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BETASPRING AND THE STARTUP ACCELERATOR MOVEMENT

Professor Michael A. Roberto and Matthew Los Kamp wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

Allan Tear, Owen Johnson and Jack Templin founded Betaspring in Providence, Rhode Island, in 2009. The three men had accomplished careers as entrepreneurs, and were interested in helping other new ventures get off the ground. They also had a keen interest in fostering economic development in Rhode Island by nurturing entrepreneurship, given the struggling economy in the state. Betaspring described itself as a "mentorship-driven startup accelerator program for technology and design entrepreneurs who are ready to launch a company and change the world." It operated a 13-week program, during which it provided education, mentorship, networking, seed capital and working space for a cohort of startups. Betaspring had helped launch 90 companies through June 2014. Ventures mentored and supported by Betaspring had received more than $35 million[1] in follow-on funding from outside investors.

In March 2014, the University of Richmond's Susan Cohen and the Massachusetts Institute of Technology's Yael Hochberg presented their annual rankings of the top startup accelerators at the annual South by Southwest (SXSW) conference in Austin, Texas. Betaspring ranked as the number-11 accelerator in the United States (see Exhibit 1). When the news broke, Betaspring naturally celebrated the accomplishment on its website. However, Betaspring chief of staff Melissa Withers offered a word of caution:

> The report comes at an interesting time, as new programs proliferate and the programmatic lines between accelerators, incubators and investment platforms blur. There's been much talk about a burst in the "accelerator bubble" that may put fledgling efforts out of business if the quality of programs — and of the startups who participate — dilutes beyond repair. We're not much to brag. Mostly because startups are a risky business and winners can quickly become losers as market and funding tides turn. But as one of the most active and longest operating accelerators (83 companies since 2009), we have enough experience and data to feel confident that we — along with others on this list — offer startups a world-class accelerator experience that significantly increases their odds for success.[2]

Betaspring faced two crucial strategic questions in August 2014. Had a bubble emerged in the accelerator industry? If so, should Betaspring change its business model to survive a potential industry shakeout?

THE STARTUP ENVIRONMENT

Stanford University professor and serial entrepreneur Steve Blank defined a startup as "a temporary organization designed to search for a repeatable and scalable business model."[3] According to estimates,

90 per cent of startups eventually failed.[4] Since the dot-com bubble of the late 1990s, the startup environment had experienced several structural shifts. The cost of launching a technology startup had declined substantially. In 2004, Amazon Web Services began to offer inexpensive cloud-computing services. Microsoft, Google, Rackspace, IBM and other technology firms competed aggressively with Amazon in the cloud-computing space. The cost of server space dropped from $19 per gigabyte to $0.16 per gigabyte from 2000 to 2011.[5] The emergence of free and open-source software provided alternatives to applications that at one point cost thousands of dollars.[6] Social networks provided cash-strapped startups an inexpensive alternative to conventional advertising. The success of many companies such as Google, eBay and Amazon showed the potential for the transformation and creation of new industries using these new tools. Paul Graham, the founder of the first startup accelerator — Y Combinator (YC) — commented on how this trend affected startups: "In a lot of startups — probably most startups funded by YC — the biggest expense is simply the founders' living expenses. We've had startups that were profitable on revenues of $3000 a month."[7]

Federal, state and local governments in the United States sought to support the creation and growth of startups in many ways. In 2012, the U.S. government spent $418 billion on research and development (of a world total of $1.5 trillion), with 60 per cent of funds going to academic research.[8] These funds supported research in disciplines such as computer science, medicine and engineering.[9] Often these funds supported basic research that was unable to secure private funding. America's universities did not simply conduct research that led to the launch of new ventures; they also provided other educational programs that supported aspiring entrepreneurs. Peter Lee of Microsoft Research described the impact of research and development funding on the economy: "If you take any major information technology company today, from Google to Intel to Qualcomm to Apple to Microsoft and beyond, you can trace the core technologies to the rich synergy between federally funded universities and industry research and development."[10]

The Global Accelerator Network (GAN) began operations in 2010. GAN consisted of 50 of the top accelerators around the globe. These accelerators worked together to spread best practices, form a larger network of mentors and investors, and develop a common application to their programs. Together they had launched 1,367 companies as of June 2014. These ventures had received over $950 million in financing.[11] The members operated programs that lasted three to six months, took less than 10 per cent equity stakes, provided office space, and had a strong network of local investors and mentors.[12]

A growing number of resources existed to support the business and technical aspects of starting a venture. Online communities supported the learning and deployment of programming languages. For those seeking to learn how to code, free online courses existed through sites such as Udacity, Coursera and Codecademy. Startups lacking a technical co-founder also had the option of outsourcing software development through websites such as Elance.com and oDesk.com, two firms that had recently merged.[13]

Services and platforms existed to help bring co-founders together. For instance, Meetup.com allowed individuals to set up and organize groups focused around their interests. Most major cities had groups not only for entrepreneurship, but for coding and networking as well.[14] Platforms such as Techcofounder.com enabled technical founders to post profiles in search of a suitable startup, and for startups to post profiles to bring on new co-founders.[15] Numerous websites covered the latest entrepreneurial news and provided resources for those launching new ventures. For instance, *TechCrunch* actively covered the technology sector through a series of websites that received more than 37 million page views per month.[16]

Startup Weekend events provided another avenue for supporting entrepreneurial activity. These events brought people together around the goal of launching a startup in 54 hours. Over 45,000 people had participated in these events around the world.[17] At Startup Weekend, potential founders networked with

one another, learned skills across a range of different business and technical areas, and worked with a team to build a new business.[18]

In recent years, startups had begun taking advantage of Kickstarter — a platform that allowed creative projects to secure financing through crowdfunding. Since its launch in 2009, 64,000 creative projects had received funding of around $1 billion in total. More than six million individuals had pledged money to support these creative projects. Forty-four per cent of Kickstarter projects met their fundraising goal.[19]

Venture incubators and co-working spaces provided support for aspiring entrepreneurs as well. Co-working spaces provided offices and conference rooms in which to work, as well as a social venue in which innovators could share ideas with others. Incubators provided many services similar to those found in accelerators. However, incubators did not bring together a cohort of new ventures for a systematic program of limited duration. In other words, new ventures within a cohort entered and exited an accelerator program together. Such simultaneous entry and exit did not occur at incubators. The National Business Incubator Association (NBIA) listed over 1,900 members in over 60 countries.[20]

SILICON VALLEY

Silicon Valley was the nickname for a region of northern California that was home to many of the world's largest technology firms, such as Hewlett-Packard, Google, Apple and Intel. Silicon Valley functioned as the home base for many technology startups. In the third quarter of 2013, venture capital firms invested nearly $8 billion in over 1,000 startups across the United States. Forty-six per cent of that funding went to ventures in Silicon Valley. New England ranked second in the nation in terms of venture capital funding received; it accounted for 11 per cent of total funds invested.[21] In 2011, 28.8 per cent of Silicon Valley's 1.7 million residents worked in "high-tech" employment, compared to a national average of 5.6 per cent.[22]

The concentration of technology companies in Silicon Valley had grown out of a group of semiconductor manufacturers who started working in the Valley in the 1950s. Stanford University supported many of these firms in various ways. James Gibbons, former dean of Stanford's School of Engineering, once estimated that half of the revenue of all technology companies in Silicon Valley between 1988 and 2000 came from Stanford-based startups or technology.[23]

In 1957, a group of engineers defected from Shockley Laboratory (the first semiconductor manufacturer in Silicon Valley) to found Fairchild Semiconductor. Technological advances inspired talented employees to leave their employers to begin their own companies. Gordon Moore was one of these Silicon Valley pioneers from Shockley. He founded both Fairchild Semiconductor and Intel. Fairchild Semiconductor came to be known as "Fairchild University" for its role in teaching many engineers and scientists how to manage a business.[24]

In 1958, the Small Business Investment Act (SBIA) created a new class of investment companies that could invest private capital and provide long-term loans to new businesses.[25] This legislation changed the funding landscape for new ventures. Prior to this law, companies could only look to established corporations and military contracts for funds. Many firms such as Bank of America and American Express began to invest in the quickly growing technology industry in Silicon Valley. By 1968, over 75 per cent of all new venture funding in the United States came from newly created investment firms.

While the SBIA expanded the availability of capital for new businesses, the money came with many rules and requirements. Investors experimented with numerous ways to fund companies until settling on the limited partnership model, which gave rise to the venture capital industry. By 2014, Sand Hill Road in Menlo Park, California, possessed the highest concentration of venture capitalists (VCs) of anywhere in the country.

In 2014, Silicon Valley remained a world leader in entrepreneurship. It had the highest number of seed deals and the largest aggregate exit value of any area in the United States. Silicon Valley was a model for many of today's rising startup hubs, i.e., regions with high concentrations of startup activity and venture capital investment. An organization called Startup Genome ranked the top "entrepreneurial ecosystems" in 2012. Silicon Valley ranked at the top. Tel Aviv ranked second. Six of the top 10 ecosystems were located in the United States, while three of the top 20 were in Canada. However, regions from around the world made the list.[26]

STARTUP ACCELERATOR BUSINESS MODEL

Paul Graham, Robert Morris, Trevor Blackwell and Jessica Livingston launched the startup accelerator phenomenon when they founded YC in 2005. For a few years, YC hosted a cohort of new ventures in Cambridge, Massachusetts, and another cohort in Mountain View, California. Later, it consolidated operations in California, where the firm began hosting two cohorts per year. By the summer of 2014, hundreds of startup accelerators had popped up around the globe. Many entrepreneurs applied to participate in these programs. Accelerators reviewed the applications and invited a cohort of new ventures to participate in a program of limited duration (often three months). During the program, the accelerators provided the new ventures with various types of assistance. The program typically culminated in a "demo day," an event at which the ventures delivered brief pitches to potential investors. The accelerators typically took an equity stake in the ventures in return for the support provided.

YC had recently changed its deal terms. It invested $120,000 in each startup, in collaboration with private investors, in return for a 7 per cent equity stake. The average age of startup founders at YC was 26.[27] YC's acceptance rate for its most recent cohort was 2.4 per cent.[28] In 2012, Graham commented on the firm's success: "The total value of the companies we've funded is around 10 billion, give or take a few. But just two companies, Dropbox and Airbnb, account for about three quarters of it."[29] In 2013, Graham noted that 37 YC companies (out of more than 500 ventures who had participated in the accelerator) had reached valuations of at least $40 million.[30]

By 2014, YC had nurtured over 700 startups who together had achieved a combined valuation of over $30 billion. However, Dropbox and Airbnb continued to account for an overwhelming share of that value creation. Airbnb co-founder Brian Chesky described the positive impact of the accelerator program: "At YC, we were challenged to do things that don't scale — to start with the perfect experience for one person, then work backwards and scale it to 100 people who love us. This was the best piece of advice we've ever received."[31] See Exhibit 2 for a short list of notable alumni of YC.

In 2007, David Cohen and Brad Feld co-founded Techstars in Colorado. Cohen explained the value of his firm's approach: "I think just calling up a VC and saying 'I want to pitch you' is an enormous waste of time. So [Techstars], or programs like it, is a way to really prove yourself to an influential group of people who can then get you meetings."[32] In 2014, Techstars operated programs in seven cities. It also operated accelerator programs with corporate partners like Disney and Nike. Nearly 300 startups had participated in a Techstars cohort, and the total external funding raised by these firms was roughly $600 million.

New accelerators began to launch at a rapid rate beginning in 2009. Some accelerator programs offered general programs available to a wide variety of startups. Others focused on a particular sector. For instance, some accelerators focused on the education sector, while others recruited healthcare startups.[33] Estimates of the number of accelerator programs around the world varied widely. At SXSW in 2014, Professors Cohen and Hochberg noted that estimates ranged from 300 accelerators to 2,000 accelerators around the world.[34] F6S, an online community for startups and their founders, listed 2,791 accelerators on

its site.[35] Definitional confusion accounted for the wide range in estimates. Many people conflated accelerators, incubators and other types of organizations that fostered entrepreneurial activity.

The startup accelerator model differed from venture capital and business incubators in many respects. Paul Miller and Kirsten Bound described the accelerator model in a report titled "The Startup Factories":

> The accelerator program model comprises five main features. The combination of these sets it apart from other approaches to investment or business incubation:
> - An application process that is open to all, yet highly competitive.
> - Provision of pre-seed investment, usually in exchange for equity.
> - A focus on small teams; not individual founders.
> - Time-limited support comprising programmed events and intensive mentoring.
> - Cohorts or "classes" of startups rather than individual companies.[36]

Accelerators provided startups with a small amount of seed capital in return for a small equity stake. Most accelerators provided up to $50,000 of capital in exchange for a 5–8 per cent equity stake.[37] Profit maximization did not serve as the sole motivation (or in some cases even the leading motivation) for the founders of most accelerators. For Techstars, the founders wanted to give back to the startup community by offering help that was not available to them when they launched their companies.[38] Similarly, Betaspring's founders sought to help entrepreneurs and contribute to a more vibrant economy in Rhode Island. Many governments supported accelerators as an economic development tool.

Mentoring played a crucial role in the accelerator model. That mentoring came from three sources: an accelerator's staff, a rich network of outside mentors, and alumni of the program. Mentors helped to validate the startup's business model. Moreover, mentors helped ventures navigate key stages of the new venture development process, from product development to raising capital. Since teams arrived with ventures at different stages of development, accelerator programs tried to tailor mentoring to each team's needs. Some teams arrived with an idea. Others already had products generating revenue.[39]

Accelerator programs tended to occur during a three-month period. The short timeframe encouraged founders to immerse themselves in their companies, rather than continuing to pursue them as a side interest as many had done previously. The accelerators set goals for the startups, in terms of progress achieved on different dimensions (product development, customer acquisition, etc.).[40] Several schools of thought existed with respect to cohort sizes. Members of GAN sought to keep their class sizes small, with fewer than 20 teams. The network stressed the benefit of building a community within the cohort and maximizing exposure to mentors. Other accelerators, such as YC, had larger cohorts. YC's largest cohort consisted of 84 teams, and its most recent cohort consisted of 75 ventures.[41] The company believed that size provided a competitive advantage. It acknowledged the risks of taking on so many startups at once, but emphasized the benefits of scale:

> There are two reasons we've chosen to grow: that it's better for the startups, and that it's better for us. It's better for the startups because a lot of the benefit startups get from YC is from the other startups — both those in the same batch and the alumni — and the more startups there are, the more help a new startup can get from them. The more startups there are, the greater the chance there's another that's the intended user of whatever you're building, or that has a founder who is an expert on some problem you need to solve, or knows someone (or is someone) you need to reach. . . . The other advantage of being big is that it helps us learn faster. The more startups we fund, the more knowledge we get not only about startups but investors. We've now observed the trajectories of hundreds of startups, and seen the results of thousands of interactions between startups and investors.[42]

Many accelerators provided a common workspace for the companies they funded. Many founders cited the co-working arrangement and cohort experience as major benefits of accelerator programs. Teams sometimes collaborated to solve problems or tapped into the diverse experience within the cohort. Moreover, the cohort experience could foster a healthy level of competition among teams.[43] Accelerators offered access to a variety of perks that proved valuable to many teams. The perks included discounted or free access to accountants, lawyers and technology services such as Rackspace or Amazon Web Services. Techstars estimated that it offered 300 perks valued at around $1 million to its startups.[44]

Accelerator programs generally culminated with a "demo day." Demo days at top accelerator programs received significant interest from investors.[45] For some founders, a demo day represented the first time that they had revealed their companies to the public. Others already had begun to generate revenue. Soon after a demo day, the founders left the accelerator and began independent operations. However, many founders continued to call on the accelerator staff for guidance.

Angel investors and VCs represented the two main sources of funding for accelerator graduates. Startups in the earliest stages (e.g., no revenue or collateral) rarely could secure bank financing.[46] Some entrepreneurs bootstrapped their startups by raising money from family and friends, or tapping into personal savings. However, after the economic downturn of 2008–2009, many entrepreneurs could not access funds from their personal networks.[47] Cohen and Hochberg's 2012 research showed that 41 per cent of graduates received follow-on funding of at least $350,000 within one year of leaving accelerators. However, some accelerators saw only 5 per cent of their graduates receive such funding, while others fared much better. In this study's sample, 4 per cent of graduates exited successfully via a sale or initial public offering. However, many programs had achieved no successful exits to that point.[48]

The funding for accelerators came from a mix of sources. Many startup accelerators received funds from private investors seeking a favourable return.[49] Some accelerators received the support of major corporations. For instance, Citrix, an enterprise software company, launched its own accelerator in 2010. Other major companies, such as Microsoft and Disney, partnered with Techstars to launch corporate accelerators.[50] Corporate accelerators tended to offer higher seed investments and longer program lengths than independent programs. Other accelerators operated with the backing of governments or universities with the goal of developing the local economy or assisting student ventures.[51]

Accelerator Selection Criteria

Accelerators looked to fund technology-based startups with highly scalable business models. Graham wanted to find "a company designed to grow fast [in that it makes] something a lot of people want and is able to reach and serve all those people."[52] Each accelerator tried to select companies that fit its areas of expertise. Many accelerators focused on mobile applications, cloud computing, and other emerging technologies. Many top accelerators received hundreds of applications for their programs and accepted far less than 10 per cent.[53] No single profile existed for the types of founders accepted. Founders needed to show a willingness to listen to outside advice and adapt (or pivot) their business model. Accelerators sought to attract teams with a mix of complementary skills, i.e., a blend of business acumen and technical competence. Accelerators also tended to favour founders with prior startup experience, even though it might not have been with a successful new venture.

Various accelerators weighed the quality of an applicant's initial idea differently in the application process. Some firms placed significant emphasis on the merits of the new business concept proposed by each team's founders in the application. Others, such as YC, accepted teams with poor ideas if they felt that the founders constituted a capable team that could generate a great idea during the program.

Accelerator Debate

Critics of the accelerator phenomenon had emerged in recent years. With the rapid growth of the industry, some observers feared a bubble. They forecasted a crash in both the number of accelerators and the valuations of startups during the next few years. VC Aziz Gilani conducted research on 29 startup accelerators. He reported that 45 per cent of these accelerators had zero graduates who succeeded in raising venture capital. As for examining the number of successful exits, Gilani commented, "There were not enough exits to evaluate. The only two accelerators that had any meaningful exits were YC and Techstars." He lamented, "You could say this has been a gold rush with no gold."[54] Gilani argued that a quality gap existed in the industry. A few accelerators provided excellent services to new ventures, but many did not. He offered advice: "Experienced entrepreneurs who can get funding on their own have to question whether it's worth giving up 7 per cent equity to join one of these programs. If you've never done a startup before, I think a top program is a no-brainer. If you can get in, you should do it."[55] In 2012, David Tisch, the former managing director of Techstars NYC, weighed in on the debate:

> The majority of accelerators are not good for companies and will fail. There are too many of them. The idea of applying to just any accelerator is totally silly. A company should do their homework and figure out which one is right for them. Outside the vertical accelerators — the ones that cover, say, health care or energy — I would hesitate to do any accelerator other than Techstars or YC. We have proven results thanks to our alumni network, investor network, and mentor network. Why do I know this works? It's not because we're some new accelerator that opened our doors yesterday, made up a list of mentors, shoved it on a website, and threw a demo day at the end. I know it works because we've done it before. And remember: Accelerators are not free! You're giving away a real amount of equity. So if an accelerator is charging more than Techstars or YC, I would ask why.[56]

Some veterans of the accelerator movement disagreed with Tisch. Dave McClure, founder of 500 Startups — an accelerator based in Silicon Valley — argued that accelerators provided more value than business schools. He explained, "I'd rather get $100,000 and be a case study than pay $100,000 to read case studies."[57] Techstars co-founder Brad Feld explained his views about fears of an accelerator bubble:

> There is a cumulative, positive effect because [the launch of a new accelerator] continues to get the alumni group bigger, the network of mentors bigger, the network of investors bigger and the integration into the community deeper. That said, is a two or three [month] or [a] year[-long] program that goes away . . . a net negative? No. I think it's a huge positive. It's another resource for entrepreneurs. I think you'll see a lot of accelerators go away and frankly, that should be (considered) normal. Whenever there is a big amplification of stuff in the tech community . . . anybody who has been involved in it for more than a decade remembers 1999, 2000, 2001. On the one hand, you don't want to repeat it. On the other hand, you want to be optimistic. So whenever there is something that feels like there is too much of it, the reaction is AGHHHHH . . . [58]

BETASPRING

When Betaspring was created in 2009, the co-founders brought a wealth of startup experience. The three partners collectively had been part of 10 technology startups that raised more than $30 million in funding.[59] Johnson, a Massachusetts Institute of Technology (MIT) graduate, had worked previously on several ventures, and he served as a mentor for the MIT 100K Entrepreneurship Competition. Tear, a graduate of Carnegie Mellon, had founded three venture-funded startups, receiving investments from Intel Capital and AT&T. He had served as an advisor to governments on nurturing high-growth startup ecosystems. Templin had graduated from Middlebury College and earned a master's degree from New York University. He served as the chief executive officer (CEO) of Lockify, an online security company that he had co-founded.

Templin had previously worked as lead strategist at iXL, and had co-founded Arc, a customer design experience consultancy.

Applying to Betaspring began with an in-depth online application (see Exhibit 3). Betaspring invited selected applicants to participate in several rounds of interviews. It assessed applicants using a wide array of criteria including the quality of the idea/business model, the market potential, and the team's strength. The accelerator sought well-rounded teams with a mix of business and technical experience. Betaspring also considered how each team would fit within the culture at the accelerator. Decisions on admissions were an art more than a science, though the accelerator drew on lessons learned from past cohorts. The final decisions emerged from debate amongst Betaspring's partners and staff.

The Betaspring Program

Betaspring's accelerator program accepted two cohorts per year, one in the spring and another in the fall. Each program lasted 13 weeks. Betaspring provided founders with seed capital, mentoring and co-working space at the firm's headquarters in Providence for the duration of the program. It focused on companies in the web/mobile, physical technology and gaming spaces.[60] The accelerator typically made an investment of $20,000 in the teams going through its program in exchange for 6 per cent equity in the companies[61] (see Exhibit 4). As of July 2014, Betaspring had launched 90 companies, with slightly more than one-third of the companies on a fast-growth path (raising money from VCs and angels), one-third of companies on a sustainable growth path (bootstrapping from customer revenue), and a little less than one-third expected to fail within one to two years of graduation[62] (see Exhibit 5).

Betaspring emphasized testing, experimentation and prototyping rather than elaborate business plan writing and return on investment analysis. It wanted the founders to engage in disciplined trial and error, iterating quickly so as to improve their idea substantially. A willingness to adapt and shift strategy became essential. In June 2013, Tear penned a blog post entitled "Get to market, or else." He explained, "Startups that flail or fail are still not getting to their customers and users quickly, creatively, and incessantly . . . technically capable teams continue to focus on product first, customers second."[63] Betaspring prioritized early, frequent testing with potential customers above all else.

Betaspring's location in downtown Providence placed the teams within walking distance of several top colleges and universities including Brown University and Rhode Island School of Design. Through the universities and colleges in the region, the teams gained access to scientists, doctors, designers, engineers, business faculty and other experts.

Teams interacted constantly with the Betaspring staff and partners, mentors, alumni and other members of their cohort. Chief of staff Withers noted, "Experience has taught us that nothing is more powerful to a startup than being immersed in a community of entrepreneurs." Betaspring hosted events to facilitate these connections with other entrepreneurs and investors. During the first week, the accelerator invited 300 guests to an Open House at which they introduced the members of the cohort. Demand for this event typically exceeded capacity. The Open House provided the founders with the first of many opportunities to refine pitches to prospective customers, partners and investors. Soon thereafter, Betaspring hosted a CEO speed-dating event, during which founders were paired with various mentors. The speed-dating exercise enabled founders to receive rapid feedback on their business while developing their network.

Each team met weekly for a whiteboard session with one of the Betaspring partners during which they reviewed the startup's strategy and progress. In addition, founders participated in two mandatory events each week, during which the teams heard from Betaspring mentors and alumni on topics relevant to the group such as testing prototypes, contacting investors, and the challenges common to many startups. Several Betaspring alumni had offices in the co-working space on the floor above the accelerator's

headquarters, and often participated in these discussions. These forums frequently took place over breakfast or dinner. The founders had numerous opportunities to craft and adjust their investment pitches at these events. Moreover, the founders had an opportunity to share the issues and challenges that they were facing. They could seek advice and assistance from the mentors on many issues.

Launch Week

Betaspring's program culminated with Launch Week, during which teams had the opportunity to present their businesses during two events. The first private event (the Investor Showcase) offered a limited number of accredited investors an exclusive opportunity to engage with founders. Betaspring chose to hold the Investor Showcase in Boston in June 2014, since many of the investors were located there. The Investor Showcase consisted of an investor-style presentation and a product demonstration.

Launch Day represented the second major event of that week. Launch Day took place at Betaspring's headquarters, and provided a much larger public forum for founders to showcase their businesses. Attendees included investors, mentors, faculty members, reporters and government officials. Betaspring partners and staff members provided updates on the successes of past teams. They encouraged attendees to spread the word about these startups through social media using event-specific Twitter hashtags.

Post-Betaspring

After the 13-week program, Betaspring offered each team an additional 10 weeks of free office space on the floor above the accelerator's headquarters. Most teams took advantage of this. Moreover, many teams chose to stay in Providence beyond the 10 weeks. Moving forward, Betaspring continued to provide assistance to its alumni through connections with mentors, assistance in dealing with later rounds of funding, and invitations to attend certain programming events. Many teams regularly took advantage of these opportunities to stay connected with peers, mentors and Betaspring staff members.

BETASPRING-AFFILIATED PROGRAMS

Rally Rhode Island

After being named a 2012 Rhode Island Innovation Fellow, Tear launched Rally Rhode Island. He hoped to increase the number of high-growth startups in the art and design, food and beverage, advanced manufacturing, and social impact sectors by 20 per cent in three years.[64] Funded with $300,000 from the Rhode Island Foundation, Rally Rhode Island began by organizing a series of monthly networking events focused on each sector. Tear explained his vision: "I want to create a startup revolution in Rhode Island. By leveraging our world class talent and all that we know about nurturing entrepreneurial communities, we can create critical mass in these sectors and launch a new wave of high growth start-ups."[65]

Founder's League

Betaspring, the Greater Providence Chamber of Commerce, the University of Rhode Island, and Brown University launched a collaborative endeavour in 2012. The group proclaimed this vision: "The Founder's League is where Rhode Island's startup community comes together to make great things happen. We offer community, space and programming where entrepreneurs at all stages of development can find inspiration and support." Jon Duffy, chairman of the Greater Providence Chamber of Commerce, commented:

> We are excited to work with this consortium to drive forward the next generation of entrepreneurship programming in Rhode Island. This initiative is a bull's eye in the Chamber's

> strategic plan, which is centered around fuelling entrepreneurial and small business growth and developing the state's Knowledge Economy. The overwhelming support from the Board and general membership for this effort only serves to echo the mindset that startups, students and entrepreneurs are a critical part of the Rhode Island economy.[66]

MOVING FORWARD

Betaspring's founders had great reason for optimism. In February 2014, the Founder's League published the Providence Startup Map, a detailed geographical depiction of new ventures in the city. Tear reported that companies on the map had raised $140 million during the previous year. He had envisioned a startup revolution in this small New England city, and the dream seemed a step closer to reality. The vibrancy of the city's startup community could only help Betaspring attract stronger applicants, recruit mentors, and lure investors.

One key development at Betaspring during the past year consisted of an expansion of the accelerator's hardware and physical technology track. Tear, Johnson and Templin believed that launching these types of ventures represented a strength of their accelerator. Moreover, this initiative enabled Betaspring to capitalize on the growing "maker movement" in the United States. Some had described the maker movement as a new type of industrial revolution, in which designers, hobbyists, inventors, hackers, mechanics and other do-it-yourselfers sought to build new products. The emergence of 3D printing technology only enhanced the movement. Withers described the accelerator's push to expand the number of hardware and physical technology ventures in its portfolio:

> Betaspring has accelerated more hardware/physical technology companies than any other accelerator in America. In 2013, we built on this momentum, expanded our program and added some great new resources, including a Maker-in-Residence and Maker Fellow Program, a small maker shop on site in collaboration with Inventables, and Maker Media opened up an East Coast office at Betaspring HQ. We also added some impressive new hardware and physical product companies to our portfolio.[67]

Betaspring faced increasing competition, though, as the number of accelerators had exploded since the co-founders set up shop in 2009. As many accelerators popped up globally, the competition to attract quality founders increased substantially. A June 2014 *Wall Street Journal* article reported on the changing competitive landscape:

> Now, some of the programs are vying for participants by offering entrepreneurs free office space, professional services — such as access to lawyers, marketers or other officials from high-profile firms — or other incentives to sign up, including waiving the typical equity stake. Others are putting their training and mentoring services online, making them available to founders who aren't ready to commit to a multi-week, on-site program.[68]

Critics continued to point to signs of an "accelerator bubble." They emphasized two distressing signs: a decrease in the quality of applicants who had received admission to accelerator programs and a dilution in the quality of the mentors. Some accelerators found themselves constantly struggling to secure funding, relying on philanthropy and government grants to fund operating deficits. Betaspring enjoyed a strong position. The accelerator attracted strong applicants, and benefited from a burgeoning startup ecosystem in the Providence area. Tear and his partners kept a close eye on the competitive landscape though. They considered several interesting questions about the future. What would happen if a shakeout occurred in the accelerator space? How would it affect Betaspring? How could Betaspring build on its past success and fulfill its vision of helping entrepreneurs change the world?

EXHIBIT 1: HOCHBERG AND COHEN'S RANKING OF SEED ACCELERATORS — MARCH 2014

1. YC	9. SURGE Accelerator
2. Techstars	10. The Brandery
3. AngelPad	11. Betaspring
4. Launchpad LA	12. BoomStartup (tie)
5. MuckerLab	13. Entrepreneurs Roundtable Accelerator (tie)
6. AlphaLab (tie)	14. Jumpstart Foundry (tie)
7. Capital Innovators (tie)	15. DreamIt Ventures
8. Tech Wildcatters	

Source: Seed Accelerator Rankings Project, "These Are Top Accelerators in the U.S.," www.seedrankings.com, accessed March 29, 2014.

EXHIBIT 2: SELECTED YC ALUMNI

Company	Description
Dropbox	File sharing and cloud storage services
Airbnb	Community marketplace for people to list, discover and book accommodations
OMGPOP	Video game creator (acquired by Zynga)
Heroku	Cloud application platform for building and deploying web apps (acquired by Salesforce)
Stripe	Online and mobile app payments platform
Reddit	News and entertainment content curated by an online community (acquired by Advanced Publications)
Hipmunk	Online travel search site
Loopt	Mobile location-based services for smartphones (acquired by Green Dot)

Source: YC, "YC List," http://yclist.com/, accessed August 29, 2015.

EXHIBIT 3: BETASPRING ONLINE APPLICATION QUESTIONS

1. In one short sentence, tell us what your company is planning to make or do. (Think Twitter-length)
2. Tell us a bit more about your product. What problem are you solving? What have you built so far?
3. Tell us about the founders. What positions will they hold in the company? Include LinkedIn, GitHub or other profile URLs.
4. We feel it is important to understand relationships of founders. Please disclose if any of your founders are siblings, spouses, children, significant others, etc.
5. Please provide a short video (3–4 minutes) describing your company and team.
6. Did you password protect that video? We'll need that too.
7. What's new about what you're doing? What are people forced to do now without your product? How is it different than what is out there today?
8. What is your business model? How will you make money?
9. Has your company received any outside funding? If so, please provide some details.
10. We believe that past performance is an indicator of future success. Give some examples of other things this team or its members have worked on (preferably together). Provide URLs where applicable.
11. We require a full commitment to the 13-week program. If any team members will not be able to participate fully in the program, please list them with explanations as to why not.
12. Anything else we should know? This is your last chance to convince us that you should be selected for the program.
13. Are you applying to any other accelerator programs? If so, please list them here.
14. How did you find out about Betaspring? Be specific. Thanks!

Source: Provided by the company.

EXHIBIT 4: KEY BETASPRING STATISTICS

Length of Program	13 weeks
Number of Firms Launched	90
Seed Capital Provided	$20,000
Equity Stake in Each Startup	6%
Follow-on Funding Raised by Alumni	$35+ million
Mentors	91
Number of Cohorts per Year	2
Number of Startups per Cohort	8–12

Source: Provided by the company.

EXHIBIT 5: SELECTED BETASPRING ALUMNI

Company	Description
NuLabel Technologies	Liner-free label technology to help companies cut costs and reduce waste
Tracelytics	Web application performance analysis and monitoring tools (acquired by AppNeta)
Manpacks	Subscription-based web retailer of men's essentials (men's underwear, socks, razors, condoms, etc.)
DiJiPOP	Shopper marketing technology company (acquired by OwnerIQ)
Sproutel	Creator of toys to assist children diagnosed with a chronic illness
Surprise Ride	Subscription service that delivers a monthly box of hands-on activities for 7–12-year-old children and their parents

Source: Provided by the company.

ENDNOTES

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