The Explosive Growth of Business Accelerators in Los Angeles in 2012

Final Report
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Section I. Executive Summary

In the past several years, there has been an explosion of business accelerators founded in the Los Angeles area. With more than 15 accelerators housing more than 200 startup companies in the local region, we were interested in learning the reasons behind this recent boom. Is there enough of a market demand to sustain this growth? Or is this just the beginning of another tech bubble á la the early 2000s? It is with these questions in mind that we began our investigation into the history, business model, operations, and market trends of the Los Angeles accelerators.

Traditionally, business incubators are organizations aimed at supporting first-time entrepreneurs and startup companies develop their businesses, and in the process promote technological innovation and stimulate the overall economy. Business accelerators are an evolved version of incubators, designed to facilitate fast-developing technological ideas and propelling them towards marketable products. In these 3-month 'boot camp' programs, accelerators provide the necessary capital, mentorship, and investor networks for startup companies to advance their ideas and products, often in exchange for a single digit equity stake.

In this report, we provide a comparative analysis of three business accelerators located in West LA to gain a better understanding of their operations and economical sustainability. In particular, we studied these accelerators based on five important factors – leadership, budget control, business and product development support, risk management, and startup evaluation processes – with the goal of generating certain predictors of success. While we faced challenges in obtaining important financial figures in our study, we were able to gain interesting insight into the selection criteria from both the accelerators' and the startups' perspectives during the matchmaking process. And based on the information we learned in this analysis, we share some of our predictions and recommendations on the LA accelerator industry in the near future.

Section II. Description of Technology

1. Basic Definition

Business accelerators and technology incubators provide a variety of services at relatively low costs to support and nurture the development of startup companies in their most critical early stages. These valuable resources encompass both physical assets, such as office space and seed funding, as well as human capital, including mentorship services, business counseling, professional support, and networking opportunities. As these business models have evolved over recent years, most accelerators and incubators have established business networks and technical experiences in particular industries and thereby tailor their services towards facilitating startups within specific areas of expertise.

2. Differences between Incubators & Accelerators

The distinction between business incubators and accelerators is subtle and, at times, ambiguous. Indeed, these two terms are frequently used interchangeably in both online and literature secondary sources. In our primary interviews conducted with entrepreneurs and investors involved with the industries, however, the fundamental differences between the two business models were highlighted and described as follows:

a. Companies and Goals

Business incubators generally accept startup companies from a very early stage, which often require extensive research and development, and provide the necessary infrastructure and environment necessary to the eventual materialization of their ideas. Business accelerators, on the other hand, aim at taking on startups with a more developed product or even functional prototype and focus on pushing these products onto the market to establish revenue sources, with the long-term goal of liquidation via either IPO or acquisition by large corporations.

b. Program structure

Since the technologies developed within incubators often require long-term R&D, startups are expected to stay in these programs for an extended period of time (typically 3-5 years). Accelerators act as a boot camp to speed up the business development of technological products and services, and their seed companies are expected to become self-sustaining and graduate within 3-6 months.

c. Funding sources and equity stake

Many business incubators are run by nonprofit organizations (government/ economic development agencies/ universities) to provide support services for technology development and stimulate industries in the long term. Most accelerators are privately invested and offer seed funding around $20-50k to the startups, as well as mentoring services and networking opportunities to venture capitalists and angel investors, for an equity stake in the company (typically 6-8%).

Business accelerators as described by Paul Bricault, co-founder of Amplify LA,

> An accelerator takes single-digit chunks of equity in externally developed ideas in return for small amounts of capital and mentorship. They're generally truncated into a three to four month program at the end of which the start-ups 'graduate'.

3. History (Y-Combinator vs. TechStars)

Y-Combinator and TechStars are two of the pioneering business accelerators in the United States and, due to their massive success in recent years, serve as models for subsequent accelerators. In this section, we would like to describe the similarities and highlight the differences in their business operations.

Both accelerators were founded around the same time – Y-Combinator in 2005 in Mountain View, CA, and TechStars in 2006 in Boulder, CO. TechStars has since expanded its business and currently has additional offices in Boston, Seattle, and New York. On average, Y-Combinator invests $11000 per startup and $3000 per founder for 2-10% stake, while a startup in TechStars receives $18000 for 6% equity.

While on brief overview Y-Combinator and TechStars both provide a three-month program to support startups in their business development, there are some crucial differences between the two programs. Overall, there are more companies accepted to Y-Combinator per round (the most recent one included 66 startup companies) and two classes per year, whereas TechStars has an average annual class size of 10 companies per location (with the exception of New York with two enrollments per year) to provide a focused entrepreneurial culture and synergistic environment. Not surprisingly, Y-Combinator has a significantly larger alumni network, with more than 460 startups going through the program thus far (among them very successful companies such as Dropbox, Reddit, Airbnb, Scribd), while TechStars has 109 still-active graduate companies.

Perhaps resulting from its large class size, Y-Combinator does not provide common physical spaces for its companies during the program, but rather offers networking events (e.g. office hours/ dinners with mentors/ investors) for the startups to establish necessary connections. And while Y-Combinator places heavy emphasis on the overall business development, TechStars companies focus on Demo Day, which is an opportunity for them to present their product to potential investors at the culmination of the program.

Most of the accelerators created in the last several years follow the model of either Y-Combinator or TechStars, and at times a hybrid of the two. The TechStars model appears to be the more popular model in the LA area, with many accelerators offering very structured programs where startup companies move to accelerator for the duration of the program; not only benefitting from the more ‘formal’ aspects (e.g. mentorship, networking), but also from the entrepreneurial culture and synergistic environment of their fellow startups. In fact, particular accelerators have openly declared to be based on the TechStars model, while others do not affiliate themselves with any accelerator and try to develop a model that works best for them.

4. Business Model & Philosophy

From our interviews, we learnt that the accelerator business model functions as follows:

Through a rigorous selection process based on references and recommendations from mentors and investors, evaluation of the leadership personnel and the technical team, and the proposed product/ technology, accelerators enroll a certain number of startups on an annual or bi-annual basis into their programs. In addition to an initial seed funding of around $20-50k, accelerators also provide the startups with business coaching from program organizers and mentors, networking opportunities with venture capitalists and angel investors, as well as general business and legal support, for a 6-8% equity stake in the company (which varies from both preferred and common stock options).

Since the rate of return is solely dependent on the success of graduate companies, these investments can be fairly described as high-risk, high-reward. In the worst case scenario, after several classes of companies fail to generate large sums of revenue or liquidate, an accelerator may quickly lose its entire initial capital and be forced out of business. The rewards for success, however, are substantial, as in the case of Y-Combinator and its investment in Dropbox, which has a speculated valuation of $1 billion. It is therefore important for accelerators to diversify their startup portfolio and thereby hedge investment risks, and reinvest their profits into growing their programs and establish a strong brand in order to recruit the best startups and achieve long-term success.

5. **Networking Events and Demo Day**

Throughout the programs, accelerators organize networking events between startups, industry experts, entrepreneurs, mentors, and venture capitalists, etc. On top of being a great opportunity to share industry knowledge and business expertise towards the product development process, perhaps the most important purpose of these events is the chance for startups to generate additional funding from private investors. Most accelerators will also have a Demo Day at the end of the program, where startup companies display their product and describe their business model/ revenue sources to venture capitalists and angel investors. These events attract upwards of hundreds of potential investors, and are an effective way for startup companies to gain exposure and obtain additional rounds of funding after graduating from the accelerator programs.

6. **Hypotheses: Drivers to a Successful Accelerator**

The following are our five hypotheses, which we believe are essential to a successful accelerator:

<u>i. Managers/ Leadership</u>

- Crucial for establishing a network of connections (financial/ technical/ legal, etc.)
- Essential to attracting ‘star’ startups

<u>ii. Controlled Accelerator Budget</u>

- How self-sustainable is the accelerator without additional funding and external revenue?
- What is the accelerators’ growth potential? Can it enroll more attractive startups?

<u>iii. Startup Support & Services</u>

- Financial (access to funding) and emotional (culture/ synergies)
- Mentorship
- Business and legal support

iv. Size Predictors

- What is the level of risk attached to the accelerator? How well is this risk hedged?

v. Entry/ Exit Criteria

- What is evaluation process for enrolling the startup companies with most potential?
- How are companies assessed and determined ready for graduation?

7. Concept of Mentorship

Our original hypothesis about mentorship was that it serves as a crucial element to the startup cycle within accelerators. However, in our interview with a mentor at an accelerator, he commented that due to the limited timeframe within these programs, most of the startup entrepreneurs simply do not have the luxury to be distracted from their product development and take advantage of these mentorship resources. He further noted that mentors themselves are very busy people and are involved with the accelerators and startups for only several hours per month on average, mainly in the form of panel discussions or office hours rather than on an individual basis. In his opinion, the advice and relationship with mentors is most valuable after companies graduate from the accelerators, given that they tend to have great experience and connections within the industries. Given this contrasting perspective, we were interested in how the startups within current accelerator programs value the mentorship they received and analyzed their feedback in the later sections.

8. Funding

a. Funding accelerators

Most accelerators are founded by experienced entrepreneurs that generate the initial funding through their network of trusted investors and partners. In addition to the monetary gains via accelerator valuation and the equity share in the individual startups, an important advantage for these investors is the opportunity to gain firsthand information on these startups and evaluate both the personnel and product development processes.

b. Funding startups

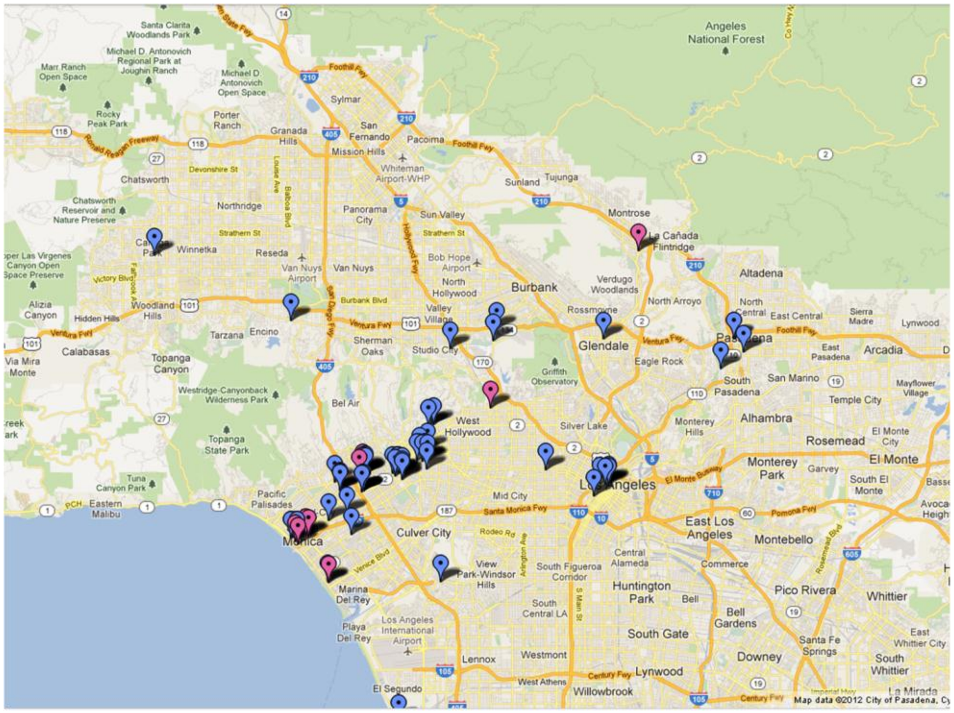
Upon enrollment to the accelerator, startups are provided an initial round of seed funding (average $20-50k). Throughout the programs, it is critical for the companies to not only begin creating revenue sources, but also obtain additional external funding from private investors to further grow and market their product. This often entails a negotiation process where interested investors will demand an equity stake for their investments, which is critical for the survival of the companies. As the startups mature and get ready to graduate from the program, they will ideally attract VCs and/or Angel Investors for additional rounds of funding and eventually become self-sustainable. The big payoff for the startup entrepreneurs and the investors is when the companies get acquired, or gain enough traction for an IPO event, and the stake holders can liquidate their ownership of the company.

Section III. LA Accelerators

1. Overall View

Los Angeles now has ~15 business accelerators that have started in the last 2-3 years. The first was LaunchPad LA, started by entrepreneur and venture capitalist Mark Suster in Santa Monica in 2009. Originally, LPLA was a mentorship-only organization, and did not take stake in the enrolled startups. However, the startups did so well and the program was so successful that Mark Suster decided to create an official accelerator program; the first class started in Jan 2012. Since LPLA's initial success, a dozen accelerators have been founded in the Greater Los Angeles area, mainly centered in West LA with the exception of Orange County's K5 (Sept 2011), Glendale's VoiVodaLabs incubator (2012) and Hollywood's io/LA (May 2012). The high density of business accelerators and technology companies such as Google and many gaming companies in Santa Monica and Venice has led to the nickname "Silicon Beach". In general, the accelerators adopt the same basic model of a 12-week program with some initial seed funding (usually $20k-50k). One parameter that does vary from accelerator to accelerator is the amount of overall capital in their funds. While LaunchPad is on the low-end with $1.3 MM, both Science and Elevator Labs have considerably larger funds at $10 MM and $20 MM, respectively. It is not obvious how long the initial capital is expected to last for every accelerator, but we were fortunate enough to obtain this information from some of the founders.

2. Geographical location of accelerators in relation to VCs and Angel Investors



The explicit underlying goal of business accelerators is to facilitate the next round of funding for startups. One managing director with whom we spoke insisted that geographical proximity to venture capitalists is distinct advantage towards reaching this goal. He revealed that numerous deals were made spontaneously simply because a venture capitalist walked into the accelerator, heard something s/he liked, and made a deal on the spot. If this fact holds true, then it would obviously be advantageous for accelerators to locate to areas with high concentrations of VC firms. Based on the map above, while there are certainly many venture capitalist firms on the west side where many current accelerators reside, there are also areas in Los Angeles with many VC firms and no proximal business accelerators (e.g., Downtown LA). It would perhaps be interesting to analyze the cost-benefit factors of starting an accelerator in these areas to see if the location will lead to more funding opportunities from venture capitalists.

3. Amplify, LaunchPad, and MuckerLab

We initially approached six business accelerators to interview for our project, and three agreed to participate- Amplify, LaunchPad, and MuckerLab. Coincidentally, all three of these accelerators are either currently holding the first class of their program or have recently graduated their first class. We visited each accelerator multiple times, met with the Founders and/or Managing Directors as well as some of the startups participating in the programs.

	Amplify LA	**Launchpad**	**MuckerLab**
Founded	2011	2009	2011
Founder(s)	Paul Bricault Richard Wolpert Jeff Solomon	Mark Suster	Erik Rannala Will Hsu Greg Bettinelli Yanda Erlich
Initial Capital	5 MM	1.3 MM	?
Current	8	0	0
Graduates	N/A	10	9
Enrollment	Rolling	Twice per Year	Twice per Year
Funding	$40-50K	$50K	$21K
Program Length	flexible	12-week	12-week

4. Brief History and Introduction to the LA Accelerators

a. Amplify

Amplify is a young accelerator founded in late 2011, and their first round of startups are still currently in house. Owing to the strong connections of one of the founders Paul Bricault, Amplify has close ties to the Media and Entertainment industry. In addition to the offices provided to the startups in the accelerator program, they are also building an adjacent co-working space to both generate rental revenue and create a synergistic environment. The executive manager is Jeff Solomon, a serial entrepreneur, who along with Paul Bricault, oversee their daily operations and provides years of startup experience. Compared to the other two accelerators, Amplify places a stronger emphasis on finding the right personnel and less on the actual projects and ideas. Rather than operating on a traditional 12-week class system, Amplify has continual rolling admissions and more fluid exit dates than traditional accelerators.

b. LaunchPad

LaunchPad started in 2009 as a mentorship, but has since developed into a traditional accelerator with its first class graduating in 2012. The founder Mark Suster is very well connected within entrepreneurial circles, given his other position as an investment partner at the VC firm GRP Partners, but he is not at LPLA on a day-to-day basis. The Managing Director Sam Teller is a young and confident individual who is in charge of both the daily operations of LPLA, as well as the initial evaluation process for startup enrollment. Given their initial success in 2009, which may be largely credited for the recent accelerator boom in SoCal, LaunchPad enjoys a distinct branding advantage along with its close connections to Venture Capitalists and Angel Investors.

c. MuckerLab

MuckerLab, an official affiliate of TechStars, has just graduated their first class in April 2012, but most of its seed companies are still staying at the accelerator until the next class starts in August. Although brand new to running an accelerator, the founders of MuckerLab, Will Hsu and Erik Rannala, have extensive executive experience in Silicon Valley. Given their strong ties and their experiences in the industry sector, many of the startups housed in MuckerLab are funded by Bay Area investors and focus on e-commerce and business-to-business (b2b) services.

5. Survey results

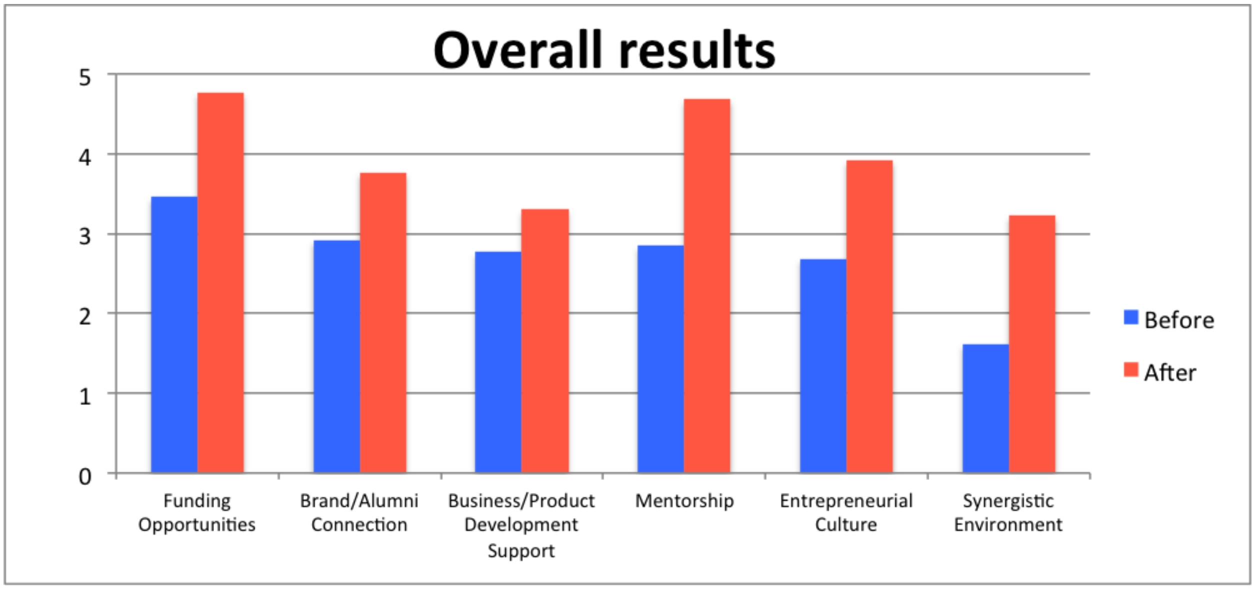
To gather more information about the underlying reasons behind startup companies' decision to apply to accelerator and evaluate their experience with the programs, we prepared a survey and sent it to the companies housed within the three accelerators. Out of the 27 startups currently in the accelerators, 13 of them responded to us (one of them replied twice, but since the responses were very different, we assumed different people replied and considered them as separate companies), giving us an overall representative response rate of 48%. In particular, there were 5 (out of 8) replies from Amplify LA, 4 (out of 10) from Launchpad, and 4 (out of 9) from MuckerLab.

The survey was composed of four questions relating to the startup company itself, which we used to profile the companies' product, its development stage, the market, and the competition. Additionally, we included a question asking the startups to rate, on a scale of 1 to 5, six important criteria for the companies to evaluate the accelerators. We were particularly interested in how the companies considered these factors when initially choosing an accelerator and, in contrast, how the startups view them after having been through the program. Table 1 below shows the average overall responses, together with standard deviations (The raw datacan be found in the Appendix).

Table 1. The importance of six factors while applying to accelerators and after being in the program, rated on a scale of 1 to 5 by 13 startup companies.

Overall	**Before**	**After**	St.dev. - Before	St.dev. - After
Funding Opportunities	3.46	4.77	1.5	0.42
Brand/Alumni Connection	2.92	3.77	1.07	0.97
Business/Product Development Support	2.77	3.31	1.19	1.38
Mentorship	2.85	4.69	1.29	0.46
Entrepreneurial Culture	2.69	3.92	1.32	1.33
Synergistic Environment	1.62	3.23	0.84	1.67

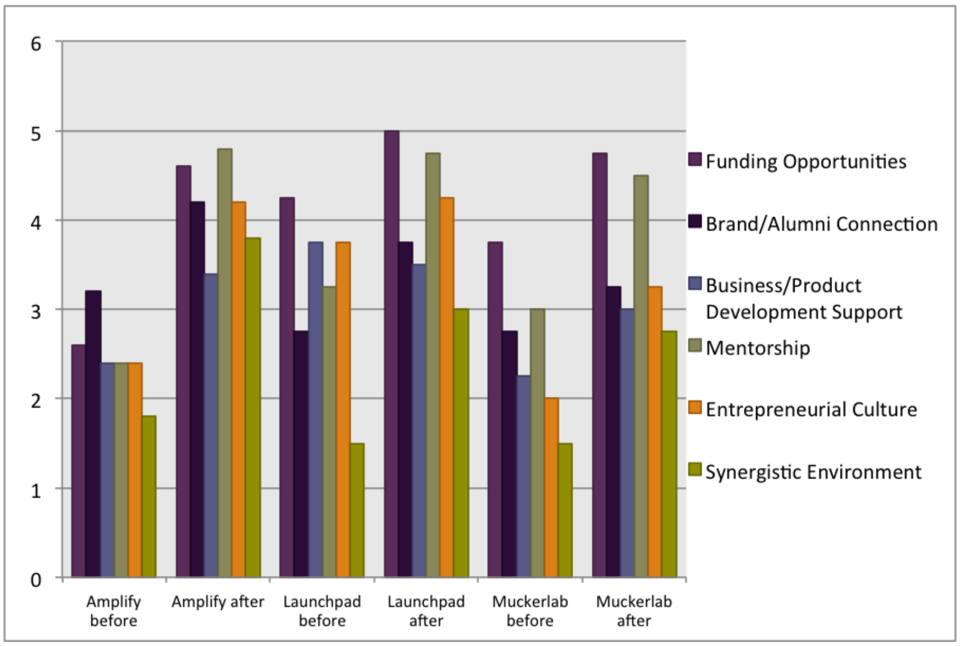
These results are represented in Graph 1 below:



Graph 1. Based on Table 1.

As Table 1 shows, the standard deviations of the results are considerably high for certain criteria, but nonetheless some overall trends may be quickly observed. First of all, it appears that the startup companies place higher value on each of these factors following enrollment into the programs. This may result from a combination of an initial underestimation of the intensity of the accelerator programs, as well as an enhanced appreciation of the various resources afterwards. In other words, it can be interpreted that on top of providing various physical assets and human capital, these accelerator programs are exactly serving their purpose of further motivating the startup companies by setting a clear direction and firm goals.

Another obvious observation is the utmost importance and emphasis placed on funding opportunities, which was consistently rated the highest before and after the program. This should come as no surprise, since the lack of funding is often cited as the most common cause for failure of startup companies both within and outside of accelerator programs. A more interesting trend that we noticed was the enhanced value of mentorship to startups following enrollment into the programs, which increased from 2.85 before to 4.69 after. This places 'mentorship' as a close second parameter to 'funding opportunities', which is, perhaps ironically, contradicting to the opinion from one of the mentors in a conducted interview, so we shall examine this in greater detail when revisiting our hypotheses in later sections. Regardless, these two factors were both rated the highest and shared the smallest standard deviation (of 0.42 and 0.46, respectively) in their value to the companies after the program, so it is fair to conclude that the startups do in fact consider them the most important. The factor considered the least important before the program was synergistic environment, but it had a relatively large increase after the program (from 1.62 to 3.23). This relatively low ranking might be biased by the fact that certain products and companies simply do not allow for direct synergies within the accelerators.



Graph 2. Results of the survey divided by accelerators.

To further dissect the differences in responses, we divided the results based on the accelerators. The numerical results can be found in the Appendix, and they are presented on Graph 2 above. By comparing the results between the three accelerators on Graph 2, it should be noted that the overall distribution of the importance of the six factors is quite different for each accelerator. Perhaps due to a small sample size of four to five responses per accelerators, however, the standard deviations are quite large and the differences are not that pronounced. It is therefore difficult to draw any meaningful conclusions with this set of data, and we are reluctant to compare any strengths and weaknesses among the accelerators, as we had originally hoped.

6. Valuation

It is difficult enough to value publicly traded companies (e.g., CitiGroup), harder yet to value private companies, and infinitely more difficult to value early-stage private startups.[1] Each of the business accelerators we have interviewed is a startup in and of itself and we have limited access to financial information. In general, the investors in the accelerator contribute to a fund, which pays out to the startups selected to the program. Typically, the fund then owns ~6% of common stock of the startup. If the startup receives additional rounds of funding, the initial holding of the accelerator fund is diluted. The fund only has a return on investment from the startup when a liquidity event occurs. The liquidity event could be an acquisition by another company or an initial public offering (IPO) of the startup's stock. The combination of the inherent volatility in startups and this delay of liquidation make the valuation of a business accelerator's portfolio nearly impossible to do in a realistic, scientific manner.

Regardless of the difficulty, we did attempt to value the portfolio of the three accelerators we visited. The ideal method of valuation would be to sum the amount each accelerator received from the IPOs of every startup in their respective portfolio. However, all of the accelerators are very young and any IPO is years in the future. Even if an IPO occurs, we would not be able to accurately assign the return on investment received by the accelerator since the shares of common stock most likely were diluted. Another option would be to sum the investment return received from each acquisition. Of course, acquisitions are often many years down the road like IPOs, and we would have even less information since acquisition prices of private companies do not need to be disclosed. Finally, we can try to predict the success of the startups based on the amount of investment raised in Series A and B funding. While some of this information is available (some is not), any numbers would be a measure of VC opinion, not an accurate predictor of success.

There remain two methods of valuation that we can do. The first, suggested by Professor Cornell, Caltech Professor of Finance, is to value the accelerators at the amount of initial capital deployed to the investment fund. Two of the three accelerators have disclosed the amounts in

[1] A quantitative equity analyst interviewed for this project gave the opposing view: "It's difficult to value public companies because thousands of other investors (the market) will eventually tell you when you're wrong. It's easy to value private companies because you can pick any number you like and no one is around to call your bullshit."

their investment fund (Table 2), but MuckerLab declined to state this number because the founders used their own money with only a small amount of outside investment. However, the founders of MuckerLab are extremely high net worth individuals and appear to be very committed to their endeavor. They do not need to raise a round of capital when their initial fund gets low, therefore, unless they lose interest, we predict they have the highest valuation using this method. Next would be Amplify, with $5 million (they expect this amount to last for 2012 and 2013), then LaunchPad, with $1.3 million.

Accelerator	Investment Fund ($MM)	Companies Funded/Year	Sustainability w/o Extra Revenue (yrs)
Amplify	5	40	2.5
LaunchPad	1.3	20	1
Mucker	N/A	20	N/A
StartEngine	15	100	7.5
Science	10	N/A	N/A
ElevatorLabs	20	N/A	N/A
Y-Combinator	10.25	120	1*
TechStars	11.5	60	8.75*

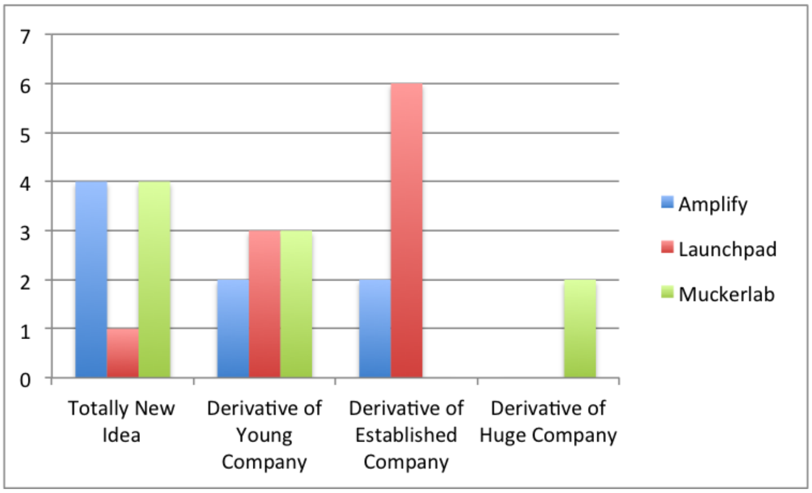
Table 2. Summary of the Financial Information of Acclerators.

A second method of valuation is to compare the existing companies in the accelerator portfolios to similar companies with recent IPOs or acquisitions where acquisition price was released or estimated.[2] We gathered as much public information as possible on each of the accelerators and all of the businesses in their portfolios. Most often, news reports revealed the amount of capital raised for the investment fund of the accelerator and the names of the investors. Press releases on startups are issued if an additional round of funding is raised beyond the initial investment by the accelerator, but do not always reveal the amount of capital raised. Based on that information and survey responses regarding comparables and competition, we assigned each company to the following categories:

Innovation	Potential for Revenue	Size of Competitor
Totally New Idea	Product is Free	Young Company
Derivative of Young Company	Small Fees per Transaction	Established Company
Derivative of Established Company	High Margins per Transaction	Giant Company
Derivative of Giant Company		

The plots below show the results of this classification, which are hardly surprising given the interests and experience of the accelerator founders. Amplify appears more creative with younger ideas; we agree since they are known for their media and entertainment background. LaunchPad, the most experienced accelerator, is comfortable competing with young but established ideas. MuckerLab, with the confidence, experience, and wealth of the founders, is willing to take risks on totally new ideas and challenge giant corporations. Although very qualitative, this classification agrees with our instincts that MuckerLab and LaunchPad will outpace Amplify. MuckerLab might have some grand slams, but we think LaunchPad will stay in the game with many singles.

[2] Of course, comparison to recent acquisitions is risky. A company that is derivative of Instagram is not worth $1 billion.


7
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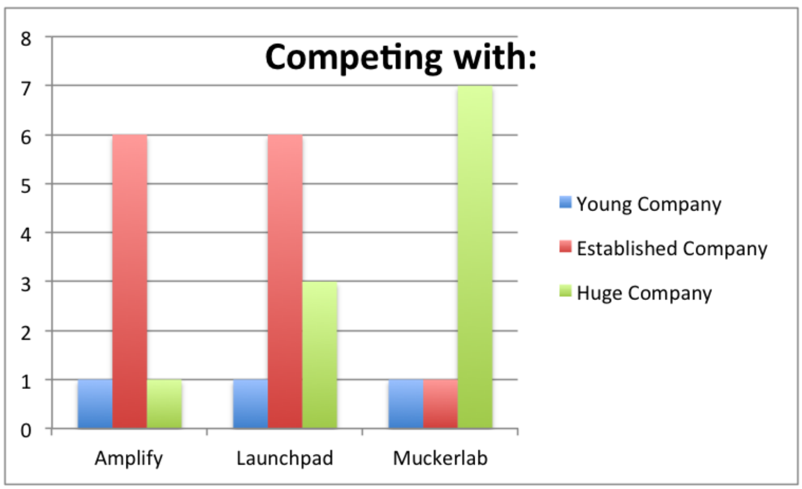
Totally New Idea
Derivative of Young Company
Derivative of Established Company
Derivative of Huge Company
Amplify
Launchpad
Muckerlab


Competing with:
8
7
6
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4
3
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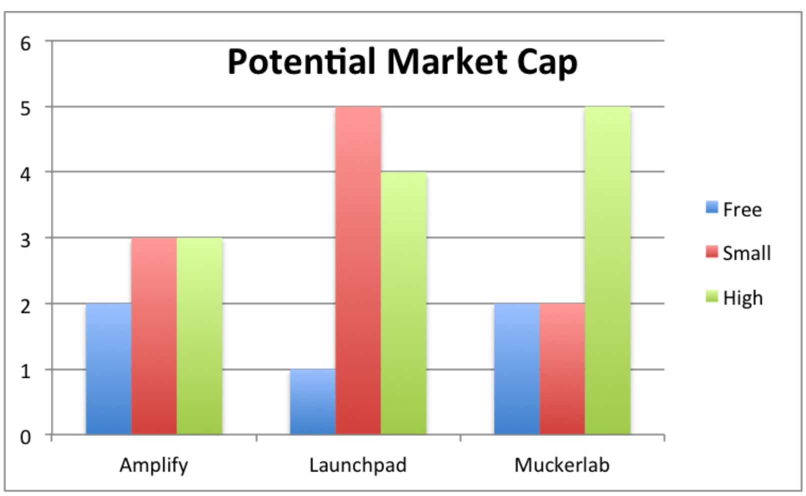
0
Amplify
Launchpad
Muckerlab
Young Company
Established Company
Huge Company


Potential Market Cap
6
5
4
3
2
1
0
Amplify
Launchpad
Muckerlab
Free
Small
High

Section IV. Future Work

1. Summary and Readdressing the Hypotheses

With the research data we obtained, we would like to revisit our hypotheses in the context of these three accelerators.

i. Managers/ Leadership

The founders of each of these accelerators are all experienced entrepreneurs that bring unique value to their organizations. Paul Bricault of Amplify is well connected to the media and entertainment industry, which is a decisive advantage especially in Los Angeles. Using his VC connections, Mark Suster has helped LaunchPad establish a strong reputation within the industry. And with years of experience in the e-commerce sector in Silicon Valley, Erik Rannala and Will Hsu have successfully drawn the interest of external investors to MuckerLab, while providing leadership and management on the day-to-day operations.

ii. Controlled Accelerator Budget

With limited financial information, it is challenging to accurately estimate the valuation of these individual accelerators. The future sustainability and growth potential of these companies seem to be highly dependent on the successes of each enrollment class, which brings a good amount of volatility. Given the financial figures in hand, the accelerators have sufficient funds for at least two years of operation, and our interactions with the accelerators have led us to believe that they will reassess their business operations within those timeframes.

iii. Startup Support & Services

In our survey, funding opportunities are consistently ranked the highest among the six criteria for selecting an accelerator. Somewhat surprisingly, the culture and synergies provided by the accelerators were not rated as high as the business mentorship. This is in contradiction with the opinion of an individual mentor, commenting that mentorship is overvalued and serves more as a marketing tool. We believe this may be a result of differences in experience between the mentor, who is in himself a serial entrepreneur, compared to the first-time entrepreneurs that generally enroll into accelerator program and may find greater value in the mentorship program.

Finally the business and product development support appears to be of significant but not decisive importance for the startup companies.

iv. Size Predictors

These three accelerators are all relatively young and it is therefore difficult to analyze the big picture portfolios and predict future outcomes. In our analysis, however, it does seem like they are taking rather different approaches towards risk management. Amplify is quite content with riding its bread-and-butter and taking advantages of its connections in the media and entertainment industry, generally engaging in more creative projects. With its established reputation and VC networks, LaunchPad aims at competing with young but proven ideas. The confident, experienced, and wealthy founders of MuckerLab allow them to engage in riskier new products and challenge existing markets. Overall, LaunchPad appears to be the most risk adverse, but also the least aggressive, while MuckerLab is definitely the most “high risk, high reward” that is typical with startup companies.

v. Entry/ Exit Criteria

The evaluation process for enrolling startup companies into the accelerators are generally done in two ways. Either through an open application, or via personal references, attractive projects with strong leadership are funneled into the pre-screened application pool. The accelerator managers and executives, consisting of experienced individuals, then assess these companies’ leadership and technological team, and investigate the products’ maturity, market, and competition, prior to making an informed decision. While unqualified applicants will most certainly be filtered out, this process seems to be more matchmaking and less exact science. The accelerators have not graduated many classes yet, but they seem to be more flexible with the exit dates than we had originally perceived, and appear generally guided by experienced individuals with good logic and reason.

2. Scenarios

Although there has been rapidly growing interest in business accelerators in the Los Angeles area, with more than a dozen of them founded in the past several years and massive amounts of capital invested, there is an inherent risk of a bubble forming as the tech industry blooms too fast too soon. Even if the industry shall prosper in the long term, where both the accelerators and their seed companies experience steady growth, the “high risk, high reward” nature of the startup industry will inevitably require some amount of collateral damage as the market eventually readjusts itself. Assuming that this holds true and the accelerator industry avoids a tech bubble and overall collapse, we present two scenarios for particular accelerators:

Scenario A

After several years of steady operations, Accelerator A has built a reputation in the LA accelerator scene, receiving hundreds of applications from startups to join their program every cycle. Despite its initial success, the last three rounds of seed companies have not yielded high returns, and investors are starting to question the management’s competency and their ability to select ‘winners’ into their program. As the industry has prospered, the competition has also become fiercer, and Accelerator A has slowly lost the investors’ interest and thus its ability to continue attracting the top startups. Gradually, the small successes of its seed companies are no longer sufficient to cover the overhead expenses required for recruiting its next class, and Accelerator A is forced to choose between raising more capital to continue sustaining its operation or shutting down the business entirely. After evaluating the entire the industry and seeing how Accelerator A has lost its competitive edge against the dominant market players, the management level decides on the latter, thus joining more than a handful of accelerators that have closed down in the past year.

Scenario B

In light of the success of LA accelerators such as Amplify, LaunchPad, and MuckerLab, Accelerator B was founded in 2012 by Ms. BHAM, an entrepreneur with strong experience and extensive connections in the electronics retail industry. Starting out as a new player in the market with limited capital, enough to only sustain two startup classes, Ms. BHAM decides to focus specifically on recruiting companies in the electronics industry and provide boutique services via her expertise in the sector. Like many other accelerators, most of the first-round startups have failed to generate revenue, but two of the ten companies have shown promise. Faced with a do-or-die situation with two shots at success, Ms. BHAM decides to dig deep into her own pockets and orchestrates a massive Demo Day, inviting hundreds of investors she has associated with over the years. Fortunately, one of the two startups, Electronics R' Us, delivers a killer presentation and garners immense attention from many VCs and Angel Investors. Within 6 months, Electronics R' Us receives another 3 rounds of VC funding and gets acquired by Amazon as part of a competitive strategy. Due to this success, Accelerator B is now able to attract more investors and be more selective in the enrollment process, and Ms. BHAM decides to reinvest some of the capital into the program. Since the accelerator has grown larger in size, some of the risk involved is also hedged, and Accelerator B is able to withstand the semi-bubble within the industry as other accelerators are forced out of business (e.g. Accelerator A). As many of the weaker performers are weeded out of the market over the next several years, Accelerator B manages to maintain its performance through size and smarts, and becomes a major player in the LA accelerator industry that has now become an important entrepreneurial center in the US.

As described in the scenarios, we are optimistic in the LA accelerator industry as a whole and believe that there is definitely potential for growth. Since the survival and sustainability of these accelerators are highly dependent on the low-probability successes of individual seed companies, however, we predict a somewhat binary outcome for each accelerator; in 5 years, some of the weaker performers will likely be out of business, while the successful ones will continue on to become major forces in the industry.

3. Recommendations

The three accelerators that we studied each have unique advantages, and we like the chances for at least one of them to emerge as a dominant player among the steep competition of ~15 accelerators in the area. As an early entrant to the accelerator market and the only one with a successful track record thus far, LaunchPad has a decisive edge from a branding perspective and is likely to appear the most attractive to LA investors at this time. Amplify, on the other hand, enjoys great connections to the media and entertainment industry, which is perhaps the strongest trait uniquely offered by Los Angeles. The founders of MuckerLab do not only provide strong leadership and entrepreneurial experience in the e-commerce sector, but are also highly engaged in its daily operations, which may prove critical to its long-term success.

In our brief interactions and research conducted on the accelerators, we have also noted certain areas of improvement, which are humbly presented as follows:

a. Amplify

- Presents itself as a loose and fun environment, which is great, but may benefit from more established rules for professionalism.

b. LaunchPad

- The roles of individuals within the accelerator seem ill-defined, which may be distracting.

c. MuckerLab

- Based on the survey and the limited amount of information provided on the website, MuckerLab should provide more public exposure of their companies to external investors.

d. General recommendations

- In our analysis of the companies, we noticed that the names of the startup companies are often either unappealing or non-descriptive.
- Open accelerators in downtown LA/ mid-Wilshire, which is proximal to many VC firms and will help gain exposure and develop connections.
- In the case of strong applicants that are not accepted into the programs, an ‘honorable mention’ and/ or follow-up program may help with retaining talent for later classes.

4. Team Function

Over the course of the quarter, Team BHAM operated with a high level of efficiency based on a shared commitment towards the project and mutual respect for one another. While we as individuals are in different stages of our careers and each have busy schedules, we were mostly able to work around that via effective communication. In one notable instance, a team member was not performing at a satisfactory level, and the rest of team felt compelled to bring this observation to his/her attention. Fortunately, we all handled this incident with a high level of professionalism, and the individual took this criticism well and responded in a positive manner that was appreciated by the rest of the team. In retrospect, we realize that this may have resulted from the lack of clear expectations; so while we try to keep a fun but focused atmosphere during our meetings, we have since been more willing to explicitly hold each other accountable.

Section V. Acknowledgment & References

1. Acknowledgment/"Thank you" notes:

Kristin Buxton, Jeff Solomon & Tegan Gaan (Amplify LA), Sam Teller & Scott Sangster (LaunchPad), Will Hsu (MuckerLab).

2. References

Secondary Resources

a) http://www.launchpad.la/
b) http://www.amplify.la/
c) http://www.muckerlab.com/
d) http://www.techstars.com/
e) http://ycombinator.com/
f) http://www.caycon.com/valuation.php (Valuation Quiz)
g) http://www.shortwiki.com/complete-list-of-los-angeles-startup-accelerators/
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v) http://www.socaltech.com/interview_with_erik_rannala_muckerlab/s-0038904.html

Interviews

a. Amplify LA
    i. Jeff Solomon (Co-Founder & Executive Director)
    ii. Tegan Gaan (Community Manager)
b. Launchpad LA
    i. Sam Teller (Managing Director)
    ii. Scott Sangster (Mentor)
c. Mucker Lab
    i. Will Hsu (Co-Founder)

Appendix

Startup	Accelerator	Funding Opportunities		Brand/Alumni Connections	
		before	after	before	after
A	Launchpad	5	5	3	4
B	Amplify	1	4	3	5
C	Launchpad	4	5	1	3
D	Amplify	5	5	5	5
E	Amplify	2	4	2	4
F	Amplify	3	5	3	5
G	Launchpad	3	5	4	5
H	Muckerlab	5	5	3	3
I	Muckerlab	1	5	1	3
J	Muckerlab	4	4	4	4
K	Muckerlab	5	5	3	3
L	Amplify	2	5	3	2
M	Launchpad	5	5	3	3
	Average	3.46	4.77	2.92	3.77
	St.dev.	1.50	0.42	1.07	0.97

Business/Product Development Support		Mentorship		Entrepreneurial Culture		Synergistic Environment	
before	after	before	after	before	after	before	after
4	4	3	5	5	5	2	4
2	4	1	5	2	5	2	5
5	5	4	5	4	5	2	5

1	1	5	5	1	1	1	1
3	4	1	4	1	5	1	4
3	5	1	5	4	5	1	5
4	4	2	5	2	3	1	2
2	2	4	4	3	3	2	4
1	5	2	5	2	5	2	5
4	3	3	4	1	3	1	1
2	2	3	5	2	2	1	1
3	3	4	5	4	5	4	4
2	1	4	4	4	4	1	1
2.77	3.31	2.85	4.69	2.69	3.92	1.62	3.23
1.19	1.38	1.29	0.46	1.32	1.33	0.84	1.67

Table 1. Raw data from the survey.

Accelerator	**Factor**	**Before**	**After**	std - before	std - after
Amplify	Funding Opportunities	2.6	4.6	1.36	0.49
	Brand/Alumni Connection	3.2	4.2	0.98	1.17
	Business/Product Development Support	2.4	3.4	0.8	1.36
	Mentorship	2.4	4.8	1.74	0.4
	Entrepreneurial Culture	2.4	4.2	1.36	1.6
	Synergistic Environment	1.8	3.8	1.17	1.47
Muckerlab	Funding Opportunities	4.25	5	0.83	0
	Brand/Alumni Connection	2.75	3.75	1.09	0.83

	Business/Product Development Support	3.75	3.5	1.09	1.5
	Mentorship	3.25	4.75	0.83	0.43
	Entrepreneurial Culture	3.75	4.25	1.09	0.83
	Synergistic Environment	1.5	3	0.5	1.58
Launchpad	Funding Opportunities	4.25	5	0.83	0
	Brand/Alumni Connection	2.75	3.75	1.09	0.83
	Business/Product Development Support	3.75	3.5	1.09	1.5
	Mentorship	3.25	4.75	0.83	0.43
	Entrepreneurial Culture	3.75	4.25	1.09	0.83
	Synergistic Environment	1.5	3	0.5	1.58

Table A2. Results from the survey depending on the accelerator.