

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2361 Rayburn House Office Building  
Washington, DC 20515-6515

**Memorandum**

To: Members, Committee on Small Business  
From: Committee Staff  
Date: May 1, 2017  
Re: Hearing: “Empowering Small Businesses: The Accelerator Model”

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On Wednesday, May 3, 2017 at 11:00 a.m., the Committee on Small Business will meet in Room 2360 of the Rayburn House Office Building for the purpose of examining how business accelerators help entrepreneurs, startups, and small businesses grow and create jobs. The hearing will offer Members of the Committee the opportunity to hear from organizations that are directly involved in providing private sector resources to small businesses.

**I. Introduction**

At a time when the country’s economy is beginning to show signs of a recovery from the great recession, the nation’s entrepreneurs continue to face a challenging small business atmosphere. A weak lending environment,<sup>1</sup> burdensome health care costs, unreasonable government regulations, and tax complexity<sup>2</sup> are among the difficulties that hinder small business expansion and job creation. In 1994, small businesses less than a year old created approximately 4.1 million jobs. Fast forward to 2015, and small businesses less than a year old created just 3 million jobs.<sup>3</sup> Despite these obstacles, entrepreneurs across the nation continue to sacrifice time and money to take a shot at the American Dream. For a chance to create the next great American company, they risk much.

**II. Supporting Startups**

To help startups overcome some of these challenges, an entrepreneur-friendly environment that offers various private sector resources has developed over the years. With a focus on helping companies scale ideas, along with offering various forms of mentorships, these organizations strive to give startups a strategic advantage. While each program and resource is

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<sup>1</sup> KELSEY REICHOW, FEDERAL RESERVE BANK OF DALLAS, SMALL-BUSINESS LENDING LANGUISHES AS COMMUNITY BANKING WEAKENS, 12 ECON. LETTER 3 (2017), available at <https://www.dallasfed.org/research/eclett/>.

<sup>2</sup> HOLLY WADE, NFIB SMALL BUSINESS PROBLEMS AND PRIORITIES 7-10 (2016), available at <http://www.nfib.com/assets/NFIB-Problems-and-Priorities-2016.pdf>.

<sup>3</sup> <https://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm>.

unique, they generally fall into four categories: accelerators; incubators;<sup>4</sup> investors; and hybrid programs.<sup>5</sup> This hearing will focus on the accelerator model.

### III. Accelerators

Organized in a way to fast-track business expansion, accelerators offer small businesses, entrepreneurs, and startups across the country the opportunity to interact with top business professionals. Described as “schools for startups”<sup>6</sup> and “immersive education,”<sup>7</sup> accelerators aim to scale companies quickly and frequently with investments.<sup>8</sup> Monetary investments can come in various forms, but the accelerator model oftentimes, but not always, utilizes early stage investments for equity stakes in the participating company. Other accelerators utilize a fee-based monetary model that requires an entrance fee into the accelerator program. Beyond the fee structure, accelerator programs usually have four features: a defined timeframe; a cohort, or group-based system; mentorships; and participation in a demo day.<sup>9</sup>

The first defining characteristic of an accelerator is the time frame the program lasts. Accelerator programs have a defined start and finish. While the exact length of the program varies, it commonly lasts approximately 3 months or roughly 90 days.<sup>10</sup> However, it is not unusual for a program to have a longer duration. The intense or accelerated cycle often requires entrepreneurs to travel to a specific location to immerse themselves in the program. While this limits the ability of some startups to participate, newer programs are utilizing virtual platforms<sup>11</sup> to provide more flexibility. After the formal program concludes, some accelerators offer ongoing and informal guidance through alumni programs.<sup>12</sup>

Along with the defined program duration, accelerators utilize a cohort-based system. Similar to graduate school models where students traverse the program as a group, companies complete the program together. However, to contrast the accelerator model with a business school, the founder of 500 Startups, a successful Silicon Valley accelerator, said, “I’d rather get \$100,000 and be a case study than pay \$100,000 to read case studies.”<sup>13</sup> Due to the short length and intensive nature of the program, participants not only rely on each other for support, but also

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<sup>4</sup>Although similar to accelerators in many aspects, incubators often have a broader focus, a longer program for startups and they usually do not make investments in participating companies. SBA OFFICE OF ADVOCACY, INNOVATION ACCELERATORS: DEFINING CHARACTERISTICS AMONG STARTUP ASSISTANCE ORGANIZATIONS 10 (2014), available at <https://www.sba.gov/sites/default/files/rs425-Innovation-Accelerators-Report-FINAL.pdf>.

<sup>5</sup> IAN HATHAWAY, BROOKINGS INSTITUTION, ACCELERATING GROWTH: STARTUP ACCELERATOR PROGRAMS IN THE UNITED STATES 2 (2016), available at <https://www.brookings.edu/research/accelerating-growth-startup-accelerator-programs-in-the-united-states/>.

<sup>6</sup> *Getting Up To Speed*, THE ECONOMIST, Jan. 16, 2014.

<sup>7</sup> IAN HATHAWAY, *What Startup Accelerators Really Do*, HARV. BUS. REV., Mar. 1, 2016.

<sup>8</sup> JPMORGAN CHASE & CO., INITIATIVE FOR A COMPETITIVE INNER CITY, CREATING INCLUSIVE HIGH-TECH INCUBATORS AND ACCELERATORS 1 (2016).

<sup>9</sup> *Hathaway*, *supra* note 5.

<sup>10</sup> SBA OFFICE OF ADVOCACY, INNOVATION ACCELERATORS: DEFINING CHARACTERISTICS AMONG STARTUP ASSISTANCE ORGANIZATIONS 19 (2014), available at <https://www.sba.gov/sites/default/files/rs425-Innovation-Accelerators-Report-FINAL.pdf>.

<sup>11</sup> <https://www.thecircularboard.com/>.

<sup>12</sup> <https://www.microsoftaccelerator.com/alumni>.

<sup>13</sup> *Getting Up To Speed*, *supra* note 6. (internal quotation marks omitted).

for business guidance. The closed knit cluster can offer an informal focus group setting where ideas and methods are discussed openly.

The next characteristic, mentorships, is not unique to accelerators. From intense one-on-one guidance to more informal assistance, accelerator mentorships provides novice entrepreneurs the opportunity to learn from experts. Beyond guidance, mentoring provides green entrepreneurs with the possibility of valuable connections. Moreover, successful accelerator participants often return to the program to act as mentors to new cohorts.

Lastly, as the formal program nears completion, the final assignment for entrepreneurs is participating in a demo day. These short presentations to investors offer an opportunity for the entrepreneurs to pitch their idea, product, service, or company. As the climax of the program, demo days can attract a large number of investors. According to *The Economist*, “[t]o persuade an investor to ask for a follow-on meeting, they must be masterpieces of storytelling about the startup’s chances of success.”<sup>14</sup> Although it is a defined and formal setting, an entrepreneur’s creativity must be on display during demo days to differentiate themselves from their fellow competitors.

#### **IV. Recent Growth**

While accelerators have definite characteristics, programs have different features. According to a 2016 Brookings Institution study that reviewed approximately 700 accelerators, less than one third met the characteristics of an accelerator listed above.<sup>15</sup> Nonetheless, the growth of the accelerator model has increased since the mid-2000s.

One of the first, and still one of the most prestigious, accelerator programs in the country, Y Combinator, began in 2005 and now resides in Silicon Valley, California.<sup>16</sup> With a startup roster of roughly 1,400 companies including Dropbox, Reddit, and Airbnb, Y Combinator has funded some of the most prominent technology startups in the nation.<sup>17</sup> Soon after Y Combinator launched, the Denver, Colorado based Techstars formed in 2006. Similar to Y Combinator, Techstars is one of the earliest and best known accelerator programs in the nation with approximately 900 companies having completed their program.<sup>18</sup>

After the successful starts of Y Combinator and Techstars, the accelerator model has expanded exponentially. Between the years 2008 and 2014, accelerators assisting entrepreneurs and startups in the United States grew by an average of 50 percent each year.<sup>19</sup> During this same time period, American accelerators invested in approximately 5,000 small businesses and in

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<sup>14</sup> *Id.*

<sup>15</sup> Hathaway, *supra* note 5, at 3.

<sup>16</sup> ADITI ROY, *For many tech investors in Silicon Valley, this is the most important event of the year*, CNBC, Mar. 21, 2017, available at <http://www.cnbc.com/2017/03/21/y-combinator-demo-day-what-is.html>.

<sup>17</sup> <http://www.ycombinator.com/>.

<sup>18</sup> <http://www.techstars.com/companies/>.

<sup>19</sup> Hathaway, *supra* note 5, at 8.

return those companies raised more than \$19.5 billion in funding.<sup>20</sup> Globally, nearly 9,000 small businesses have been assisted by accelerators across 58 countries.<sup>21</sup>

Although there has been impressive growth over the last decade, accelerators are primarily headquartered in three locations in the United States. Nearly 67 percent of all funded deals have arisen out of the following locations: San Francisco-Silicon Valley; Boston-Cambridge; and New York.<sup>22</sup> With the concentration of accelerators clustering around a few markets, more and more founders of accelerators are examining virtual programs.<sup>23</sup>

## V. Results

Despite their infancy, accelerators are expanding around the globe and a few patterns and observations have materialized that help determine the effectiveness of this resource. By sheer volume, the model has gone from roughly two in 2006 to hundreds<sup>24</sup> over the past few years. Beyond volume, initial findings indicate accelerators can scale companies and meet milestones in a quicker fashion as compared to non-accelerator counterparts.<sup>25</sup> Moreover, a 2015 study found that accelerator participants were more likely to receive their next round of investor funding as compared to other companies.<sup>26</sup>

While larger macro trends for accelerators seem promising and efforts are underway, such as Emory University's Entrepreneurship Database Program,<sup>27</sup> a few indicators demonstrate room for improvement. In particular, recent research highlights that female and minority entrepreneurs represent a small share of accelerator participants.<sup>28</sup> The report indicates that key entrepreneurs are not utilizing the model because of recruitment problems, selection biases, program designs, and the exclusive culture of the tech industry.<sup>29</sup> In response, minority-focused<sup>30</sup> and female-focused accelerators<sup>31</sup> have increasingly opened their doors over the last few years.

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<sup>20</sup> *Id.* at 10.

<sup>21</sup> GUST AND FUNDACITY, GLOBAL ACCELERATOR REPORT 2015, available at <http://gust.com/global-accelerator-report-2015/>.

<sup>22</sup> *Hathaway*, *supra* note 5, at 12.

<sup>23</sup> EILENE ZIMMERMAN, *New Virtual Accelerator Connects Fintech Startups With Banks*, FORBES, Jun. 10, 2016, available at <https://www.forbes.com/sites/eilenezimmerman/2016/06/10/new-virtual-accelerator-connects-fintech-startups-with-banks/#786ae0a94c41>.

<sup>24</sup> SCOTT SHANE, *Why The Number of Accelerators is Accelerating*, ENTREPRENEUR, Nov. 12, 2015, available at <https://www.entrepreneur.com/article/252730>.

<sup>25</sup> *Hathaway*, *supra* note 5, at 6.

<sup>26</sup> *Id.*

<sup>27</sup> JONATHAN ORTMANS, *A HARD LOOK AT ACCELERATORS*, EWING MARION KAUFFMAN FOUNDATION (2016), available at <http://www.kauffman.org/blogs/policy-dialogue/2016/april/a-hard-look-at-accelerators>.

<sup>28</sup> JPMORGAN CHASE & CO., *supra* note 8.

<sup>29</sup> *Id.* at 5.

<sup>30</sup> *Id.* at 4.

<sup>31</sup> NATIONAL WOMEN'S BUSINESS COUNCIL, *WOMEN'S PARTICIPATION IN BUSINESS INCUBATORS AND ACCELERATORS 11* (2017), available at <https://www.nwbc.gov/research/women%E2%80%99s-participation-business-incubators-and-accelerators>.

## VI. Federal Efforts to Support Accelerators

As indicated in Kauffman Foundation reports, governments are starting to notice the advances that accelerators are making with regard to local economic development.<sup>32</sup> Moreover, at the federal level, the Small Business Administration (SBA) established, without specific congressional authorization,<sup>33</sup> the Growth Accelerator Fund competition to add extra capital into skilled accelerators.<sup>34</sup> In its most recent competition, SBA announced 68 awardees for a total of \$3.4 million disbursed.<sup>35</sup>

## VII. Conclusion

From private sector programs to university hubs<sup>36</sup> to pitch events at conferences and festivals like South by Southwest,<sup>37</sup> the accelerator model is an increasingly important resource for entrepreneurs and startups as they seek critical early investments. Whether it is the latest cutting edge technology app or the newest trend in retail, accelerators are helping guide startups as they seek to grow and succeed. As the Committee continues to look at methods and models to help create an environment where budding entrepreneurs and the nation's 29.6 million small businesses<sup>38</sup> can flourish and grow, accelerators will play a critical role.

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<sup>32</sup> ORTMANS, *supra* note 27.

<sup>33</sup> As the Committee noted in its Fiscal Year 2018 Views and Estimates report, SBA's use of its general authority to create unauthorized entrepreneurial development programs is often replete with duplication issues, *available at* [https://smallbusiness.house.gov/uploadedfiles/final\\_budget\\_views\\_and\\_estimates\\_fy\\_2018\\_pdf.pdf](https://smallbusiness.house.gov/uploadedfiles/final_budget_views_and_estimates_fy_2018_pdf.pdf). The Small Business Act prohibits the SBA from duplicating other federal agencies' work or activities unless specifically authorized in the Act. 15 U.S.C. § 647.

<sup>34</sup> SBA, REPORT TO THE CONGRESS OF THE UNITED STATES 2015 GROWTH ACCELERATOR COMPETITION 4 (2016), <https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/sba-announces-34-million-small-business-startups>.

<sup>36</sup> <https://research.chicagobooth.edu/nvc>.

<sup>37</sup> <https://www.sxsw.com/awards/sxsw-accelerator/>.

<sup>38</sup> SBA OFFICE OF ADVOCACY, SMALL BUSINESS PROFILE (2017), *available at* [https://www.sba.gov/sites/default/files/advocacy/United\\_States\\_1.pdf](https://www.sba.gov/sites/default/files/advocacy/United_States_1.pdf).