SPEED DIAL

If the UK is to become a post-Brexit beacon of innovation, its accelerator networks will play an important part. Jason Sinclair looks at how experience sharing can help build the next phase of businesses that then raise growth capital and get involved in M&A

When British-born computer scientist and entrepreneur Paul Graham launched Y Combinator in the US in 2005, the concept of business start-up accelerators was in its infancy. Graham saw that the skills needed to nurture the growth of young, digital companies was not being taught in business schools. His own experience told him that what could be taught to digital start-ups was replicable by grouping early-stage businesses into cohorts for added-value peer-learning.

The model, says Christopher Haley, head of new technology and startup research at Nesta, was imported to the UK. “We helped to shape it,” he explains. A 2017 Nesta report found that in the UK 368 accelerators and incubators were supporting more than 7,000 businesses. As a simple rule, incubators help entrepreneurs flesh out business ideas, so that they get to a stage where the business has an idea or a product it can pitch to investors, consumers or customers. Accelerators expedite growth of existing companies, which already have a proven minimum viable product - they assist by offering mentoring, funding and networking help.

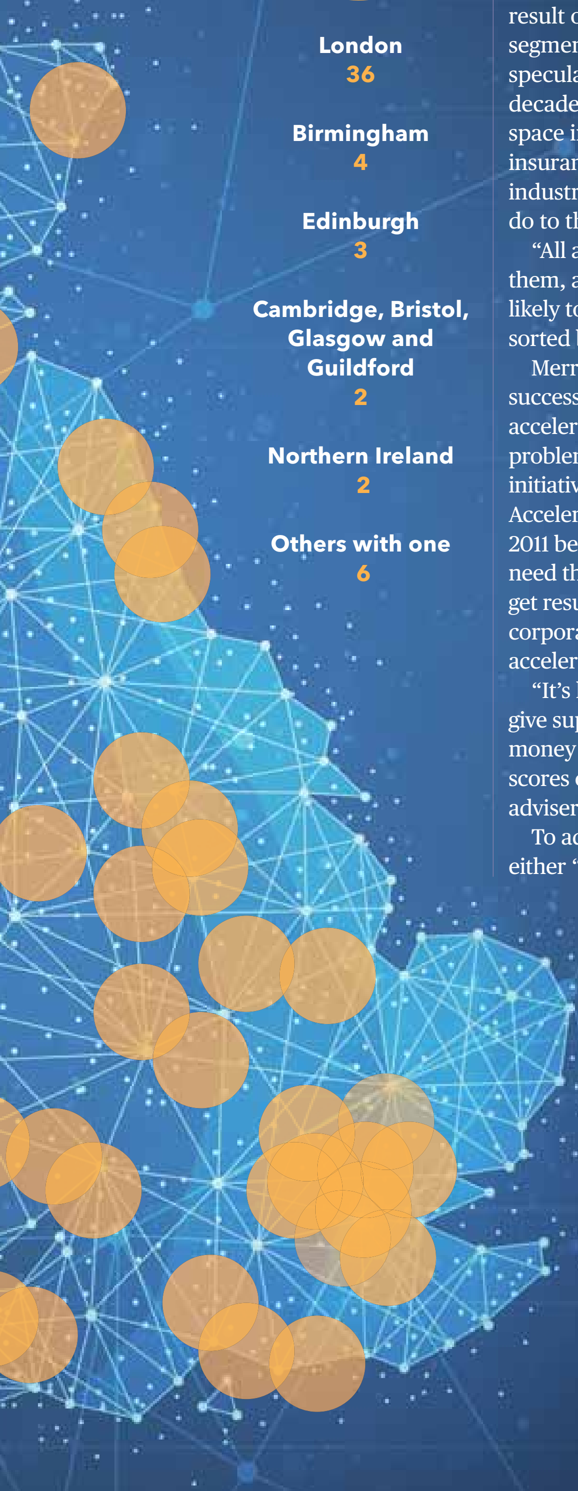
Lisa Power, who sold her own business for £45m and now mentors at the Accelerator Academy, says: “They all believe they’re going to be unicorns. We’re shaping their foundations.”

But how many will become huge companies, like Y Combinator alumni Dropbox, Coinbase and Airbnb, and how are accelerators going to help them achieve their goals?

In the UK, the Accelerator Network segments companies by life stage: hackathons, pre-accelerators, schemes for post-revenue businesses that are aiming to raise up to £1m from angels and VCs, and scale-up programmes (see box, page 10). Incubators really look at just developing ideas, so are in that pre-accelerator phase.

The network’s rubric involves a central base of classroom learning, backed up by one-to-one advice from mentors. Ian Merricks, who founded and chairs the Accelerator Network - and is managing partner of its backer, White Horse Capital - says: “During the course of any of our programmes, the entrepreneurs will have access to 60-70 sector experts covering the whole range of business experience, from sales and marketing to finance, investment and IT. We distil the critical areas into a syllabus, with a fully briefed network of stage-specific industry experts sharing their views on best practice, common pitfalls and ways to shorten the otherwise painful learning curves that start-ups are otherwise forced to pay for with time and money.” For example, Shaun Beaney from ICAEW’s Corporate Finance Faculty is one of the experts who speaks on the network’s twice-yearly FastForward programme for start-ups.

Merricks refutes the common misconception that accelerators offer rebadged management consultancy: “Accelerators are cohort-based, learning alongside peers, and that’s where we find that the life-stage



UK START-UP CLUSTERS OF INCUBATORS AND ACCELERATORS

London
36

Birmingham
4

Edinburgh
3

Cambridge, Bristol, Glasgow and Guildford
2

Northern Ireland
2

Others with one
6

focus is the most important segmenter. If you are in the first flush of your new business and you have a great idea but you want to know how you can jack in your day job and work on it, it's pretty useful to be able to talk to other people who are at that stage."

This collegiate spirit could change, and that's a result of how accelerators are becoming increasingly segmented by sector rather than life stage, speculates Haley. "One of the broad trends in the last decade has been a move out of the purely digital space into other sectors," he explains. "Whether it's insurance, aviation or eyecare, we have specific industry verticals and it's not entirely clear what it'll do to the dynamics of an accelerator.

"All accelerators have an element of peer learning in them, and that might change with start-ups that are all likely to compete against each other because they're sorted by specific subsector rather than stage."

Merricks, himself an entrepreneur who has three successful exits behind him, thought that building accelerators was a good way of working on common problems for companies before investment. Following initiatives by Seedcamp and Techstars, he launched Accelerator Nation - the third accelerator in the UK - in 2011 because, as he says: "Our perspective was not 'we need this thing called an accelerator', but 'how do we get results?'. A lot of that rationale has been lost, with corporates piling in and calling something an accelerator when it doesn't have those clear objectives.

"It's hugely time-consuming to build networks to give support to young companies that don't have the money to pay for that level of service - getting together scores of experts, introductions to customers, capital, advisers, demo days in front of angels and VCs."

To address this, Merricks says, programmes have either "sharpened their pencils and focused, saying

7,000

businesses in the UK supported by 368 accelerators and incubators as at 2017, according to Nesta

40%

of programmes receive some sort of public subsidy

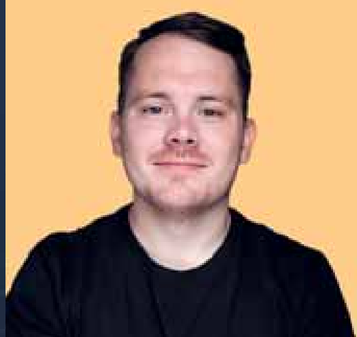
CASE STUDY: CONTENTCAL

Entrepreneur Alex Packham (pictured below) and his company graduated from the Accelerator Academy in 2016. Advice received and contacts made have been a crucial part of their growth story. Contentcal started life as a service-based business providing social media and marketing services to SMEs and corporates.

Packham had the idea of spinning the company into a software business, automating what they were doing and becoming a tech company. He was introduced to Ian Merricks, chair of the Accelerator Network, through a seed investor in 2016, and embarked on a three-month accelerator process to make the technology play and get the business investor-ready.

"It forced us to refine our plans into an investor pitch, which means looking at your business in a totally different way," Packham explains. "At the start you are paired with a relevant and active angel investor, and in week three my mentor said, 'I'm going to invest in your business, take you round my network and help you bring this thing to life'."

They raised £1m in a year, then another £1.6m from angels. "In the last six months we have been raising an institutional tranche of funding and going through the roadshow process," says Packham.



GETTY IMAGES, MAP SOURCEO2'S REPORT, *THE RISE OF THE UK ACCELERATOR AND INCUBATOR SYSTEM* 'we don't need to be open to everybody, we need to be more prescriptive in what we're looking for, maybe we need to take equity in these firms'" or they have left the UK market entirely because "it's difficult and the returns are five years out".

Despite this, Haley believes that the UK has the highest concentration of accelerators outside the US, with more than half of these being in London, according to Nesta. He has noticed a change in who is setting up and providing the funding for accelerators.

"The first accelerators were about providing deal flow for VC firms," he says. "But the majority of programmes now are corporate-funded or sponsored in some way. There are interesting questions about what success looks like. Some 40% of programmes receive some sort of public subsidy. Quite often the reason they're receiving public subsidy is to provide economic regeneration. There's a potential tension between a public funder who wants to create businesses that will stay in the local area and help build a local economy, and an investor seeking returns who may wish the start-up to relocate to California or to Europe."

SELECTIVE SUCCESS?

A Nesta report in 2019, *The Impact of Business Accelerators and Incubators in the UK*, showed that participation in programmes is positively correlated with higher survival rates, increased growth in employee numbers and also higher amounts of funds raised. The caveat to this, Haley adds, is that accelerators are selective by nature, so the companies accepted may be stronger than average.

Having available mentors who've been there and done that is another bonus for entrepreneurs who are embarking on accelerator programmes. For example, Power was approached by the Accelerator Academy about becoming a mentor 18 months after selling her business: "I was looking after two companies in a cohort of eight. Having had a company for 17 years, I was across all the processes from recruitment to monetisation. To have the mentors lending their skills and telling new entrepreneurs where we had been right or wrong is a huge benefit for start-ups.

"I'm still in contact with the companies that I've mentored and am keen to see them do well. It's very tricky in the start-up world, and the biggest challenge is finding finance. I have experience in shaping companies so that they're more attractive to investors. There have always been informal networks but this is much more than that."

One Accelerator Academy graduate, Alex Packham of Contentcal (see case study on page 9), says: "The process was transformative in getting us investor-ready. When you go into an accelerator, you go in quite raw, with an idea not a company. You come out knowing how to resource your technology team, your sales team, how to negotiate, how to engage with lawyers. It's like a start-up MBA in a very short period of time and it gives you all the theory, which you can then go and apply. It preps you - but it's still up to you to use what you've learnt and make the best of it post-accelerator."

There is a natural progression, says Merricks, for accelerator alumni moving into the corporate finance marketplace. "There's a company that joined us at the idea stage five years ago, then came into the accelerator," he explains. "There was then an angel round. The angel introduced them to VC at next stage and we supported them through that journey, raising more than £9m of equity funding. Then there are a number of businesses, looking at the M&A side, with eight-figure exits to big acquirers, like Velocity and Skyscanner. There's an ongoing pathway to further corporate finance advice over and above the messier seed and angel rounds." ●

Meet the Accelerator Network: Ian Merricks, Amy Chao, Piers Linney and Clarelisa Camilleri

THE NETWORK RECRUITS

In February 2020, Piers Linney, entrepreneur and corporate financier who formerly appeared on *Dragons' Den*, joined White Horse Capital as venture partner, and as scale-up entrepreneur-in-residence for the Accelerator Network (TAN). Linney is also a non-executive director of the British Business Bank and has a professional background in law and investment banking.

Clarelisa Camilleri also joined the Accelerator Network as programme operations manager from the European Business & Innovation Centres Network.

In January, Amy Chao joined as marketing manager.

TAN partners with, among others, Innovate UK, the Department for Business, Energy & Industrial Strategy, Arts Council England, UK Trade & Investment, Nesta and the Corporate Finance Faculty, as well as PwC, NatWest, Dell and Virgin StartUp.

It divides companies in stages:

- hackathons – where programmers collaborate to solve a real-life problem;
- pre-accelerators – taking the business from concept to minimum viable product, and aimed at seed investment;
- post-revenue schemes for companies aiming to raise up to £1m from angels and VCs; and
- scale-up programmes looking to support companies with more than £1m that are trying to attract £1m to £5m in capital from VCs, family offices or corporates.

Ian Merricks, chair of TAN, says: "Scale-up accelerators are already on the path. We've built that as an initiative between ourselves and some service providers – whether Big Four accountants, law firms or banks as partners in the programme – with White Horse taking the risk and the success fee of raising VC funding."