Design principles for building a successful

Corporate Accelerator

Introduction

It's no secret - the market is changing rapidly.

Exponential technologies such as 3D printing are becoming available to everyone, with prices dropping around 400 times over the course of seven years and, as a result, democratizing manufacturing. The Internet of Things is moving into our lives with connected devices increasing from 10 billion in 2010 to a forecasted 70 billion by 2020. While large organizations struggle to keep up with the pace, startups outgrow their competition by leveraging exponential technologies and reinventing the market over and over again.

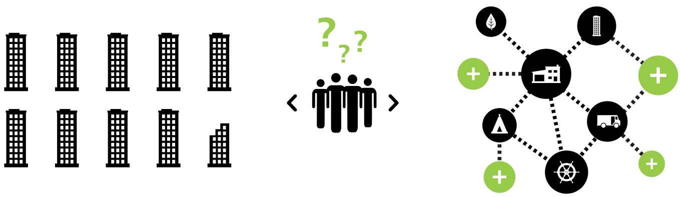
Many successful startups act as "exponential organizations", meaning that their output is at least 10 times higher than that of their peers. This term was coined by Salim Ismail in the book "Exponential Organizations: Why new organizations are ten times better, faster and cheaper than yours". Startups achieve this incredible growth by leveraging new organizational techniques and accelerating new technologies. Take the famous example of the online hospitality marketplace Airbnb which bypassed Hilton in expansion in a matter of a few years.

Hilton

offers **610,000** rooms
in **88** countries

Airbnb

offers **650,000** rooms
in **192** countries



Slow growth
93 years to build

Fast expansion
4 years to amass

AirBnB, like all exponential organizations, is guided by a "massive transformative purpose" which captures the hearts and minds of the people inside and outside of the organization: "Belong anywhere". Following this purpose, AirBnB internalized specific traits of exponential organizations such as leveraging assets (temporarily available apartments and rooms) instead of owning them and scaling by engaging their community to provide for greater reach and availability of rooms. This way, AirBnB scaled and became a serious threat to linear growing hospitality organizations such as Hilton within a time frame much shorter than anyone could have expected.

There are many more exponential organizations disrupting today's markets and widening the gap to their traditional peers. This discrepancy between linear growing organizations and exponential organizations is increasing inexorably due to disruptive technologies. Your current company positioning, customer base or revenue is no indication that you will make it in the digital era. If you don't take certain steps to drive innovation in your company and move towards being an exponential organization, chances are that you are on your way to becoming the next out-of-date organization, similar to Nokia or Polaroid.

What organizations need is a way to connect their strengths and resources with external innovation in order to drive exponential growth and prevent themselves from becoming victims of digital darwinism. Notably, established corporations own valuable resources such as a global infrastructure, strong brand reputation, business relationships, experience with regulators, scientific knowledge, process excellence and access to data. Startups and exponential organizations on the other hand, can offer corporations a flow of ideas, organizational agility, the willingness to take risk and the drive to scale rapidly.

This is where the concept of an accelerator comes in, acting as a bridge between outside innovation and the corporation. Accelerators provide a new environment for the corporation to set up new rules, a possibility to proactively spot ideas on the edge, as well as in the core of its business and a place where those ideas can be protected from the organization while also being supported by it.

The accelerator provides access to early stage innovation and ventures in a cheaper, faster and more flexible way than R&D, creating numerous advantageous outcomes. By investing and building scalable early stage ventures and gaining access to new exponential technologies, the accelerator creates great economic benefit while at the same time encourages an entrepreneurial spirit and culture within the corporation. Furthermore, it can help promote the company being innovative, thereby attracting the best talents, while supporting and benefiting from the local ecosystem of entrepreneurs.


GLOBAL SHARE
10.8%
7.0%

The Classic Accelerator

What is an Accelerator?

At its core, an accelerator is a company or a program that invests in and supports a number of startups leading to a faster growth of the ventures. Accelerators support startups with mentoring, office space, knowledge and additional resources; basically anything that helps to get the startup off the ground and accelerate its growth.

The Y-Combinator is a prominent example of a privately funded accelerator:

Selection Process	Deal	Acceleration Program	Completion	Alumni Program
85 startups from over 2500 selected per batch 2 batches a year	$120k seed funding for 7% equity	3 months' duration Network & community Advice on Ideas & Investors & Incorporation Expert dinners every tuesday No co-working space but required to move to bay area	Demo Day with selected invite-only audience	Continuous advice & support Often follow-on funding from investors Active alumni network

Y-Combinator is a US-based accelerator that was founded in 2005 and is often referred to as the most successful privately-funded accelerator, which acts as a role model for many other accelerators. The program has funded over 800 companies, including famous examples such as the exponential market entrant AirBnB, as well as Dropbox and Stripe who are referred to as "unicorns" for having surpassed the $1 billion valuation mark. The total market cap of all Y-Combinator companies totals $30 billion given a total of $3 billion raised in funds.

Understand the components of an Accelerator

An accelerator should always aim to generate economic benefit and contain specific components which are increasing the likelihood of success. In Y-Combinator's case, economic benefit is achieved through financial returns on investment, much like an early-stage venture fund. The goal of economic benefit through financial returns determines the building blocks of the accelerator, which usually have to be tweaked and adjusted in order to achieve the desired returns.

The selection process defines the methods of scouting and selecting startups. The targeted startups can typically range from ventures with only a business plan and no prototype or traction in the market, through to startups that have a validated business model and have managed to build a product with initial traction.

Scouting takes place via multiple channels, including professional network and social media channels where a call for proposals is launched. The selection procedure can be rigorous with multiple interactions such as interviews, pitch events and Q&A sessions, or it can be a simpler two-step pitch and choose model. It can be focused around specific verticals or it can be open to any topic, allowing admittance startups in batches or on a continuous basis. Teams are usually preferred over single founders and are selected based on criteria such as the experience of the lead founders, their ability to adapt, quality and scalability of the idea as well as technical specifications of the product. The teams can also emanate from within the corporation, who are run by company employees known as "intrapreneurs".

The deal marks the beginning of the acceleration program and determines the contractual ties between the startup and accelerator. The deal is not necessarily financial; a deal can entail, among other terms, a money-for-equity agreement, a resources-for-equity agreement, a convertible loan agreement, or “come with a no-strings-attached“ non-equity model.

The acceleration program enables startups to receive hands-on support and gain access to the accumulated knowledge, skills and entrepreneurial expertise the accelerator offers. This access is supported by an established mentor network, exclusive events, workshops and a growing alumni network. The mentor network is a key element of any acceleration program. A vast and engaged mentor network can support startups by sharing experience concerning pitfalls, advising on next moves and connecting to experts and investors.

Events, workshops, and networking get-togethers can further accelerate the learning curve and development of the startups, communicating knowledge, skill and experience. The question of whether events are mandatory and/or voluntary must be considered carefully, as the time and effort must be balanced well with the learning effect.
An active alumni network serves as another knowledge and connections hub for the participating founders and can support them in their personal struggles of being an entrepreneur or intrapreneur.
In terms of tangible support, providing office space can save startups a lot of hassle and let them concentrate on building their business. Furthermore, it can create a team spirit among participating startups, encourage knowledge exchange and a more collaborative atmosphere. However, looking back at our prominent example of Y-Combinator, there are again exceptions to the rule. Y-Combinator does not provide a co-working space for its startups but still requires them to move to the Bay Area in order for them to be able to attend the regular events. The duration of the program is typically limited to 3-6 months in order to instill a sense of urgency and thereby encourage fast results.

The completion of the official accelerator program is typically marked by a showcase event often called "demo day" that connects the startups to investors for follow-on funding. Some accelerators do not offer such an event but instead choose to connect startups with investors individually during and after the program.

In the alumni program, startups continue to develop and scale. This is also the time when startups receive follow-on funding from investors subsequently raising their valuations. For a financially-driven accelerator such as Y-Combinator, this period is particularly interesting since additional investments, an exit, or an IPO raises their return on investment and thereby proves the success of the program. The Y-Combinator seal of approval has become so strong that since 2011, Russian VC investor Yuri Milner has offered a standing guarantee of $150,000 follow on funding for any startup that graduates the program in 2011, for the following 2 years.

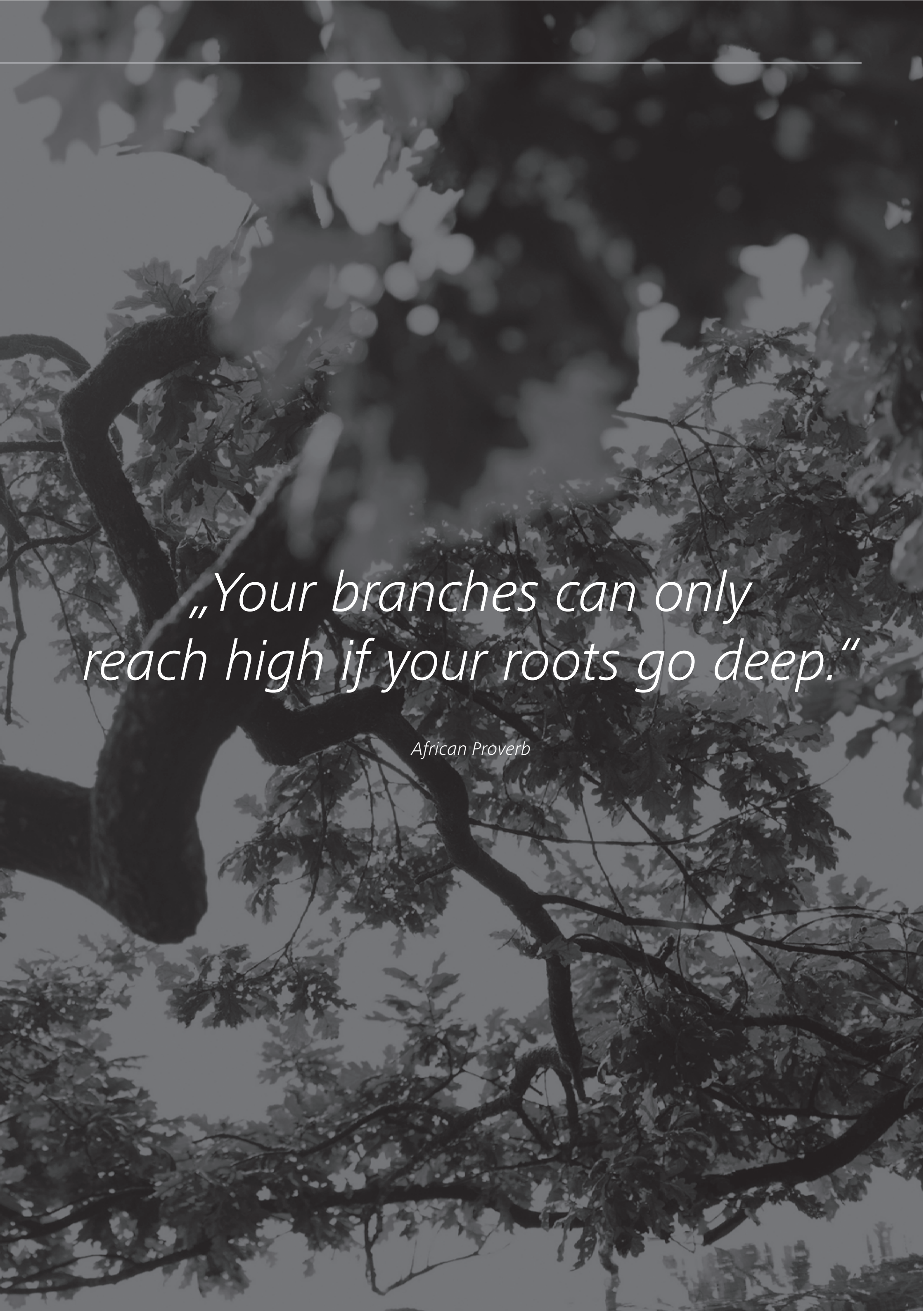
Over the years, many different forms of accelerators have emerged with different purposes influencing the specific design of the components. Funded by universities, governmental funds, or corporations, an accelerator can be created for multiple purposes with an accordingly adjusted layout.

Case Study: LMU Entrepreneurship Center

The Entrepreneurship Center of the Ludwig Maximilian University of Munich (LMU) is another example for an accelerator. The program was founded in 2007 by Professor Dietmar Harhoff, a professor for innovation and entrepreneurship, Andrew Goldstein, serial entrepreneur and co-founder of Deloitte Digital, as well as Rolf Dienst, a leading venture capitalist. The Entrepreneurship center has accelerated over 140 startups in 7 years, among which one can find famous ventures such as FlixBus, Tado, Unu, Feingold Technologies, etc. In total, the center has helped create startups whose combined market value is well over half a billion Euros. Being a university initiative, the center supports the startups not by financing but solely through mentoring, coaching, connection to capital, network and office space. However, since it is led by an entrepreneur, it gains an essential advantage over other similar initiatives.

Here are the components of the LMU Entrepreneurship Center:

Selection Process	Deal	Acceleration Program	Completion	Alumni Program
Batches of 12-15 (max. 6 with internal office space, max. 9 external teams) Screening process + jury decision	No equity deal	Duration: 6 months Free office space Mentor network Access to capital database and network Coaching meetings Monthly strategy days	Demo Day with selected audience	Active almuni network: monthly alumni meetup after each strategy day



„Your branches can only reach high if your roots go deep.“

African Proverb

The Corporate Accelerator

For corporations, the accelerator is a new structure, acting as a valuable innovation and business building tool that is agile and fast paced, like an experimentational playground within the framework of an organization.
Within this new structure, new rules can be established creating an environment where ideas can flourish and grow, protected from the organizational structure and processes. For the organization it is a place to interact with innovation, a platform to ring-fence ideas at the edge of their business and bring them closer to the mother company in order to drive economic benefit. Transforming the core business with these ideas moves the company towards being an exponential organization.

Progressively organizations consider these benefits and are setting up accelerators. However, some of these accelerators are not geared towards economic benefit, which is the reason why many corporate accelerators fail. In any healthy organization there is a culture of profitability and if the corporate accelerator does not pursue this culture as well, it will not survive within the organization.

Two possible models for a successful corporate accelerator designed to drive economic benefit are: the accelerator geared towards financial returns and the innovation integration accelerator.

Financial Returns
Economic benefit by achieving financial results on equity investments in the startups.

Innovation Integration
Economic benefit by integrating innovative technologies or business models into the organization.

Planning the Corporate Accelerator

Establishing one of these accelerator models within a corporation requires a precise strategic direction and clearly defined goals in order for the accelerator to be economically viable and thus sustainable within an organization's structure.

This requires a strong commitment from the organization and its leadership with some basic questions that must be answered beforehand:

- Is the conversation of disruption one that the leadership of the company has embraced?
- Is there leadership commitment to building exponential businesses?
- Is there an understanding for the edge and commitment to scale businesses on the edge so they become core?
- Is there a program in place to continuously involve the management board and C-level in the digital transformation journey?

Once commitment from within the organization is established, resources need to be allocated to the build the accelerator. Those resources usually include:

- **Management:** How do we secure time and continuous support from management and leadership?
- **People:** How many human resources are required to set up and run the accelerator? How many people do we need to connect the ventures to the organization?
- **Financial Resources:** What financial resources does the accelerator require? What size of businesses would the accelerator have to build in order to move the needle of the company?

A rule of thumb for the financial estimation is to set aside 5-10% of the money that the organization would like to see a business to create. For example, if the goal is to build a 100 million € business, the organization should be looking to set aside 5-10 million € for building and running the accelerator.

Building the Corporate Accelerator

When it comes to building the corporate accelerator, the organization should understand that the process requires time and continuous learning concerning what works best for the organization as well as the startups. Building an accelerator is like an exercise in "business building" in itself, and is in fact the first step towards an internal "business building" unit for the corporation. This is a concept which we believe will be a standard in successful major corporations within the next 5 years (see further details in the "Outlook" section).

However, a corporation is not alone in the described process. There is an entire ecosystem of accelerators, entrepreneurs and experts. Engaging with this ecosystem can help finding out where to invest and how to set up cohorts of startups in these areas. Building the program can be done with a partner or in collaboration with other accelerators. Forming ties and partnerships allows the accelerator to learn from the ecosystem and to operate in a network from day one.

Interacting and creating a symbiosis with the ecosystem requires the selection of the right people for the accelerator who have an understanding for the organizational structures and concerns, as well as for the needs of a startup. Providing this team with enough autonomy and shielding it from organizational politics and processes, allows the accelerator to adopt the speed and agility of startups and effectively bridge the two worlds while creating the highest value. This team will also need to consider the operational setup of the accelerator, along with the accelerator's building blocks, and what effect the different design of building blocks has on the organization.

The following methods are possible considerations designed around the two exemplary models described previously: financial returns and innovation integration.

Financial Returns

Focus on achieving economic benefit through: Financial Returns

One way of achieving economic benefit for the organization through the accelerator is investing in startups, building them and producing financial returns through exits. In this case, the organization is acting as an early-stage venture fund. The acceleration program focuses on speeding up the development and valuation growth of a carefully selected class of scalable startups. In order to benefit from existing mechanisms and knowledge, it can be advantageous for the accelerator to cooperate closely with the corporate venture capital arm.

In this model, the organization understands the mechanisms of early-stage venturing and that meaningful financial results for early-stage ventures are typically achieved after 5-7 years. Thus, even if an accelerator were to double this result, a 2-4 year timeframe would still be needed. This type of accelerator requires a strong long-term financial commitment with lasting C-level and board support, anticipating that the accelerator will most likely be a cost center before achieving returns. Chances are high that along the way, a significant number of startups will fold or fail to achieve acceptable results.

Selection Process:

- Will this startup be able to exit or be integrated within the next 5-7 years?
- Does it have the potential to return 10 times the funds invested?
- Does the team have a prototype and first traction in the market?
- Is the founding team visionary, ambitious and able to scale this business beyond borders?
- Is the founding team receptive to criticism and ready to pivot from the original idea if the market demands it?
- Do we have a network of experts that can help this startup in its specific vertical?

Deal:

- Money-for-equity
- Resources-for-equity
- Convertible loan

Acceleration Program:

The acceleration period focuses on building the venture and making it investor-ready with the understanding that the investor may or may not be the mother company itself. It supports and guides the startups during their growth with a mentor network including serial entrepreneurs, industry experts and subject matter experts from both outside and inside the organization.

Alumni are regularly involved in order to share their know-how and experiences both on a professional and personal basis, while a strong network of investors and business angels establishes funding opportunities. Workshops and office hours enable faster development of the business model and product.

Tangible support like office facilities and IT infrastructure are provided giving the startups the opportunity to concentrate on their development and growth. Regular reporting and milestone meetings evaluate the development of the startup and spot potential focus areas for improvement.

Completion:

For visibility and follow-on funding purposes, the program closes with an investor/demo day inviting the network of investors and business angels, as well as internal investors, to create funding opportunities, as well as representatives of the organization to assess possibilities of further cooperation.

Alumni Program:

The organization has several options after a startup completes the acceleration program. These options depend on the predefined deal the accelerator has with the startup and the current fit of the startup within the organization.

For financial results, the corporation can connect the startups to investors and business angels in order to achieve follow-on funding and thus raise the value of the owned equity.

If the startup is of strategic interest to the organization, the corporate venture capital arm can choose to be a co-investor. In case of a convertible loan the organization should convert into equity at a favorable moment according to the agreed conditions.

KPIs:

- Amount of follow-on funding
- Total value of portfolio companies
- Number of startups who survived/exited/folded after 1,2,3 or more years

Innovation Integration

Focus on achieving economic benefit through: Innovation Integration

Another way for the organization to achieve economic benefit is to directly integrate the innovative technology or business model into the organization. The accelerator thereby acts as a funnel for startups with innovative business models and disruptive technologies, while collaborating closely with business units in order to assure a seamless integration. The more focused the corporation is on specific verticals and core competencies, the higher the chance to create startup partnerships that can be integrated.

In this model, the organization already recognizes the need to look outside of its core business and search for opportunities on the edge of the business. Secondly, the organization adopts a culture which is open to innovation and can provide for the agility and speed a startup requires to flourish. Thirdly, a dedicated team is supporting the integration of new technology and business models into the organization, and lastly strong C-level and board commitment ensures that innovation integration is a strategic priority within the organization. Economic benefit is then derived from the impact the integrated technology or business model has on the organization.

Selection Process:

- Is this a venture representing the edge of our business?
- Is the market moving in such a way that this innovation may soon be part of, or close to, the core of our business?
- Do we have the specific resources the startup needs to further develop the technology?
- Do we have a network of experts that can help this startup in its specific vertical?
- Is the founding team visionary, ambitious and able to scale this business beyond borders?
- Is the founding team receptive to criticism and ready to pivot from the original idea if the market demands it?

Deal:

- Warrant
- Money-for-equity
- Resources-for-equity
- Non-equity deal (with the option to invest after the program)

Acceleration Program:

The acceleration program focuses on building the venture while anticipating the potential implementation into the core business. It supports the development of the business model or technology through a network of mentors who are specialized in the chosen vertical, understand technical specifications and business model building. Mentors come from both inside and outside the organization in order to enable the later integration of the technology or business model. Events around the focus area bring together experts and industry representatives for a vivid knowledge exchange while office hours track the progress and ensure learning.

Office facilities and access to additional resources such as technical infrastructure, human resources and databases are offered to the startups in order to enable them to develop a solution which can be easily integrated into the organization. Additionally, a dedicated team works on connecting the startups to the organization. Regular reporting continuously assesses the readiness of the technology/business model.

Completion:

For the presentation of the technology or business model to the organization, an internal roadshow is organized. Additionally, an external demo day can be organized in order for the startups to obtain follow-on funding from external sources if they can't be integrated succesfully or if co-investments are desired.

Alumni Program:

The organization assesses the startup again for the possibility of full integration and moving it towards their core or announcing a new "edge" business. Further possibilities to integrate the startup in the organization are co-development or setting up a partnership. If the startup is an attractive investment case, it can be referred to the corporate venture capital arm for investment in order to yield financial results. If the startup has pivoted to a point where it is neither strategically interesting to the organization nor an investment case, it can simply continue its growth and development with external sources.

KPIs:

- Number of joint efforts (e.g. co-development, partnering, etc.)
- Number of integrations of technology or business model
- Impact on business unit (e.g. financial, new products created etc.)
- Additional revenue or business created for the corporation via deals won due to the startup or their technology
- Number of startups who survived/exited/folded after 1, 2, 3 or more years

Added value: Marketing

A corporate accelerator built to achieve economic benefit through financial returns can yield additional benefits for the organization, namely building a reputation as an innovation leader. A few considerations are added to the building blocks of the accelerator in order to achieve this added value

Acceleration Program:

- How can external visibility in the ecosystem be maximized in order to build a reputation? (e.g. sponsoring, events etc.)
- How can more attention be created around our program? (e.g. joint event with top-level management for press attention)
- Can we establish our office facilities a platform for the ecosystem? (e.g. offering space for events etc.)

Additional KPIs:

- Number of events and attendees
- Number of press clippings
- Number of applications
- Number of participants in the program

Added value: Entrepreneurial Culture

A corporate accelerator built to achieve economic benefit through integrating external startup innovation can yield additional benefits for the organization, namely building an experimental, risk-ready and entrepreneurial culture.
To achieve this culture change, there needs to be a program in place which continuously teaches employees that there are opportunities for them to become intrapreneurs, as well as a program which brings the C-level management of different business units in touch with the accelerator. The senior managers should learn to think of themselves as investors. This can be achieved by a regular internal demo day, creating several touchpoints between the startups and management, but most importantly, investments should be considered in the budgeting process in order for the management to be able to act immediately upon an opportunity through investing financial and/or human resources. Additionally, a few considerations are added to the building blocks of the accelerator in order to bring entrepreneurial spirit into the organization.

Selection Process:

- Is there a process for employees to start a venture, thus becoming intrapreneurs?
- Do the selection process and the accelerator program in general consider intrapreneurs?

Acceleration Program:

- How can more touchpoints between the employees and the accelerator be created? (e.g. entrepreneurship days, events etc.)
- How can internal visibility of the accelerator within the organization be maximized? (e.g. Coursera videos, top-level management attention etc.)

Additional KPIs:

- Number of events and attendees
- Number of touchpoints between startups and employees
- Number of successful teaching initiatives (e.g. Coursera videos etc.)

Outlook

Accelerators are not a hype; they are a first step to a new way of doing business, taking into account new technologies, the democratization of these technologies and the speed with which these technologies can be implemented. Accelerators look beyond the core business and thus establish a new growth strategy of business building.

Today, most established organizations choose between two growth strategies: mergers & acquisition (M&A) or organic growth via business development, mostly in the form of new products for existing channels. Interestingly, these are the key corporate venturing strategies taught in business school today. Whereas growth by acquisition brings along many well documented challenges in the area of post-merger integration and rarely moves out to the edge of the company, organic growth also most often represents only incremental growth for the core of the company. Neither strategy embodies the disruptive potential to be found on the edge of the organization's business, the edge where exponential business opportunities lie, towards which startups dare to tread and most importantly, the edge towards which the market is already moving. In the Digital Era that we have entered, technology is fully democratized. A small startup can access as much computing power as a major multinational via Amazon Web Services. Companies like Airbnb, Uber and Zalando and private accelerators like Rocket Internet have shown that business building is possible at great speed and is essential to the future of every industry. Business building allows organizations to look at their entire business from the core, moving out to incremental business and all the way to the edge, where if they have the right structures in place, they can build and develop exponential and disruptive businesses. Be certain that within the next 5 years "business building" will appear on the curriculum of business schools.

Let’s look back at Kodak where a little project was started on the edge of their organization which became the digital camera. It threatened their well known, highly profitable way of doing business and thus they were unable to build a new business around a technology that was right under their nose, in fact it was their own intellectual property. It was so far out on the edge that Kodak could not imagine that someday this would be the core of their business. They could not imagine the relevance of the technology or the speed with which the market and consumer demand were moving, and this resulted in their ultimate failure.

This is the prerequisite for business building: recognition at board and C-level that the core business, incremental businesses and exponential businesses at the edge of their organization all must be considered and that to build businesses that can become a game changer, a long term structure is needed to foster the growth of these opportunities. This realization often comes in steps - step one is something you can start today.

Step One: Open your eyes to the fact that the edge exists

Look around: Exponential organizations such as AirBnB use the opportunities on the edge of the market to build a business around it. Organizations like Deloitte‘s “Center for the Edge” have professionalized the process of identifying these edges and have created a long term “journey” designed to help board and C-level executives understand first where the market is moving and then to understand the steps the corporation must take to become a leader in the market.

Step Two: Create a process that allows you to access these businesses

This is the status of most companies today and this is why corporations are beginning to launch accelerators at an increasing rate. The accelerator creates a platform where companies can create and foster access to these businesses and identify opportunities together.

Step Three: Identify the businesses you want to pursue and actually start to build them

Building businesses can be done via a number of different ”execution tracks” ranging from building with internal “intrapreneurs”, to joint ventures and business development deals (usually in the form of technology licensing), which may eventually lead to full acquisitions. In all cases, finding, involving and supporting these “intrapreneurial thinkers“ inside your firm is essential. Thus, in order for business building to work, there has to be a process inside the organization, which allows people who are capable of building new businesses to flourish inside this environment.

Getting an accelerator up and running creates a place where these people can work together to build businesses. That's why accelerators can become the essential beginning of a business building mindset. The accelerator can host internal and external ideas while having close ties with the entrepreneurial ecosystem, leveraging assets from its environment and bundling resources to help businesses grow to become exponential organizations. Today, most acquisitions are typically focused around the core or incremental businesses. By starting to look at the edge of your business, by having the understanding of exponential organizations, accelerators and the milestones of business building, you can understand where the market is moving and begin to source, create and build opportunities that will ensure that the future of your enterprise is a bright one.

Now ask yourself this question: where would Kodak be today, if they had known what you know now? The time to act is now.

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