2220 - Entrepreneurial Finance and Venture Capital

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Lecture #15

Accelerator business model

- Large numbers approach
  - Make small investments in lots of startups
  - No due diligence, no negotiation
  - Very attractive terms for investor, e.g. YC took 7% equity for $20k at time of case (now $125k for 7% plus $375k in a SAFE)
  - Can afford higher failure rates

- Key success drivers
  - Quality of selection process
  - Quality of mentoring $+$ investor and alumni network
  - Signaling value for outsiders $\rightarrow$ first-mover advantage, persistence

- Who is this best suited for?
  - Inexperienced founders
  - Startups with low asset intensity, cheap/informative experiments, e.g. software, not nuclear energy

The accelerator boom

- YC has been widely successful
  - Invested in 5000+ startups worth combined $600 billion

- Other very successful programs followed, such as
  - Techstars
  - 500 startups
  - Angelpad
  - Seedcamp

- Hundreds of programs have been launched all over the world

Why did accelerators emerge in supply chain?

- Falling cost of experimentation in software, especially after Amazon Web Services (2006)

- Increased entry by inexperienced founders with risky ideas
  - Need training, minimal funds and access to investors if experiments work out

- Traditional VCs not equipped to meet this need

- Growth/emergence of new models
  - Accelerators
  - Angels and super angels
  - New approaches to VC, e.g. a16z

Implications for VCs and angels

- VCs and angels with access to top accelerators have benefited
  - ▸ Accelerators have traditionally not participated in follow-on rounds
  - ▸ VCs and angels get high quality deal flow

- But accelerators are now participating in later rounds too
  - ▸ YC $375k SAFE displaces angels and other seed investors in YC startups
  - ▸ YC is also investing in later stages (initially pro-rata in all rounds, now with more discretion)

- In 2022/2023 Sequoia, a16z and Greylock reacted by launching their own accelerators