Inc.

The Difference Between a Business Accelerator and a Business Incubator?

Business incubators mentor companies through childhood while business accelerators guide them through adolescence into adulthood.

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There seems to be a considerable amount of confusion about the differences between business accelerator and business incubators. Many people use the terms interchangeably, but there are a number of elements that distinguish one from the other. At the same time, there is indeed overlap across incubator and accelerator services, which explains much of the confusion. The aim of this article is to help distinguish the difference between the two.
It is sometimes easier to grasp the differences between two adjacent paradigms by first knowing about the elements they share. For example, incubators and accelerators both prepare companies for growth. I.e. both incubators and accelerators help firms grow by providing guidance and mentorship, but in slightly different ways and, and more importantly at different stages in the life of the business. In order to get this straight, let’s draw an analogy and say that the life of a business is like the life of a human being. There are roughly three major stages of life: childhood, adolescence and adulthood.

Like a father to a child, an incubator provides shelter where the child can feel safe and learn how to walk and talk by offering office space, business skills training, and access to financing and professional networks. The incubator nurtures the business throughout the startup phase (childhood) and provides all the necessary tools and advice for the business to stand on its own feet.

However, while learning to stand on its own is a great entrepreneurial achievement, the walk through adolescence is often wobbly and filled with challenges, and the need for guidance is far from over. As any parent knows, guiding a teenager through adolescence is perhaps the most trying period in that person's life, as the adolescent gains a sense of self and identity. One major challenge facing most companies who operate on the verge between childhood and adolescence is that sooner or later, they get stuck in the trenches of day-to-day operations, and more often than not fail to incorporate long-term strategic planning in the development of the business. The company may lose track of its unique value proposition - its identity - during this phase.

It is at this critical point in the business life cycle that most incubator programs end, as the firm is technically ready to spread its wings. Nonetheless, the journey towards sustained growth is far from over. Often it becomes necessary to receive advice and guidance from a business accelerator. By means of acceleration services, often in the form of "acceleration programs", business accelerators help companies get through adolescence and prepare them to enter adulthood, providing them with strong arms and legs, sound values and a clear mindset (strategy) for the future. In other words, while incubators help companies stand and walk, accelerators teach companies to run.

Incubator programs last for varying durations and include several forms of mentorship and support, and nurture the business for the time it takes for it to get on its feet, sometimes for many years. On the other hand, a business acceleration program usually lasts between 3-6 months. The emphasis of the business accelerator is on rapid growth, and to sort out all organizational, operational, and strategic difficulties that might be facing the business. It can be understood as a holistic business advisory service, often bearing strong resemblance to traditional management consulting practices, but adjusted to fit small and medium sized organizations.

It is important to note that, compared to people, companies don't grow by the tides of time per se, but by means of expanding their markets. An established company can still be stuck in the trenches of operations, or face other obstacles in accelerating their business. Hence, be it a young or established company, business accelerators can step in and straighten out the journey towards adulthood.

Both incubators and accelerators are important resources to ensure the growth of firms, be it from early startup or in becoming established organizations. And as we all know, the growth of firms is the lifeblood of any economy.

Seed accelerator

From Wikipedia, the free encyclopedia

Seed accelerators, also known as **startup accelerators**, are fixed-term, cohort-based programs, that include mentorship and educational components and culminate in a public pitch event or demo day.[1] While traditional business incubators are often government-funded, generally take no equity, and focus on biotech, medical technology, clean tech[2] or product-centric companies, accelerators can be either privately or publicly funded and focus on a wide range of industries. Unlike business incubators, the application process for seed accelerators is open to anyone, but highly competitive.[3] There are specific types of seed accelerators, such as **corporate accelerators**, which are often subsidiaries or programs of larger corporations that act like seed accelerators.[4]

Distinctive qualities

See also: Business incubator

The main differences between business incubators and accelerators are:[5]

1. The application process is open to anyone, but highly competitive. Y Combinator and TechStars have application acceptance rates between 1% and 3%.
2. A seed investment in the startups is usually made, in exchange for equity. Typically, the investment is between US$20,000 and US$50,000 (or GB£10,000 and GB£50,000 in Europe[3])
3. The focus is on small teams, not on individual founders. Accelerators consider that one person is insufficient to handle all the work associated with a startup.
4. The startups must "graduate" by a given deadline, typically after 3 months. During this time, they receive intensive mentoring and training, and they are expected to iterate rapidly. Virtually all accelerators end their programs with a "Demo Day", where the startups present to investors.[6]
5. Startups are accepted and supported in cohort batches or classes (the accelerator isn't an on-demand resource[7]). The peer support and feedback that the classes provide is an important advantage. If the accelerator doesn't offer a common workspace, the teams will meet periodically.

The primary value to the entrepreneur is derived from the mentoring, connections, and the recognition of being chosen to be a part of the accelerator. The business model is based on generating venture style returns, not rent, or fees for services.

Seed accelerators do not necessarily need to include a physical space, but many do. The process that startups go through in the accelerator can be separated into five distinct phases: awareness, application, program, demo day, post demo day.[3]

History

The first seed accelerator was Y Combinator, started in Cambridge, Massachusetts, in 2005, and then later moved to Silicon Valley by Paul Graham.[3] It was followed by TechStars (in 2006), Seedcamp (in 2007), Startupbootcamp (in 2010), Tech Wildcatters (in 2011), several accelerators of SOSV, and Boomtown Boulder (2014).[8]

With the growing popularity of seed accelerator programs in the US, Europe has seen an increase in accelerators to support a growing startup ecosystem.[9] Top rated seed accelerator programs in Europe include Seedcamp (based in London) and Startupbootcamp(pan European accelerator with program locations and office spaces based in Copenhagen, Amsterdam, Berlin, Israel, Eindhoven, Istanbul and London).[10]

Forbes published an analysis of startup accelerators in April 2012.[11] Since 2010 there has been substantial growth of Corporate Accelerator programs, which are sponsored by established organizations but follow similar principles.[12]

In 2011 Matt Clifford and Alice Bentinck, formerly management consultants at McKinsey & Company, co-founded Entrepreneur First, a London-based accelerator which guides promising tech graduates and those already working in technology firms to design and run their own startups. Entrepreneur First differs from other accelerators such as Y Combinator and Wayra in that it works with individuals rather than companies.[13]

Tech Crunch

[Updated] These Are The 15 Best Accelerators in The U.S.

Posted Mar 10, 2014 by Jonathan Shieber (@jshieber)

Business accelerators like Y Combinator and TechStars have come to occupy a critical geography in the tech landscape, and today two professors are announcing the results of their survey to determine which ones have come out on top at South By Southwest.

"The goal of the seed accelerator rankings project is to start a larger conversation about the accelerator phenomenon, its effects and its prospects for the future," according to a presentation by Professor Yael Hochberg, a faculty member at the MIT Sloan School of Management.

Hochberg and her colleague, Professor Susan Cohen of the University of Richmond and the Batten Institute at the University of Virginia's Darden School of Business, used original research and data from CrunchBase to determine the best 15 accelerators in the U.S. Those accelerators were then grouped into Gold, Silver and Bronze categories to reflect how they performed in a series of categories. Here are the best:

1. Y Combinator (Gold)
2. TechStars (Gold)
3. AngelPad (Gold)
4. Launchpad LA (Silver)
5. MuckerLab (Silver)
6. AlphaLab (Silver)
7. Capital Innovators (Silver)
8. Tech Wildcatters (Silver)
9. Surge Accelerator (Silver)
10. The Brandery (Silver)
11. Betaspring (Bronze)

12. BoomStartup (Bronze)

13. Entrepreneurs Roundtable Accelerator (Bronze)

14. JumpStart Foundry (Bronze)

15. DreamIt Ventures (Bronze)

Business accelerators like Y Combinator and TechStars have managed to capture the imagination of entrepreneurs and seed investors. They have spawned a host of copycatsbacked by corporations and cities around the world looking to capture some of the entrepreneurial energy unleashed by early-stage companies.

The proliferation of these ventures has caused some in the industry to worry about the potential for an accelerator bubble.

Most accelerators provide a stipend or small seed investment, mentoring, and workspace and professional services in exchange for an equity stake in the company. Typically the equity investment is around $25,000 and the equity stake is roughly 6 percent, according to Hochberg's research.

To be included in the rankings, accelerators needed to have graduated at least one cohort by 2013, be based in the U.S. and have at least 10 graduates in their class.

Hochberg measured the accelerators based on the valuations their portfolio companies achieved in the years after graduation; the number of exits an accelerator has had; the ability of companies to receive additional financing after they left an accelerator program; the percentage of an accelerator's portfolio that was still in operation; the opinion venture investors have of the accelerator program; and finally the opinion that graduating entrepreneurs had of their experience.

Two years out from graduation, the valuation of all portfolio companies was bout $5 million and the average valuation of a priced round or exit was $11 million. Both of those numbers are significantly lower than the average valuation across all portfolio companies in accelerators — $17 million. And the average valuation of all portfolio companies on a priced round or exit was $29 million.

Another key metric is follow-on financing. Roughly 59.3 percent of all companies in accelerator programs have gone on to raise follow-on financing. Across portfolios, the average raise was $1.8 million through either internal or external rounds and $2.8 million for companies that just raised outside funding.

As for exits, it’s far too soon to tell. Historically a venture investment takes around seven to nine years to exit, and the oldest accelerator program — Y Combinator — is only nine years old itself. The average accelerator program is only 3.1 years old and has only graduated nearly seven groups of companies. Across all startups invested by accelerators, only 2.1 percent have had a meaningful exit, according to the report.

No matter what the results are, entrepreneurs are almost universally happy with the accelerator experience. Roughly 90 percent of the ones Hochberg and Cohen surveyed said they would repeat the experience, and 95 percent said it was worth it to give up the equity.

The 15 Best Startup Accelerators in the U.S.

A new report ranks the top accelerators and lends insight into whether joining one is worth giving up an equity stake in your business.

BY WILL YAKOWICZ
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As a startup founder, you may have considered whether or not you should give up equity to join an accelerator. Now a report released at South By Southwest ranking the 15 best accelerators in the U.S. has made that decision a little easier.
According to the 2013 Rankings of Top U.S. Seed Accelerators, Y Combinator is the best accelerator in the country, based on several metrics. TechStars and AngelPad rank second and third, respectively. The rankings were compiled by MIT Sloan School of Management professor Yael Hochberg and professor Susan Cohen of the University of Richmond and the Batten Institute at the University of Virginia's Darden School of Business.

"The goal of the seed accelerator rankings project is to start a larger conversation about the accelerator phenomenon, its effects, and its prospects for the future," Hochberg said during her presentation at South By Southwest, TechCrunch reports. The rankings are also an effort to inform entrepreneurs about which programs are worth the stake.

Based on their research and data from CrunchBase, Hochberg and Cohen ranked the accelerators based on the valuations their portfolio companies achieved in the years after graduation; the number of exits an accelerator has had; whether or not startups received additional financing rounds after the programs; the percentage of startups still up and running; how venture capitalists feel about the programs; and how the entrepreneurs in the programs feel about their experience.

The good news is that 90 percent of entrepreneurs surveyed said they would do it over again, and 95 percent said the accelerator they attended was worth the equity stake they gave up, TechCrunch reports.

1. Y Combinator
2. TechStars
3. AngelPad
4. Launchpad LA
5. MuckerLab
6. AlphaLab
7. Capital Innovators
8. Tech Wildcatters
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11. Betaspring
12. BoomStartup
13. Entrepreneurs Roundtable Accelerator
14. JumpStart Foundry
15. DreamIt Ventures

Tech Crunch
These Are The Top 20 US Accelerators

Posted Mar 17, 2015 by Yael Hochberg (@yaelhochberg), Susan Cohen (@susleec), Dan Fehder (@dfehder)

Editor's Note: *Yael Hochberg is an Associate Professor of Finance and Entrepreneurship at Rice University's Jones Graduate School of Business, a research scientist with the MIT Innovation Initiative, and a managing director of the Seed Accelerator Rankings Project. Susan Cohen is an Assistant Professor of Management at the Robins School of Business at the University of Richmond and is a co-director of the annual Seed Accelerator Rankings Project. Dan Fehder is Associate Director and Chief Technologist at the Seed Accelerator Rankings Project.*

Startup accelerators have become a prominent feature of the tech landscape in recent years, with more and more programs popping up every month.

In many ways, they have become a rite of passage for thousands of entrepreneurs who apply to and join programs annually.

Yet, with so many programs to choose from, and little publicly available data on each program, it can be hard for entrepreneurs to figure out which programs are most effective and which specific program would be the best fit to help launch their startup. We founded the Seed Accelerator Rankings Project with this challenge for entrepreneurs in mind.

Competition for the top 20 spots this year was fierce. With so many new programs coming into their own, and the addition of eligibility for non-equity-taking programs and programs with specific affiliation requirements (such as university-affiliated programs), the pool for this year's ranking has grown considerably.

Our aim is both to foster conversation about the accelerator model that has emerged over the last decade, and help entrepreneurs gain a measure of visibility into the strengths of various programs.

The project is an outgrowth of the original accelerator rankings study conducted by Aziz Gilani, Kelly Quann and Yael Hochberg in 2010.

Today, at SXSW, we released the latest version of our annual rankings.

This year, a number of trends are apparent. First, while many new programs have emerged, a good number have also shut down. Furthermore many of the newer programs are vertically-specialized, focusing on a specific industry – for example, healthcare or energy. Finally, a good number of new programs are associated with local governments or state initiatives.

Overall, we found many interesting new programs that were simply too young to have reliable outcomes, and that were therefore not included in this year's rankings. However, we expect to see some of these programs in top categories in years to come.

In determining who qualified for the rankings, we considered all programs that met the formal definition of an accelerator program: fixed-term, cohort-based, with educational and mentorship components, culminating in a public pitch or demo day.

Additionally, programs had to have graduated at least one cohort, have at least 10 graduates, be primarily located in the U.S., and be willing to provide full transparency to our team. Of course, there are some programs out there that call themselves accelerators who do not meet these criteria, and therefore did not qualify for this rankings project. Ultimately, we verified and invited over 150 programs to participate in the rankings process.

To construct the rankings, we collected detailed data on a large number of accelerator programs and their graduates including confidential data provided by the accelerators themselves.

We then calculated a variety of quantitative measures to better understand how programs stacked up on several important outcomes, including: valuations, fundraising, exits and survival. We supplemented those measures with a broad survey of each accelerator's graduates, in order to determine their satisfaction with the program and whether they would recommend it to fellow entrepreneurs.

Nearly 1000 accelerator program alumni shared information about their startup's experience with us.

Here are the top 20, based on our criteria:

Rank	Program	Rank	Program
1	Angelpad	11	Surge
2	Mucker Lab	12	MassChallenge
3	Techstars	12	Brandery
4	University of Chicago NVC	13	Gener8tor
5	Alchemist	14	ZeroTo510
6	StartX	15	AlphaLab
7	Amplify LA	17	BlueStartups
8	500 Startups	18	ERA
9	Capital Innovators	19	BetaSpring
10	Dreamit	20	IronYard

This year, the list is topped by a new champion: Angelpad (last year's #3 program). Mucker Lab (#4 last year) and Techstars (last year's #2) took second and third respectively. Angelpad's rise to the top is rooted in extremely high satisfaction of its graduates, high valuations for its portfolio companies and fundraising success.

Mucker Lab similarly distinguished itself with high alumni satisfaction and fundraising numbers, while Techstars is particularly successful in the valuations and firm survival categories, with a strong alumni network also in play for its graduates. The University of Chicago New Venture Challenge, in its first year of participation, slots into fourth place on the strength of a number of strong exits, including the $2B Grubhub IPO and Braintree acquisition.

There are a number of close groupings and an outright tie in this year's rankings. The 5th through 10th ranked programs are relatively close in composite score. There is an outright tie for 12th place, and the programs in slots 16 to 20 are also relatively close in score.

Notably absent in this year's list are Y Combinator and RockHealth–both programs now classify themselves as seed funds rather than accelerators, and asked us to respect their evolution into a new model. This, of course, is not a statement about efficacy of those programs – based on the 2013 data submitted to the rankings team, Y Combinator would still have topped the list if they had not transitioned models.

So what are the metrics we used to assess accelerators' effectiveness? To get a more accurate picture of accelerator programs, we calculated many different measures: the average valuations of the portfolio companies; the percentage of graduates that raise significant venture or angel funding; the average amount of dollars raised by the companies; the percentage of portfolio companies that have had a significant exit event; the average valuation of the companies at exit; the percentage of companies still operating; and the opinion graduates have of the program.

To make sure we are comparing apples to apples, we measure one, two and three years after graduation, and we adjust for differences in the stage companies are at when they enter the accelerator, such as whether they have come in having already raised a round of two of financing or with positive revenue, versus entering as a brand new company.

Overall, the startups that have graduated from the accelerators in our top 10 have a current total valuation slightly under $4.4 billion. Roughly 3.5% of the companies that have gone through an accelerator in the top 10 have exited successfully, a number that is low, but not necessarily surprising given how new the phenomenon is relative to the typical number of years it takes for a seed stage startup to reach a successful exit.

Another 35.6% of the companies raised a significant round of financing within a year of graduating from a program, with an average raise of $1.5 million. Also, it is remarkably clear is that for the top programs, there is near universal satisfaction from the startups' perspectives.

For example, in the top 10 programs, 96% of the startups said that knowing what they know now, they would repeat the experience.

Competition for the top 20 spots this year was fierce. With so many new programs coming into their own, and the addition of eligibility for non-equity-taking programs and programs with specific affiliation requirements (such as university-affiliated programs), the pool for this year's ranking has grown considerably. Given this, snagging a spot anywhere in the top 20 is a sign of distinction.