Acceleration in Mexico

Examining Why Entrepreneurs Attend Multiple Programs

A Knowledge Brief by the
Global Accelerator Learning Initiative

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GALI
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Introduction

Over the past five years, early-stage ventures have become a focus for governments and investors that want to spur economic development in Mexico. As the investing industry has matured, the number of accelerator programs has also grown[1], and these programs have taken on an important role in developing a pipeline of investment-ready businesses. Data from the Global Accelerator Learning Initiative (GALI) show that accelerators are, in the aggregate, having a positive impact: ventures that attend accelerator programs are on average experiencing more revenue and investment growth compared to those that do not receive support.[2] But as the number of accelerators grows, stakeholders have expressed concerns about the overlapping support these programs provide, as entrepreneurs may attend two or even three programs in their early years. It has remained unclear whether this trend is a sign of ecosystem cohesion or ecosystem confusion.

GALI produced this knowledge brief, with the support of Citibanamex, to better understand the incremental benefits that entrepreneurs receive by attending multiple programs as well as how entrepreneurs and accelerators view this phenomenon. Specifically, our questions are:

- Why do entrepreneurs seek to participate in more than one accelerator program?
- Is attending multiple accelerators a useful process for enterprises, and if so, do the benefits differ in subsequent acceleration versus first-time participation?
- How do entrepreneurs and accelerators understand this process, and what does it tell us about the entrepreneurial ecosystem?

This knowledge brief summarizes the findings from a quantitative analysis of the GALI data, complemented by qualitative research with entrepreneurs and accelerators in Mexico. It is intended to represent a first look, rather than the last word, on the impact of venture participation in multiple accelerators, and the GALI team hopes that both researchers and practitioners will continue to examine this topic from different perspectives.

What is an accelerator?

Accelerators share a set of program characteristics that distinguish them from other forms of capacity development services. Specifically, they are time-limited programs that work with cohorts or “classes” of ventures to provide mentorship and training, with a special emphasis on connecting early-stage ventures with investment.* In Mexico, the terms incubator and accelerator are often used interchangeably, and the two often have similar goals and structures. The purpose of this knowledge brief is not to challenge this definition, but to consider why entrepreneurs attend subsequent programs that provide this type of growth-oriented support, and what the implications are for their ventures and the broader ecosystem.

*Definition adapted from: Cohen, S. & Hochberg, Y.V. (2014). Accelerating startups: The seed accelerator phenomenon. Available at SSRN 2418000

1 GALI has identified approximately 25 accelerators based in Mexico, as well as many that are headquartered outside Mexico but run programs in the country.
2 Acceleration in Mexico: Early Impacts on Mexican Ventures (available at www.galidata.org/mexico).

Methodology

Quantitative Analysis:

The GALI dataset contains information on 2,092 ventures based in Mexico that applied to 44 different acceleration programs between 2013-2018.[3] The analysis in this brief uses application data (from both accepted and rejected ventures) as well as one-year follow-up performance data to assess how ventures grew over time. The ventures in the dataset are distributed widely across sectors, the three most common being health (12% of ventures), financial services (11%), and environment (11%).[4]

Qualitative Analysis:

Entrepreneur Focus Group: The group comprised eight entrepreneurs who have attended multiple acceleration programs. These entrepreneurs are located in Mexico City (5), Querétaro (1), Michoacán (1), and Yucatán (1) and work in sectors including the environment (4), agriculture (1), social reintegration (1), economic development (1), and health (1). The focus group consisted of a reflection exercise in which entrepreneurs were asked to look back on the timeline of the growth of their ventures, distinguishing between their first and subsequent acceleration experiences.

Accelerator Interviews: Interviews were conducted with representatives from six programs, including four in Mexico City, one in Aguascalientes, and one in San Luis Potosí. Four are accelerators focused on business consolidation and growth, and another focuses specifically on preparation for investment. The sixth interview was with a representative from an organization that offers investment readiness advice. The interviews focused on how accelerators add value to entrepreneurs and their businesses and whether their support differs for entrepreneurs who have received prior support. The accelerator representatives were also asked to reflect on the implications of subsequent acceleration for the entrepreneurial ecosystem in Mexico.

3 These programs were run by 14 unique organizations.
4 To learn more about the GALI data and methodology, visit www.galidata.org.

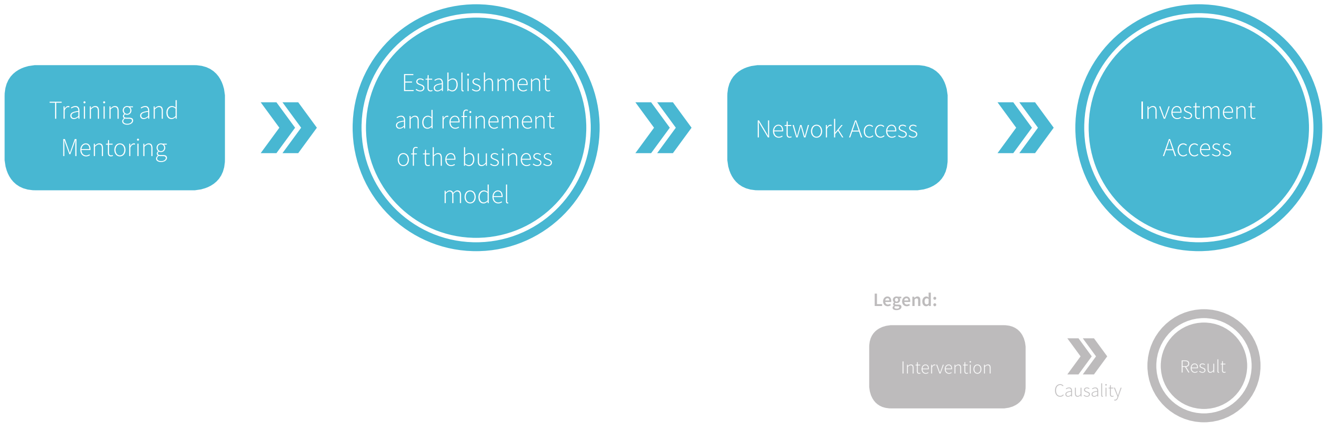
What is the purpose of acceleration?

Before addressing the research questions of why entrepreneurs attend multiple accelerator programs and how this affects their growth, it is helpful to understand how entrepreneurs and accelerators understand the venture growth path and what role they think acceleration plays in enterprise development.

The Entrepreneur Perspective

In the focus group, entrepreneurs shared similar views on what a venture's growth path looks like, detailing that the first step is to establish and refine the business model. Once the business model is established, the entrepreneur can access networks that allow him or her to contact investors and commercial partners, which ultimately fuels venture growth (see Figure 1).

Figure 1: The growth path and access to investment as perceived by entrepreneurs



The entrepreneurs viewed accelerators as playing a role throughout their development and felt that participation in multiple accelerators was sometimes necessary to achieve gains along the growth path. Entrepreneurs saw acceleration as helpful to strengthen their business model and link into key networks. Access to funding was less clearly attributed to acceleration. Few entrepreneurs stated that they directly obtained investment (debt or equity) due to the accelerator, but several reported indirect benefits such as the refinement of their business model, access to networks, and information useful for fundraising.

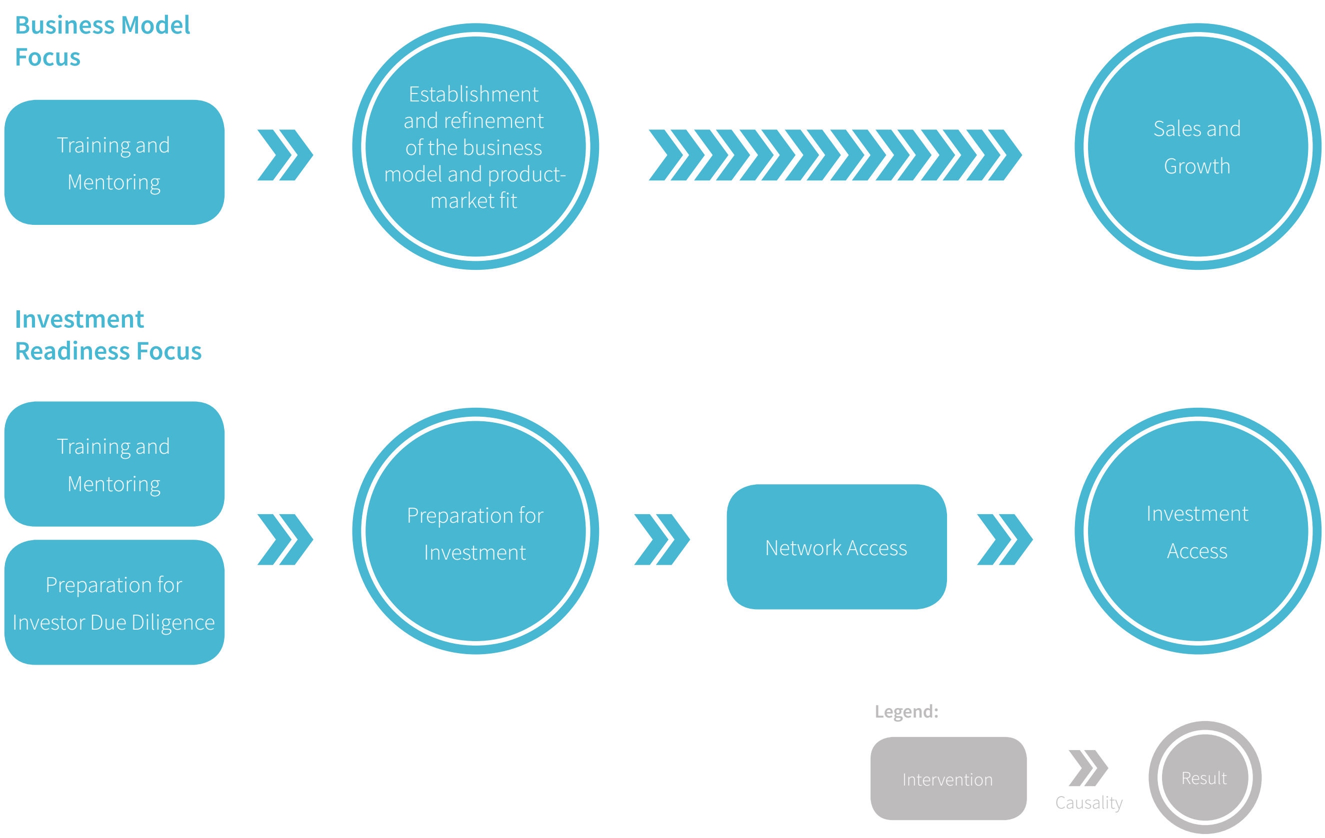
The Accelerator Perspective

In interviews with representatives from accelerators, two different perspectives emerged regarding the role of acceleration in the growth path of early-stage ventures:

Business Model Focus: According to this viewpoint, the most significant contribution of acceleration is the clarification and establishment of the business model, as well as product-market fit. These results come from training provided by the accelerator as well as access to mentors. The result is an increase in sales and venture growth (expanded market access, more employees, etc.), often without considering investment as a critical element.

Investment-readiness Focus: This viewpoint considers the primary role of acceleration to be investment readiness, which is achieved through two main processes: (i) training, mentoring and interaction with peers that fine-tune the business model; (ii) preparation for the investor due diligence process. Once the venture is mature enough, it can access networks and, consequently, receive growth-oriented investment.

Figure 2: The growth path and access to investment as perceived by accelerators

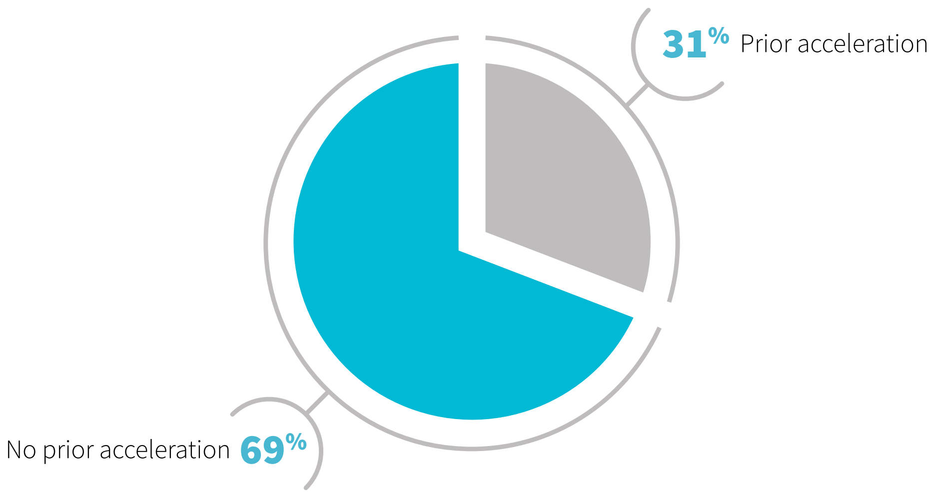


Several of the accelerator representatives did not see a direct connection between acceleration and access to investment. Some attributed this to the investment ecosystem not being fully developed, and others to the acceleration process being too light-touch and not customized enough to have a real effect on investment readiness. Some accelerators see themselves as indirectly facilitating investment through access to networks, rather than directly connecting ventures to investment.

Who are the ventures that seek subsequent acceleration?

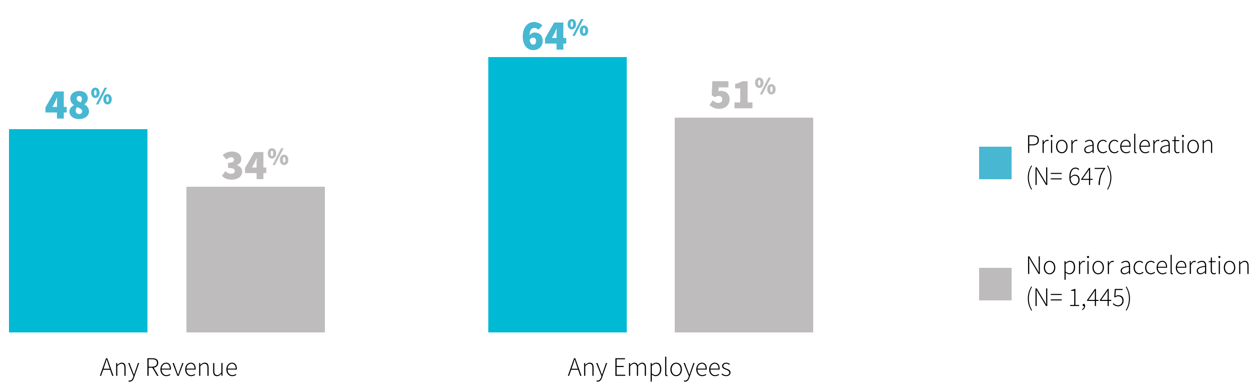
In the GALI dataset, approximately one-third of ventures based in Mexico that applied to accelerators had already participated in a similar program (Figure 3).[5] Breaking down by founding team gender, all-male founding teams reported the highest rate of previous acceleration (33%) while all-female teams reported the lowest rate (25%). There were slight differences in the likelihood of prior acceleration between sectors, with a greater proportion of applicants from the Financial Services and Energy sectors reporting prior acceleration (roughly 40%) and a smaller proportion from the Environment, Education, and Agriculture sectors (roughly 25%).

Figure 3: Percent of applicants that were previously accelerated



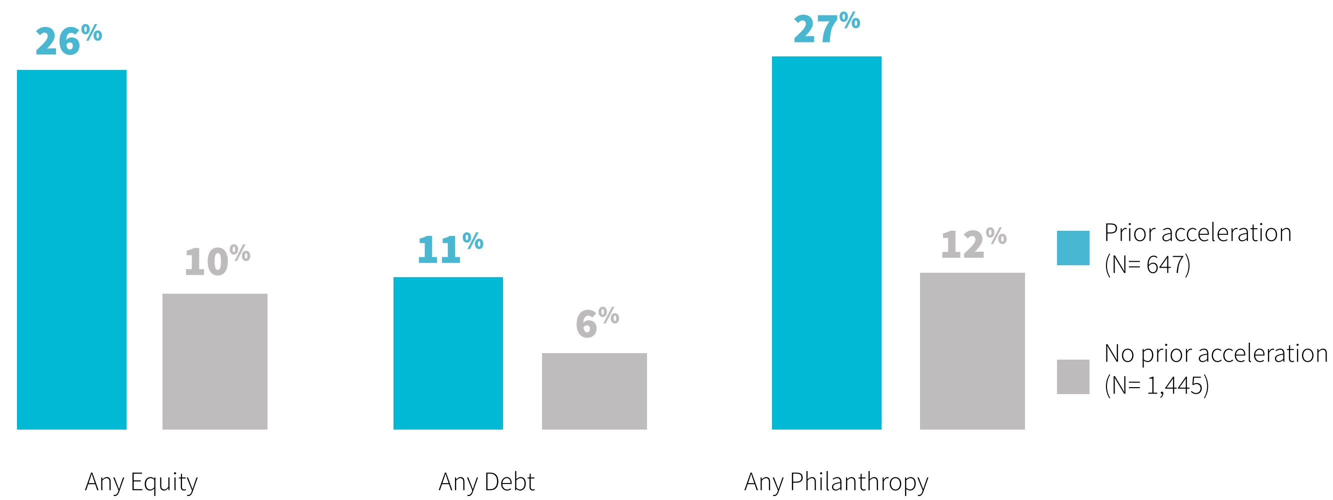
Ventures with prior acceleration experience were more mature at the point of application. They were older on average (2.0 years vs. 1.6 years) and were significantly more likely to report prior-year revenue and employees (Figure 4) as well as investment (including equity, debt, and philanthropic capital) (Figure 5).

Figure 4: Percent of ventures with revenue and employees (at application), by prior acceleration



5 The GALI survey asks ventures at the time of application: "*We are interested in knowing your past acceleration experience. Could you tell us the latest three acceleration experiences of your founding team, if any?*" If they indicate acceleration support from any organization, they are considered "previously accelerated".

Figure 5: Percent of ventures with outside funding (at application), by prior acceleration



The GALI data also indicate that previously accelerated ventures were more likely to have established fundraising targets (Figure 6). When asked about their fundraising plans for the next 12 months, those that had been previously accelerated were significantly more likely to report an equity investment target, rather than leave the question blank (66% versus 52% respectively). Comparing dollar amounts, those with prior acceleration also reported higher average equity fundraising plans (US $536,231 versus US $275,384).

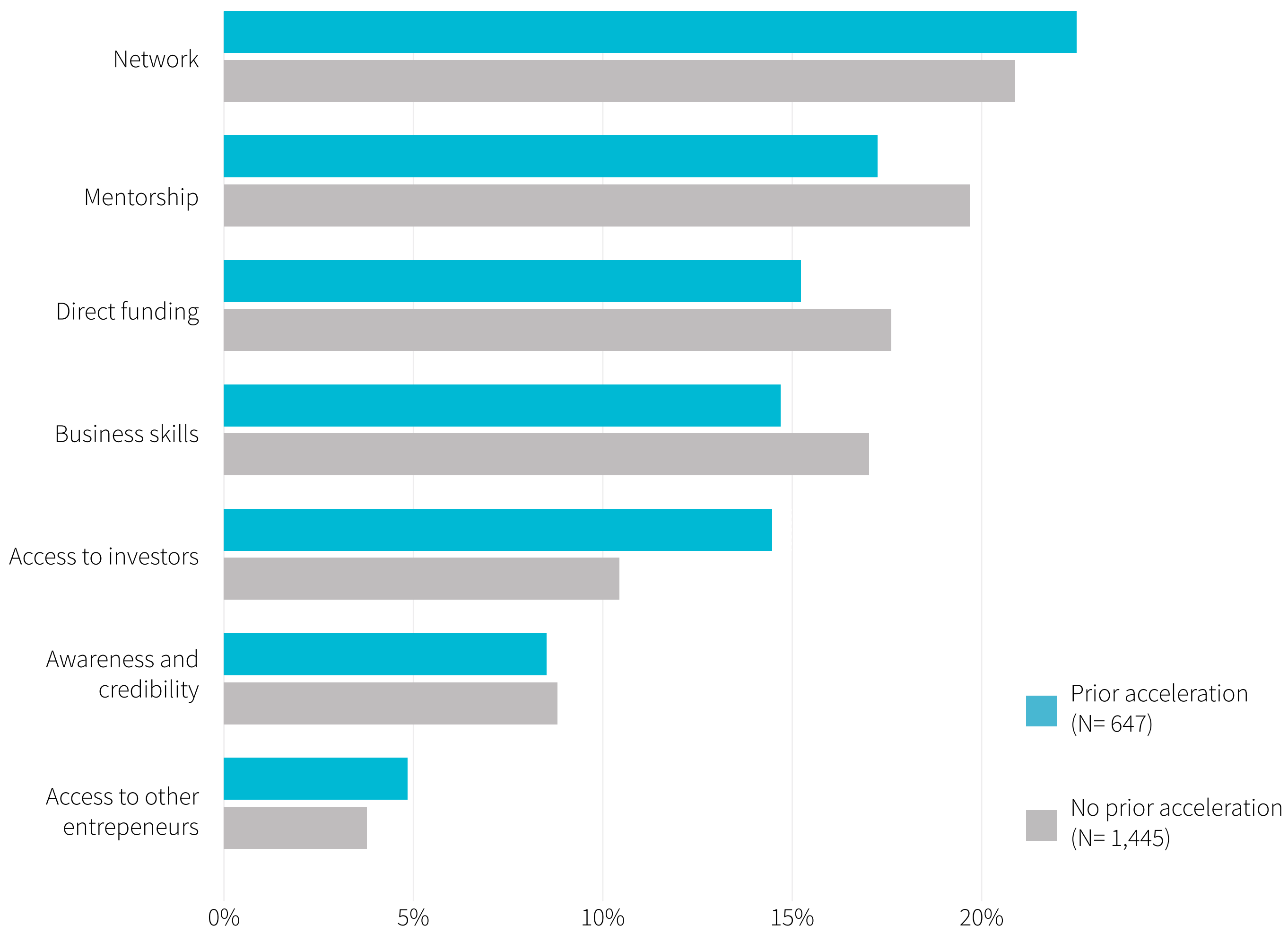
Figure 6: Percent of ventures that reported equity fundraising plans, by prior acceleration

Taken together, these data show that in the aggregate, ventures applying to an accelerator having already participated in a previous program generally do so after achieving additional growth and reaching a greater level of maturity, rather than due to an overall inability to grow. This suggests that entrepreneurs are generally not, as is sometimes claimed, using participation in multiple accelerators as a means to keep otherwise-failing ventures alive. The next section dives deeper into the quantitative and qualitative data on why entrepreneurs themselves say that they apply to subsequent programs.

Why do ventures seek subsequent acceleration?

At the time of application to an accelerator, GALI asks entrepreneurs to rank the potential benefits of acceleration by importance for their venture's development and success. Figure 7 shows the percent of ventures that ranked each benefit as most important. Most commonly, ventures prioritize networking, mentorship, direct funding, and business skills, irrespective of prior acceleration. Interestingly, ventures with prior acceleration experience were more likely to rank access to investors as their top desired benefit compared to those without prior acceleration. Given the more advanced stage of ventures with previous acceleration experience, this likely reflects that these ventures are closer to a growth point with significant capital needs and may also have a clearer understanding of both their own fundraising needs and of how accelerators can be important catalysts for investment.

Figure 7: Top desired benefits of acceleration



These patterns were further examined through qualitative input from entrepreneurs and accelerator representatives.

Entrepreneurs in the focus group were asked what services they sought to obtain from their first versus second acceleration experiences. In general, the entrepreneurs viewed their first acceleration program as serving mostly to refine their business model, strengthen their team and operations, and establish the legal, accounting, and financial structure of the venture – essentially to help them get their business fully up and running. While some entrepreneurs had been part of an incubator before attending their first accelerator, others used their first accelerator program for basic start-up support that an incubator would typically provide.

When looking to attend a second accelerator program, entrepreneurs sought support for more specialized needs and felt ready to receive more concrete technical support. At this stage, entrepreneurs were looking to grow and scale their business and to use the networks offered by the accelerators for this purpose. They used their time in this next accelerator to gain improved market knowledge and find avenues to access new customers.

Networks and mentorship were highlighted as valuable aspects of both first and subsequent acceleration experiences, aligning with the GALI data showing these benefits as the top two benefits sought by ventures applying to both their first and subsequent accelerators.

How do entrepreneurs select an accelerator?

Entrepreneurs in the focus group shared that when selecting an accelerator, they consider the profile of the founder or director of the program - preferring someone who has been an entrepreneur - as well as the profile and trajectory of the companies in the accelerator portfolio.

> **“I have seen that who leads the accelerator has a lot of influence […] accelerators started by outstanding entrepreneurs are often better because they had to live the entrepreneur experience themselves.**

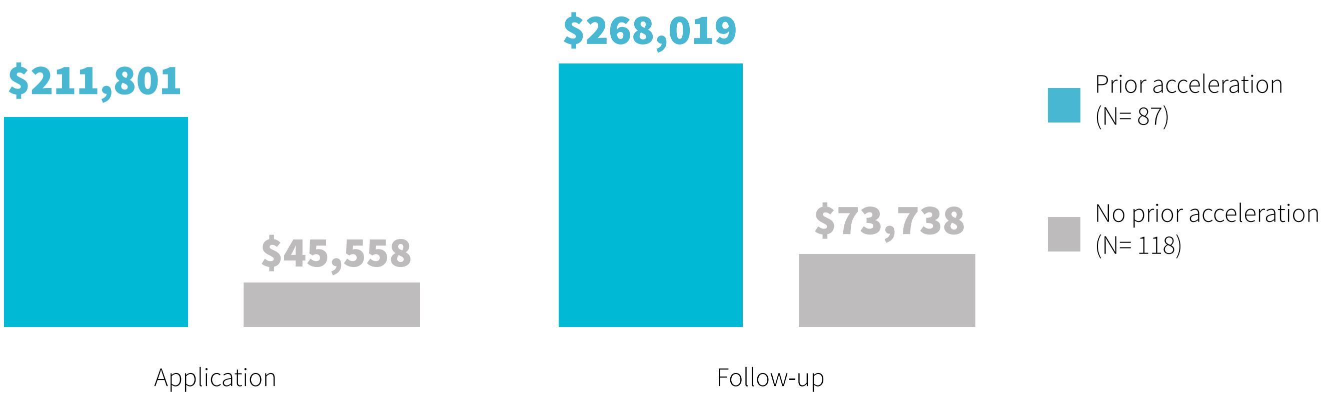
The criteria entrepreneurs use to select an accelerator evolves with business maturity, as entrepreneurs gain a better understanding of their specific needs. Entrepreneurs remember being less selective at the beginning of their contact with the entrepreneurial ecosystem, enrolling in training and support programs they found but not carefully weighing their options. Over time, they developed an ability to discern a program’s quality and potential contribution to their enterprise.

Do ventures grow in subsequent acceleration?

GALI surveys entrepreneurs at the time they apply to an accelerator and then again one year later to capture changes in their venture's performance. Based on a sample of 205 Mexican ventures for which GALI has both application and follow-up data, the figures below compare performance at application and one year later, distinguishing between the 118 ventures that were accelerated for the first time versus 87 that had already participated in an accelerator in the past.

Figures 8 and 9 show the revenue earned and equity investment raised by ventures in the calendar year before applying to a GALI-participating accelerator (denoted as "Application") compared to the year during which the acceleration program occurred (denoted "Follow-up"). Both first-time accelerated and previously accelerated ventures experienced positive revenue growth on average, though previously accelerated ventures entered with considerably more.[6] We see a greater discrepancy in equity investment, as previously accelerated ventures showed significantly higher growth in comparison to first-time accelerated ventures.[7] This would appear to be consistent with the earlier suggestion that entrepreneurs in a subsequent program have more clarity around the specific funding needs of their enterprise.

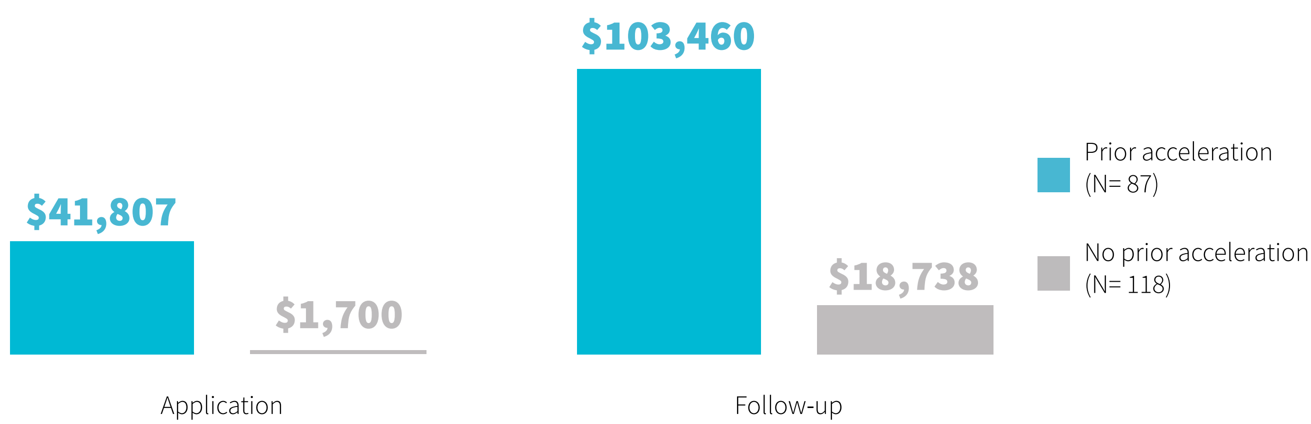
Figure 8: Average revenue (USD) at application and one year later, for participating ventures



6 The average revenues for first-time accelerated ventures are lower in part because a larger proportion reported $0 revenue at both application and follow-up in comparison to previously accelerated ventures.

7 First-time accelerated ventures increased their revenue and equity by a greater percentage, but less in terms of absolute dollar amounts.

Figure 9: Average equity investment raised (USD) at application and one year later, for participating ventures



In summary, participation in both a first and subsequent acceleration program seems to provide benefits to ventures, with a subsequent experience boosting investment in particular. Ventures are entering their second or third accelerator at a later stage, and then showing more growth on average in comparison to first-time accelerated ventures.

This further dispels at least one concern about ventures participating in multiple accelerators: that ventures are using these programs to keep bad businesses alive (if this were true, one would expect the ventures to do more and more poorly as they go through accelerators until they finally dissolve/fail). This also tells us that the ecosystem is well-organized enough that entrepreneurs are, at a minimum, able to ultimately identify and participate in accelerators that offer some benefit. However, this does not tell us whether the ecosystem is organized in a way that maximizes the impact of acceleration on entrepreneurs participating in multiple programs; this topic is examined in the next section.

What does this mean for the ecosystem?

The data show that venture participation in multiple accelerators is not restricting these programs from driving positive outcomes in terms of business growth. However, interviews with entrepreneurs and accelerator representatives also indicate that participation in multiple accelerators can, at least in some cases, be a sign that accelerators are not fully realizing their support potential. In interviews, some accelerator representatives shared the view that ventures participate in a second accelerator due to dissatisfaction with the ability of their first acceleration program to fulfill their needs. According to this perspective, when provided with the knowledge and networks that an accelerator program provides, ventures should be enabled to grow organically – and thus participation in a subsequent program is inherently a sign that the first experience was not sufficient.

> **I think the fundamental problem is that many of the acceleration programs do the same thing. The fact that an entrepreneur thinks that going through three acceleration programs (three times the same thing) adds value, means that none of them do it well[...]**

Interestingly, in spite of these concerns, the GALI data show no significant difference in selection rates based on prior acceleration (roughly 25% of all applicants were selected to participate, regardless of prior acceleration), suggesting that previous acceleration experience is neither a major advantage nor a hindrance for entrepreneurs applying to subsequent programs.

Combined with the data showing that entrepreneurs tend to look for more specific support in their subsequent accelerator experience(s), this suggests that a lack of clear information in the ecosystem on the differences between accelerators could be a constraint to ventures obtaining maximum benefit from them. An entrepreneur looking for basic information on getting their business set up may be able to benefit from a standardized training program, but an entrepreneur with more specific needs at a later growth stage will likely find such a program lacking. Entrepreneurs and accelerators also shared that many programs do not differentiate their value-add as well as they could, with a clear demand among entrepreneurs for more sector and stage-specific support.

> **If you have the opportunity to enter an accelerator that is appropriate for your stage, it is likely to be worthwhile...but now anyone [ecosystem professional or former entrepreneur] can start an accelerator anytime [with no clear value added].**

Accelerator representatives suggested that a more coordinated ecosystem would make information about program offerings and objectives more readily available. The interviews also suggested that there are relatively few formal collaborations among accelerators and that such collaborations could be useful in providing ways to recommend or "hand off" entrepreneurs, which would in turn help entrepreneurs select the most appropriate accelerator, be it for their first or a subsequent experience.

Some accelerator representatives also attributed the demand for additional acceleration to entrepreneurs preferring to stay in the "comfort zone" of receiving financial and non-financial services provided by business support providers, competitions, and other industry events/players, rather than going to the market and testing their ideas in practice. These representatives said they do not accept entrepreneurs who have gone through previous acceleration processes unless they indicate plans to pivot the business and need support to rethink it. This perspective does not appear to align with the GALI data showing that in general, ventures tend to have more traction when applying to a subsequent accelerator program and that overall, accelerators accept ventures with prior experience at the same rate as those without prior experience.

The decision-making process, both from entrepreneurs and accelerators, would therefore appear to be far more nuanced. While there clearly remains a disconnect between accelerators and entrepreneurs in the perceived value of ventures participating in multiple programs, hopefully this brief can begin a more data-driven conversation on the topic.

Conclusions & Recommendations

Conclusions

- **On average, entrepreneurs participating in multiple accelerator programs benefit from both their first and subsequent acceleration experience.** The data show that ventures in fact benefit more (in terms of equity investment) from acceleration if they have already participated in a different accelerator previously. Participation in multiple accelerators does not appear to be a way for bad businesses to continue to survive or to delay fully launching, but instead for ventures to seek out different kinds of support that match their evolving growth needs.
- **First-time accelerated ventures tend to have less targeted needs than ventures with prior acceleration experience.** Ventures with prior acceleration experience tend to be more focused on accessing investment and are more likely to come in at a later stage with a clear fundraising target. Entrepreneurs also recall feeling more informed in searching for subsequent acceleration, with more clearly specified challenges and demands from the program.
- **In some cases, participation in multiple accelerators reflects a large and diverse marketplace of support offerings; but in others it may represent poor matching between entrepreneurs and accelerators.** Interviews with entrepreneurs and accelerator representatives suggest that ventures may feel the need to participate in subsequent accelerators because of dissatisfaction with their first program and that if ventures were better matched to program offerings, they would experience more positive revenue and investment outcomes.
- **Better information and coordination in the ecosystem could lead to more efficient and effective acceleration services.** Greater transparency about program models and intended benefits, as well as more direct collaboration among accelerators in screening and referring ventures, could ensure that ventures participating in multiple programs do so to satisfy distinct needs at different growth stages rather than because they struggle to find a good program match.

Recommendations

- **Develop a mapping and categorization of accelerator programs.** Without a clear categorization of terminology and program structures, it is difficult for entrepreneurs to identify the best-fit program for their venture. Clarifying which programs have a more standardized structure intended to help very early-stage ventures get their business up and running, versus which programs provide more tailored or sector-specific support for ventures that have specific technical or fundraising needs, will help improve matching and ultimately outcomes for participating ventures. Categorization could also help accelerators identify gaps in ecosystem support, adjust their programs to differentiate their offerings, and better communicate their value-add.
- **Improve coordination among accelerators through a structured referral system.** An entrepreneur applying to one accelerator may not be a good match for that particular program model but could potentially benefit from a different accelerator. In addition, alumni from programs targeting early-stage ventures may later have different needs that could be well-served by programs focused on more targeted or sector-specific support and fundraising for later-stage ventures. A formalized coordination and referral system among accelerators could improve efficiency and ensure that ventures identify the right initial program for their needs and can easily find and participate in subsequent programs when this would provide significant benefit.
- **Improve data collection among accelerators.** The only way for entrepreneurs to truly understand the potential benefits of participating in different accelerator programs is for accelerators to collect, and make available, rigorous data on the outcomes of their programs. This will help clarify the benefits of participating in programs with different objectives and create a more thriving and efficient marketplace for acceleration services that will ultimately benefit the sector as a whole.

The Global Accelerator Learning Initiative (GALI) is a collaboration between the Aspen Network of Development Entrepreneurs (ANDE) and Emory University designed to explore key questions about enterprise acceleration such as: Do acceleration programs contribute to revenue growth? Do they help companies attract investment? GALI builds on the Entrepreneurship Database Program at Emory University, which works with accelerator programs around the world to collect data describing the entrepreneurs that they attract and support. The Global Accelerator Learning Initiative is supported by the Argidius Foundation, Omidyar Network, the Kauffman Foundation, Stichting DOEN, and the Australian Government. Additional support for GALI activities in Mexico and Central America has been provided by Citibanamex.

To learn more about GALI and to access related publications, visit www.galidata.org

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