurs have a higher NFF on average, even after removing their direct investment dollars from the equation.
- ▶ **SUPPORTING MARGINALIZED ENTREPRENEURS IS GOOD BUSINESS.** Programs that report a preference for women or minority entrepreneurs perform very well. While we do not yet know how or why this happens (programs preferring women in their pipeline don't have more diverse cohorts on average), this optimistic finding should stimulate program supporters to keep working on this important goal of inclusive entrepreneurship.

- ▶ **THERE IS NO CLEAR RECIPE FOR DEVELOPING A SUCCESSFUL CURRICULUM OR MENTORSHIP PROGRAM.** We continue to believe that these are critical components of successful accelerator programs, but it is challenging to identify the ‘secret sauce’ in the quantitative data.
- ▶ **EQUITY GROWTH IS CONSISTENT WITH A MORE FOCUSED APPROACH.** Programs that drive equity growth are more likely to have a sector focus and report a preference for women applicants.
- ▶ **EQUITY GROWTH RELIES ON RELATIONSHIPS.** Programs that drive equity growth focus on the personal aspects of business-building: they emphasize networking as a primary accelerator benefit and prioritize in-person mentoring sessions over those that take place remotely.
- ▶ **REVENUE GROWTH HAPPENS WHEN PROGRAMS WORK WITH MORE MATURE VENTURES FOR MORE TIME.** Programs that drive revenue growth tend to have longer durations and are more likely to target growth-stage ventures.
- ▶ **ECOSYSTEMS MATTER.** While high-NFF programs are found consistently across regions, those where equity growth dominates are more common in North America and those where revenue growth dominates are more common in Latin America & Caribbean and Sub-Saharan Africa.

Looking ahead

This report provides a first look at the drivers of one critical goal of accelerators and should encourage researchers, consultants, and practitioners to design and implement studies that provide more complete answers to the question of accelerator effectiveness. If we continue to match questions with data, and programs with researchers, we will continue to develop empirical findings that produce a better understanding of the critical role(s) that accelerators play when it comes to turning promising early-stage ventures into accomplished growing businesses.



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GALI works in association with the Global Entrepreneurship Research Network; a working coalition of institutions funding research as a tool in realizing the full potential of entrepreneurship to create inclusive prosperity on a global scale.

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