

COULD ACCELERATORS AND EQUITY CROWDFUNDING COMBINE TO IMPROVE ACCESS TO FINANCE FOR EARLY STAGE STARTUPS?

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Keywords: financing, venture capital, startups, entrepreneurship, technological companies**Abstract:** The main goal of this article is to explore possible concepts of combining the acceleration program and equity crowdfunding. Both are venture capital instruments that finance businesses at the very early stages of their life cycle. The equity crowdfunding and the acceleration programs can be used to raise capital for business creation, first production and product distribution. In addition to the capital, they provide start-ups with additional benefits such as mentoring, networking, feedback from the crowd and a pool of experts. The authors of the paper believe that a combination of these two tools can even increase their positive impacts. In this article the authors of the paper search the first providers combining accelerator programs and equity crowdfunding. Afterwards based on those examples and their common features there are classified different concepts of how to combine acceleration programs and equity crowdfunding. Moreover, short characteristics are added for each concept and brief description of the process of each identified concept.

1 Introduction

Two venture capital instruments are discussed within this paper, namely acceleration programs and equity crowdfunding. These are two innovative, fast-growing tools that focus on financing innovative projects. The authors of the paper explore the possibilities for their interconnection in order to maximize their contribution to the financing of the technological startups as access to capital is often a serious barrier for their development. The authors also believe there are several similarities between these tools and their interconnection can increase their current contribution in this field.

De Buysere et al. [1] define crowdfunding as "the collective effort of multiple individuals who are joining and collecting their resources to support efforts initiated by other people or organizations. This is mostly done through or with the help of the Internet. Individual projects and businesses are funded by smaller contributions from a large number of individuals, allowing innovators and entrepreneurs to use their social networks to raise financial resources."

Marom and Sade [2] define crowdfunding similarly. They describe it as an innovative funding mechanism that uses the Internet and social networks to raise funds from a large number of investors, usually a smaller sum from each investor than the amounts commonly invested by venture capital investors. Crowdfunding can be used to obtain seed capital for company creation, initial production and distribution of the product, but also for other purposes as

the realization of an art project, medical treatment and many other forms of projects and initiatives.

Bradford [3] understands equity based crowdfunding as a type of crowdfunding that offers investors a share in the business they help to finance. Equity based crowdfunding is a form of funding through which the enterprise can obtain financial resources not only from large professional investors but also from a large number of smaller investors via the Internet, while the option of getting only few but bigger investors remains. Investors, in exchange for the provided capital, acquire a stake in the company's ownership.

The second risk capital instrument examined within this paper are accelerators. Miller and Bound [4] define the basic features of accelerators as follows:

- Time-limited support in the form of intensive mentoring and group meetings in the accelerator.
- A freely accessible and highly competitive selection process.
- Focus on small teams, not individuals.
- Provision of pre-seed capital, usually in exchange for equity.
- Accepting companies in a batch or cohort into the program.

During the period of the acceleration program, businesses are dedicated to prototype research and development, testing, designing upcoming product versions, technology issues related to production, logistics etc. When businesses develop a product that fits the needs of the market and can be implemented with a sustainable

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business model, businesses go into the next phase and focus on planning the growth of the company. They work on a marketing strategy, deciding which markets they should enter, selecting the channels they should use, budgeting. The plans for the production and logistics of their product during the period of fast growth are also developed within such programs at this stage.

Baird, Bowles, and Lall [5] list the four main functions of the acceleration programs:

- To support business development of the startups (eg, by mentoring).
- To provide infrastructure (eg. office space, joint back office services).
- To establish new contacts (with customers, investors, mentors).
- To provide financial resources.

2 Methodology

For the purpose of identifying and classifying the possible concepts of combining acceleration programs and equity crowdfunding is crucial to know today's providers who, in any way provide their services in a form that combines these two venture capital instruments. Knowing them will also be helpful to characterize these different possibilities of combining accelerator programs and equity crowdfunding. The search of such providers was by:

1. Internet research,
2. Searching in specialized databases,
3. Consultations with experts.

The search was done mostly by an internet research. The authors of the paper searched for the providers primarily using the search engine and the search was based on selected keywords associated with terms such as accelerator, crowdfunding, equity based crowdfunding, business, startups, and so on. Providers of such services communicate their offer most often through their websites, so this form of search was considered to be the most appropriate. This research was complemented by search in specialized databases such as f6s, angelist, gust, and crunchbase, where both technology companies and service providers such as accelerators can be searched for. In addition, authors of the paper also approached the experts from the industry to get tips for such providers and published articles dealing with this topic were reviewed.

The identified providers were segmented into several groups based on recurring features and the characteristic features and process were described per each group.

3 Result and discussion

The first identified provider was the Crowdcube crowdfunding accelerator. In 2012, the crowdfunding platform Crowdcube began to provide a training course for those who are interested in their services to help them to increase their chances of being able to raise capital through their platform. What presents also increase of sales for the platform which are based on the amount of transactions

made through their platform? It was a training that lasted three weeks, calling it the accelerator, but its intensity was distinct from the usual accelerators. Net time lasted only 10 hours [6].

After two years, a similar service was launched by CoPhilly's crowdfunding accelerator. In this case authors of the paper already agree with calling this service an accelerator as the duration has been increased to ten weeks and participants attended the accelerator at least three times each week to meet mentors, investors, attend lectures, and so on. An interesting fact is that university students have been involved in this program to help participating businesses and to gain new insights and skills themselves. Unlike conventional accelerators, preparing for a crowdfunding campaign was the only goal of this program [7].

In 2015 Zoomaal [8] came up with a new form of combining crowdfunding and acceleration program. It was an acceleration program that used crowdfunding in its selection process. Applicants for a place in the acceleration program had to get a pre-agreed amount through the crowdfunding campaign. If they succeeded, the accelerator accepted them into their program, where they provided them with additional capital from their sources. Therefore, the candidates had to show through crowdfunding that there are people who are interested in their product. A similar example occurred afterwards only once, a year later, when The Valley Labs Accelerator used the same concept of using crowdfunding in the acceleration program selection process, but it is not active any more.

In 2016, several accelerators including Collider [9], Startup Wise Guys [10], Ignite and Webstart Bristol [11], announced a new way to use equity based crowdfunding by accelerators. These accelerators used equity based crowdfunding to raise financial resources for their own activities. They did this through an equity based crowdfunding campaign to get the resources they used to cover their own expenses of running an accelerator but also to finance the companies they chose for their program. Investors who supported the accelerators obtained small, predefined share in all the businesses selected for the acceleration program.

In the same year the Crowdfunding accelerator came up with a new innovation in the field of combining acceleration programs and equity crowdfunding. Its purpose is to prepare crowdfunders for their campaign through training and consultations similarly to Crowdcube and CoPhilly. The difference is that the whole program is online. Therefore, participants do not have to travel anywhere and all meetings can be accessed via conference calls and webinars [12].

In 2017 was established for the first time the fourth identified way of interaction between equity based crowdfunding and the acceleration program in the form of collaboration between their providers. The platform Crowdcube created three partnerships with three accelerators in 2017 and 2018. Participants in these

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classical accelerators, focusing on areas such as product design and acquisition, have the opportunity to raise capital through equity based crowdfunding during the program. Crowdcube experts are available to help them to prepare their Crowdcube campaign. In 2018, Crowdcube is also launching co-operation with Virgin Startups Crowdboost, the program of the famous billionaire Richard Branson, which is as some of the other programs mentioned above designed to help participants to raise capital through equity based crowdfunding [13].

Overall, 18 service providers that combined at least some elements of the acceleration program with equity based crowdfunding or vice versa were identified within this paper. As could be seen, some examples were very similar. Therefore, the authors of the paper grouped the individual cases into four different groups, categories where providers in each group are connected by some similarities in the form of realizing the combination of crowdfunding and the acceleration program. All the providers and the categories of four identified concepts can be seen in Table 1.

Table 1 Overview of service providers combining elements of the acceleration program and crowdfunding by category

	Company	Country	Year
C1	Crowdcube crowdfunding accelerator	UK	2012
	CoPhilly	USA	2014
	Cleantech crowdfunding accelerator	UK	2015
	Crowdfunding accelerator	UK	2016
	CF Academy	UK	2016
	Blue fund rewards	USA	2017
	Global giving accelerator	Singapúr	2017
	Chuffed	UK	2018
C2	Zoomaal	Bejrút	2015
	The Valley labs accelerator	Izrael	2016
C3	Collider	UK	2016
	Startup Wise Guys	Estónsko	2016
	Ignite	UK	2016
	Webstart Bristol	UK	2016
C4	TAN & Crowdcube partnerstvo	UK	2017
	LMarks & Crowdcube partnerstvo	UK	2017
	L39 & Crowdcube partnerstvo	UK	2018
	Virgin Startups & Crowdcube - Crowdboost	UK	2018

Based on these examples, specifically the main features of the interconnection of the acceleration program and the equity crowdfunding that have been observed in these examples, the authors of the paper suggest a classification of four basic concepts how accelerators and equity crowdfunding could be combined.

1. Hyper-accelerator specialized on equity crowdfunding.

- a. Hyper-accelerator (owned by equity crowdfunding platform provider) linked with the campaign.
- b. Independent hyperaccelerator not linked to the campaign.

2. Equity crowdfunding as a validation within the acceleration program selection process.

3. Equity crowdfunding as a source of funding for the acceleration program.

- a. With the campaign done on the external provider's site.
- b. With the campaign implemented on own website.

4. Equity crowdfunding integrated into the acceleration program.

Hyper-accelerator specialized on equity crowdfunding.

Suitable also for reward crowdfunding: Yes

Suggested Monetization: Combination of fixed fee and commission fee. Commission as a percentage of the collected amount motivates the program operator to provide the best possible support for its participants. At the same time a fixed fee should be paid at the start of the program in case a participant decides during the preparation that the campaign will not be executed or for the case that the participant does not cooperate with the organizer properly.

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The process:

1. The startups send an application and the accelerator selects participants.
2. The selected startups participate in the acceleration program. Like in typical accelerators, they meet with mentors, other participants of the program, attend lectures, workshops, etc. But unlike conventional accelerators, this type is focused on just one topic (target) - to prepare a project for a crowdfunding campaign. The program can be very intense (7-10 days) or stretched within a few months (similar to conventional accelerator programs).
3. In the case of a hyperaccelerator linked to the campaign, the campaign starts after the program.

Equity crowdfunding as validation within the acceleration program selection process.

Suitable also for reward crowdfunding: Yes

Suggested Monetization: A commission fee paid to the crowdfunding platform as a percentage of the amount raised. A small equity in the start-up transferred to the accelerator in exchange for additional investment and participation in the program.

The process:

1. The startups submit applications and the accelerator prepares a shortlist of pre-selected projects, which continue within the selection process.
2. These projects run a crowdfunding campaign.
3. Projects that have successfully completed the campaign are accepted for the acceleration program.
4. Program participants will receive additional capital from the accelerator.
5. Accepted projects participate in the acceleration program.

Equity crowdfunding as a source of funding for the acceleration program.

Suitable also for reward crowdfunding: No

Suggested Monetization: A commission fee paid to the crowdfunding platform as a percentage of the amount raised.

The process:

1. Accelerator raises funds for its upcoming program through a crowdfunding campaign before the program. Investors get a small stake in all companies that are accepted for this upcoming program.
2. The accelerator divides the acquired capital. One part is devoted to an accepted business as an investment from an accelerator. The second part covers the spendings of the accelerator related to organizing and running the program.
3. Accelerator selects participants, startups which subsequently take place in the acceleration program of the accelerator.

Equity crowdfunding integrated into the acceleration program.

Suitable also for reward crowdfunding: Partly yes, however, it is suggested to use it mainly in the synthesis with equity crowdfunding as it is more suitable for a wider range of companies.

Suggested Monetization: Business share transferred to the accelerator in exchange for investment, participation in the program, and mediation of the crowdfunding campaign through a dedicated equity crowdfunding platform.

The process:

1. The startups submit applications and the accelerator selects program participants.
2. The selected startups participate in the acceleration program. In the period of few months they meet mentors, other participants, attend lectures, workshops, etc. (as usually in a typical acceleration program).
3. In addition, they use this support to prepare an equity crowdfunding campaign.
4. Startups at the end of the structured acceleration program present their projects to investors at a demo day.
5. Startups run their campaigns on the crowdfunding platform to raise capital to fund the next life cycle (ideally right after the demo when businesses also normally in a common acceleration program start to communicate with investors who have got interested in their projects at the demo day).

4 Conclusions

It is important to address the issue of financing technological companies and the development of their new products in the initial phase of their life cycle. It is usually for them difficult to find sources of capital and funding in classical ways. This is why the authors of the paper have explored in this article the possibility of combining two venture capital instruments to increase their contribution in this area. Specifically, these two instruments were acceleration programs and equity based crowdfunding. Four concepts of how equity crowdfunding and accelerator programs could be combined are classified and briefly characterized within the paper. The authors of the paper anticipate that their application to practice can bring even bigger positive impact on the financing of startups than these two instruments create separately. These examples have emerged in the countries with developed venture capital markets, most of them in the UK. However, the authors of the paper believe these concepts could be applied worldwide.

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