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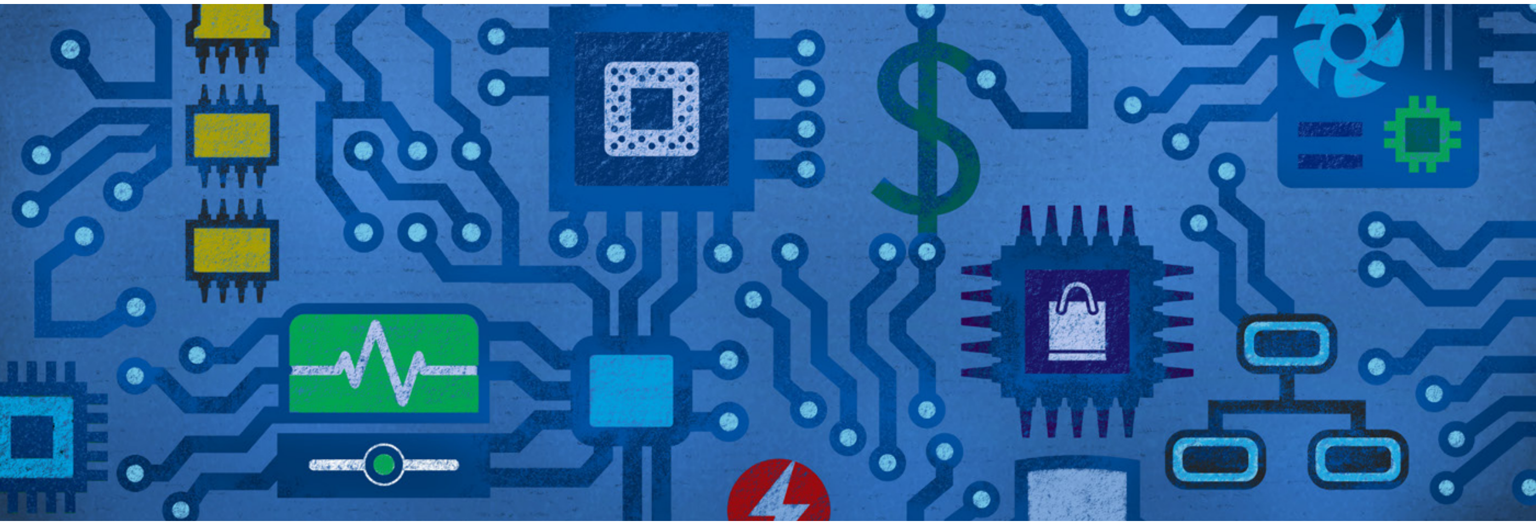


Corporate accelerators

Spurring digital innovation with a page from the Silicon Valley playbook

By John Ream and David Schatsky

A GROWING number of innovation-hungry companies are taking inspiration from Silicon Valley: They are setting up accelerators that nurture start-up companies while giving themselves access to fresh ideas and new technologies. This tactic won't likely produce home-run results in every case, but for corporations seeking to innovate more and grow faster, it may be worth exploring.

Signals

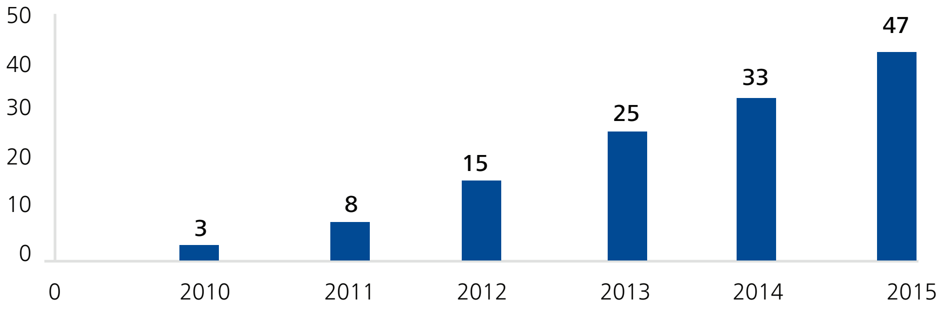
- In the past three years, 105 corporate accelerators have launched globally; 47 of those programs were launched in 2015.[1]
- Airbus, Barclays, Google, and Telstra have each launched multiple corporate accelerator programs around the globe in the past 12 months.[2]
- Corporations such as Barclays, Disney, Target, Qualcomm, Sprint, and Virgin Media have hired Techstars, a prominent start-up accelerator, to launch and manage accelerators for them.[3]

Defining corporate accelerators

Corporate accelerators resemble traditional start-up accelerators except for their primary purpose. While traditional accelerators seek big returns on equity investments, their corporate counterparts are focused primarily on gaining access to new ideas and technologies that can be parlayed into competitive advantages. Both kinds of accelerators make small equity investments (with some exceptions discussed below), generally up to $50,000 in a cohort of early-stage companies, in exchange for a 4–6 percent stake in each, and then actively support them over a period of several months to help the start-ups grow. In the last three years, corporations have launched 105 accelerators (see figure 1).

Start-ups entering corporate accelerator programs generally have minimum viable products and few, if any, customers. During their residency in the program, they aim to attain milestones such as a new product release, acquiring a major customer, or receiving follow-on funding. Some simply take the education and mentorship and continue to drive forward independently as alumni of the program.

Figure 1. Corporate accelerator adoption, 2010–15



Source: Corporate-accelerators.net, augmented with additional research and analysis by Deloitte LLP.

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Accelerator adoption models

With an accelerator program, corporations have two options: run the program in-house or outsource its administration to a partner such as Techstars, LMarks, or Nest. In the partnership model, the partner markets the program, reviews and selects start-ups for each cohort, provides mentors, and manages the program. Partners may charge several hundred thousand dollars to set up and operate an accelator on behalf of a corporate sponsor,[4] and they will typically invest in the start-ups admitted to the accelerator. Deloitte's analysis shows that half of corporate accelerators launched over the past three years have utilized an accelerator partner.[5]

As an alternative to actively running an accelerator, some companies elect to become one of several sponsors of an existing accelerator. In this model, corporations lend mentors or resources to start-ups and in turn get access to those start-ups' activity within that program. Unsurprisingly, the company typically has less influence over start-up selection and program structure than if it were the sole sponsor. SigmaLabs, which has corporate sponsors such as EMC and Yahoo, is one example of this model.[6]

The value to corporations

Corporate sponsorship can offer a number of potential benefits:

Insight into emerging technologies and trends: Reviewing applications, conducting due diligence, and selecting start-ups for an accelerator program can be a valuable discovery process: The sponsor gains insight into a wide spectrum of business ventures and may be able to identify new opportunities or areas in which its business may be at risk for disruption.

Rapid, cost-efficient R&D: Because accelerator programs typically accommodate 5–10 start-up teams per cohort, corporations can quickly acquire a diverse set of experimentation projects without the typical launch costs of internal R&D initiatives.[7] As with venture capital, comparatively few start-ups in an accelerator are likely to produce big wins for the sponsor, so the more bets, the greater the odds of unearthing new opportunities for growth.

Economic returns: While the main goal of corporate accelerators is to drive innovation for the sponsoring organization's benefit, sponsors that take equity stakes in their accelerator companies do have the opportunity to generate substantial returns if a start-up is acquired or goes public.

Talent pipeline: Start-ups can be a source of high-caliber talent, and corporations running accelerators get to observe and evaluate start-up teams in action. As a result, a corporate sponsor may consider acquiring a start-up for its talent, or look to source founders from start-ups that ultimately restructure or dissolve.

What attracts start-ups

Why would a start-up consider joining a corporate accelerator rather than a high-profile traditional accelerator such as Y Combinator or Techstars? For one thing, those programs are highly selective and admit a tiny percentage of applicants. For another, corporate accelerators are uniquely able to offer start-ups multiple benefits.

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Equity-free funding: Although most corporations still acquire equity from start-ups in their accelerators, some high-profile corporate accelerators have begun to provide funding to start-ups without taking equity. Deloitte's analysis shows that seven corporate accelerators launched in 2015 provided equity-free funding, up from three in 2014.[8] Samsung, Microsoft, and Google have all adopted this approach.[9]

Industry-focused mentors: Because corporations often focus accelerators on the industry in which they operate, start-ups gain a network of mentors with deep industry expertise. Start-up founders have cited mentors as the most important element of an accelerator program, and companies can provide a wide range of industry specific mentor personnel—executives, business unit leads, product managers, and technical experts.[10]

Corporate resources: Companies often have proprietary resources that can dramatically help start-ups expedite development and avoid having to reinvent the wheel. The accelerator programs by Qualcomm,[11] Samsung,[12] and Barclays[13] all provide start-ups with intellectual property, such as robot reference designs, access to data, and internal tools, which can be a critical differentiator for an accelerator program.

Future customers: Given that start-ups spend ample time with the sponsoring corporation as they develop and refine their products, start-ups have an open channel to land the sponsor as an early customer. Coca-Cola became the first customer to Vending Analytics, a start-up within the company's Founders program; the start-up's product, which uses data analytics to optimize stocking, led Coca-Cola to realize a 20 percent increase in revenue per vending machine.[14]

Considerations for corporations

Corporate accelerators are concentrated in two industries that are being transformed by digital technologies. Fifty percent of corporations that have launched accelerators are within the technology, media, and telecom industry; 23 percent are in financial services.[15] Corporations within these industries should pay particular attention to this emerging innovation model—as their competitors already are. Corporations in industries with lower accelerator adoption may want to explore the model as a distinctive innovation tactic that may help drive unique capabilities among their peers.

The adoption of start-up accelerators is gaining momentum among corporations around the globe. As more realize successes from their programs, other companies are likely to take note. But the trend is still in its youth, and the model will continue to evolve. While accelerators are just one tactic among many that may help companies boost innovation, executives hungry for new ideas and new technology may want to evaluate them as a complement to a broader innovation program.

Endnotes

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