CENTRE FOR DIGITAL ENTREPRENEURSHIP & ECONOMIC PERFORMANCE

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PARTNERS FOR PROSPERITY AND INNOVATION

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PART 2: EXECUTIVE INSIGHTS ON FISCAL SUSTAINABILITY IN CANADA'S STARTUP SUPPORT SYSTEM

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ABOUT THE DEEP CENTRE

ADVICE - IMPACT - SUCCESS

The Centre for Digital Entrepreneurship and Economic Performance (DEEP Centre) is a Canadian economic policy think-tank. Founded by Anthony Williams in 2012 as a non-partisan research firm, the DEEP Centre's work shapes how jurisdictions build fertile environments for launching, nurturing and scaling companies that will thrive in an increasingly connected world. Its research and advisory services have helped policymakers around the world identify and implement powerful new policies, programs and services to foster innovation, growth and employment in their jurisdictions.

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PARTNERS FOR PROSPERITY AND INNOVATION

PART 2: EXECUTIVE INSIGHTS ON FISCAL SUSTAINABILITY IN CANADA'S STARTUP SUPPORT SYSTEM

TABLE OF CONTENTS

About the Report 2
Chapter 1: Introduction 3
Chapter 2: BAI Executives on Their Relationship with Government 8
Building the startup funnel and contributing to economic development 8
Balanced public – private funding models 9
Tying funding to impact 10
Challenges with public sector funding cycles 11
Chapter 3: BAI Executives on Private Sector Revenue Models 14
Service fees 14
Corporate partnerships 17
Equity stakes 25
IP licensing and brand franchising 29
Real estate leasing 30
Chapter 4: BAI Executives on Revenue Growth and Fiscal Sustainability 32
Fiscal sustainability and early-stage startups 32
Sector-specific revenue growth challenges 34
Regional revenue growth challenges 36
Chapter 5: VCs and Corporates on Partnerships with BAIs 38
Do BAIs build investable companies? 38
Are BAIs a good source of deal flow? 41
Experimenting with corporate accelerators 46
BAIs as innovation consultants and concierges 49
BAIs as ecosystem builders and conveners 51
On public funding for building the startup funnel 52
On fiscal sustainability and ongoing engagement 54
On the role of the public sector 55
Chapter 6: Strategies for Boosting Impact and Fiscal Sustainability 60
Increasing specialization 60
Tapping new markets and growth strategies 61
Attracting seasoned entrepreneurs 63
Boosting the metabolism of the ecosystem 64
Pooling resources and sharing best practices 66
Chapter 7: Summary of Key Findings 68
About the Author 71

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ABOUT THE REPORT

The Partners for Prosperity and Innovation Project is the first nation-wide effort to assess the viability of self-sustaining business models for business accelerators and incubators (BAIs) in Canada. Drawing on a national survey and a wide-ranging series of executive interviews, the study highlights critical strategies for growing private sector revenue streams and establishes a better understanding of the challenges startup support organizations are encountering in their pursuit of fiscal sustainability.

This study on the fiscal sustainability of business accelerators and incubators in Canada was generously funded by the Atlantic Canada Opportunities Agency (ACOA), the Business Development Bank of Canada (BDC), FedDev Ontario,Innovation, Science and Economic Development Canada (ISED) and Western Economic Diversification Canada (WD). The information, opinions and interpretations expressed in this report are those of the authors and do not necessarily reflect the official policy or position of the Government of Canada. The Government of Canada and the aforementioned agencies are not responsible for the accuracy, reliability or currency of the information.

Readers should note that the research for this report was conducted before the onset of the COVID-19 pandemic. The impact of the pandemic is therefore not captured in data gathered about the revenue models and fiscal sustainability of business accelerators and incubators (BAIs) in Canada. Likewise, any forward-looking assessments of the capacity of BAIs to maintain or enhance their fiscal sustainability going forward will not account for the impact of COVID-19 on the operations of BAIs.

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INTRODUCTION

The survey results discussed in Part 1 of the *Partners for Prosperity and Innovation* series provide a quantitative picture of the current state of fiscal sustainability in Canada's startup support infrastructure, along with some insights into the opportunities and challenges associated with growing private sector revenue streams. To complement the fiscal sustainability analysis, the DEEP Centre conducted a series of semi-structured executive interviews to gain a richer qualitative understanding of the viability of the various revenue models for different types of BAIs.

Between November 2019 and February 2020, 56 executives participated in a series of one-to-one interviews with the DEEP Centre. The interview sample included a representative mix of BAIs, large companies, industry associations, innovation consortia and venture capital firms.

In the first round of interviews, a total of 25 BAI executives participated in interviews with the DEEP Centre. The participants represent a diverse cross-section of BAIs in Canada, including BAIs in different regions of the country, BAIs offering a variety of services (e.g., incubation, acceleration and advisory services), and BAIs targeting different sectors and stages of firm maturity. Table 1 provides the full list of BAI interviewees.

The DEEP Centre asked BAI executives to reflect on their current funding mix, including their reasons for prioritizing certain private sector revenue streams over others (e.g., prioritizing corporate partnerships over equity stakes in client companies). Many interviewees provided input on the rationale for sustained public funding for startup support services in Canada. Executives assessed their progress towards greater fiscal self-reliance and shared their strategies for growing private sector revenues. We also learned about the challenges of achieving fiscal sustainability, and whether the pursuit of private sector funding could impact their client intake and service offerings. Finally, we asked BAI executives about their strategies for partnering with VCs and large anchor firms and their approach to keeping these entities engaged in the ecosystem.

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BAI INTERVIEWS

TABLE 1

NAME	TITLE	ORGANIZATION
Brea Lake	CEO	**Accelerate Okanagan**
Natalie Dakers	CEO	**AccelRX**
Burak Evren	Director, Cleantech Program	**Alacrity Foundation**
Jill Tipping	CEO	**BCTech**
Sandy Marshall	Executive Director	**BioIndustrial Innovation CDN**
Jordan Dutchak	Executive Director	**Co-Labs**
Avvey Peters	Chief Strategy Officer	**Communitech**
Heather Marshall	Head of Partnerships	**Creative Destruction Labs**
Richard Cloutier	CEO	**EcoFuel**
Jeanette Jackson	CEO	**Foresight Cleantech Accelerator**
Sylvain Carle	Managing Director	**FounderFuel**
Marcus Daniels	CEO	**Highline Beta**
Claude Martel	President	**Inno-Centre**
Patrick White	Managing Director	**L-Spark**
Ray Walia	CEO	**Launch Academy**
Susan McLean	VP, Venture Services	**MaRS**
Tyler Hamilton	Sr Manager, Partnerships	**MaRS Cleantech**
Rory Francis	Executive Director	**PEI Bio Alliance/Emergence**
David Chavez	VP, Strategic Partnerships	**Platform Calgary**
Barry Bisson	Executive Director	**Propel ICT**
Matt Saunders	President	**Ryerson Futures**
Patrick Farrar	CEO	**Startup Zone**
Chris Diaper	CEO	**TEC Edmonton**
Joe Allen	Managing Director	**UNB Energia Ventures**
Dan Gunn	CEO	**VIATEC**

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CHAPTER 1

INTRODUCTION

In the second round of interviews, the DEEP Centre consulted 31 executives with organizations that frequently interact with business accelerators and incubators in Canada. These organizations include large companies, industry associations, innovation consortia and venture capital firms. Collectively, the interviews cover organizations in sectors ranging from construction, transportation and natural resources to financial services, information technologies, manufacturing, pharmaceuticals and telecommunications.

During the interviews, we asked executives with large companies about their corporate innovation strategies and whether partnerships with BAIs are helping companies achieve their innovation objectives. Corporate executives reflected on how and why they engage with startups and what they look for when evaluating opportunities to partner with BAIs. We also asked executives about the return on investment on their partnerships with BAIs and whether they expect to maintain, increase or decrease these partnerships over time.

In conversations with venture capital firms, we asked executives whether Canadian BAIs build investment-ready companies and whether they look to BAIs for deal flow. Executives reflected on the perceived value of deepening their engagement with startup support organizations. We also asked VCs for recommendations for putting BAIs on a more sustainable economic footing.

Finally, in our conversations with industry associations, we discussed their interactions with Canadian startups and BAIs. Several executives shared lessons learned about establishing successful innovation partnerships and integrating startups into industry-led research and development projects.

What follows is a synthesis of the interview findings. The first three chapters provide a summary of insights from our conversations with BAI executives. Chapter 2 provides a synthesis of executive reflections on the relationship between BAIs and their funding partners in government. Chapter 3 summarizes what executives had to say about the various private sector revenue models. Chapter 4 captures feedback on the opportunities and challenges associated with achieving fiscal sustainability. Chapter 5 features insights and observations about Canadian BAIs from our conversations with corporates, VCs and industry associations. In the Chapter 6, we examine recommendations and strategies for enhancing the fiscal self-reliance of BAIs in Canada.

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STAKEHOLDER INTERVIEWS

TABLE 2

NAME	TITLE	ORGANIZATION
Carolina Gallo	VP, Government Relations	**ABB**
Jason Switzer	Executive Director	**ACTia**
Bryon Clayton	CEO	**ARM Institute**
David Bowcott	VP - Growth, Innovation & Insight	**AON Risk Solutions**
Jean Marc Landry	VP, Innovation	**Atlantic Lottery Corporation**
Jonathon Rhone	Chief Executive Officer	**BC Cleantech CEO Alliance**
Zoltan Tompa	Director, Cleantech Practice	**BDC**
Rob Barbara	General Partner	**Build Ventures**
Cam Vidler	VP, Industry and Innovation	**Business Council of Canada**
Carl Weatherall	Executive Director and CEO	**Canada Mining Innovation Council**
Joy Romero	VP, Technology and Innovation	**Canadian Natural Resources**
Josipa Petrunic	CEO	**CUTRIC**
Cassie Bowe	Vice President	**Energy Impact Partners**
Marty Reed	CEO	**Evok Innovations**
Dinaro Ly	Head, Innovation and Partnerships	**Interac**
Maxwell Morgan	Chief Legal Officer	**M4K Pharma Inc.**
Tim Faveri	VP, Sustainability and Shared Value	**Maple Leaf Foods**
Nestor Gomez	Startup and Entrepreneurship Lead	**McCain Foods**
Bryan Reimer, Ph.D.	Research Scientist MIT AgeLab	**MIT Adv. Vehicle Technology Cons.**
Yuri Navaro	Special Projects	**Panache Ventures**
Chris Moyer	Director	**Pelorus Venture Capital Limited**
Alexander Peh	VP, Head of Innovation	**RBC**
Peter McArthur	Senior Account Manager, Cleantech	**RBC**
Nicole LeBlanc	Investments	**Sidewalk Labs**

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STAKEHOLDER INTERVIEWS

TABLE 2 CONTINUED

NAME	TITLE	ORGANIZATION
Aled Edwards	CEO	**Structural Genomics Consortium**
Alfred Baghouzian	VP, Emerging Mobile Technologies	**Telus**
Rich Osborn	Managing Director	**Telus Ventures**
Judy Fairburn	Founder	**the 51**
Aaron Chockla	Venture Capitalist	**True North Venture Partners**
Ryan Heit	Partner	**Valhalla Private Capital**

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BAI EXECUTIVES ON THEIR RELATIONSHIPS WITH GOVERNMENT

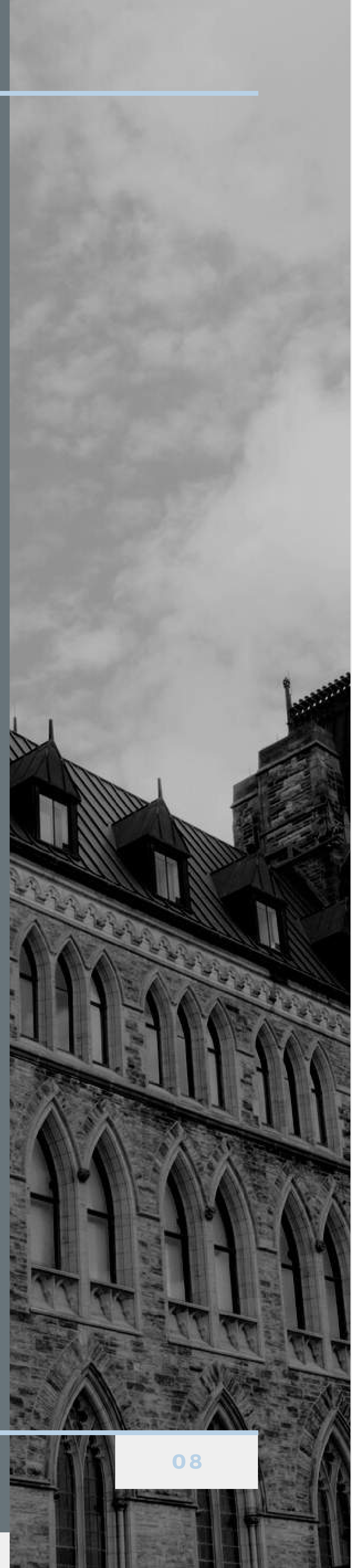
In this chapter, we provide a synthesis of executive reflections on the relationship between BAIs and their funding partners in government. More specifically, we summarize input from executives on the role of BAIs in building the top of the startup funnel and fueling economic development, the rationale for balanced public-private funding models, the importance of tying funding to measurable outcomes and ROI, and their challenges with the current funding approach for BAIs in Canada.

BUILDING THE STARTUP FUNNEL AND CONTRIBUTING TO ECONOMIC DEVELOPMENT

While this project has focused on the viability of private sector revenue streams, the point of departure in our conversations with most BAI executives was an impassioned call for government to play an enduring in funding startup support programs. Executives articulated two main arguments in favour of continuing the current level of government support.

First, many BAIs believe their role is to build the top of the startup funnel and create a pipeline of technology companies that will grow the ecosystem. When asked what might happen if governments scaled back their support for BAIs, most executives predicted that the startup funnel would dry up. As one BAI executive explains:

> *“We were almost entirely privately financed, and we had almost no startup scene. There is nothing to feed the funnel and grow the ecosystem. A couple of large companies were sucking up all the talent. Looking ahead 30 years, we may have a stable and evergreen funnel of startup activity. Then perhaps you wouldn’t need public money. But our ecosystems are still relatively new and still relatively fragile. In the Valley, you don’t need the public funding because it's evergreen.”*



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BAI EXECUTIVES ON GOVERNMENT

Several BAI leaders expressed concerns that a growing focus on scale-up programming and the pursuit of private sector revenues risks undermining the support infrastructure that supports a healthy ecosystem. "We will invert the pyramid if we don't continue to support the pipeline development," said one executive. "Public funding gives us the ability deliver on the basics but also meet new and emerging needs with innovative offerings. We need a wide funnel at the early stages because the success rates are so low. You need to give entrepreneurs all the pieces to be successful and then you need more startups coming through the pipeline."

The second argument executives advance to justify ongoing investment from government is related to the economic development function of BAIs. More specifically, they argue that their efforts to support new business creation should be viewed as a contribution to economic development, even if many of the companies that graduate from BAI programs will never be venture-track scale-ups. "The fundamental question is whether BAIs are useful engines for driving economic development," said one executive. "If they are, and there is a good ROI, then why try to find other means of privately financing BAIs?"

BALANCED PUBLIC – PRIVATE FUNDING MODELS

While many BAI leaders are adamant about the need to maintain government support, the majority also appreciate the importance of diversifying their revenue streams and engaging the private sector. In fact, most BAIs see balanced public-private funding models as optimal. They argue that a mix of public and private funding allows diverse organizations to contribute to and benefit from building a thriving startup ecosystem. Said one executive:

> *"We have operated on a public-private partnership model since 2004. We firmly believe in an ecosystem funding model, which assumes financial contributions from all sizes and types of organizations: small, medium, large, public, private, non-profit, academic, social profit. It's the mix of investment within an innovation ecosystem that contributes to the collective health and economic impact of the community. If any one form of investment is withdrawn – or is drastically reduced – the model ceases to function optimally."*

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BAI EXECUTIVES ON GOVERNMENT

Several executives added that the ability to supplement government funding with service fees and other private sector revenue is healthy. Few disagree with the notion that entrepreneurs and other ecosystem players should have “skin in the game” as well. However, most executives also believe that it is unrealistic to assume that early-stage startups can shoulder the full cost of services that BAIs deliver. As one executive put it:

"Our clients pay for programs and services, and they value the services more highly. The revenues have allowed us to grow our team and support innovative programs that aren’t funded by government. However, without government, our community-based work would be non-existent. We do capacity building with non-profits and local colleges and plant the seeds of entrepreneurship. This work builds the funnel.”

TYING FUNDING TO IMPACT

Another important thread of conversation relates to the perceived need to double down on performance measurement and weed out the poor performers that are crowding the startup support landscape. Some executives expressed a clear desire for their organizations to be measured against the ROI they create. And, several BAI leaders see an opportunity to rationalize public funding. They want government to use the evidence from national performance measurement framework to ensure that money goes to entities that create value.

“ROI is the only metric that matters,” said one executive “Done properly there is a good ROI to the public purse. But that is not always the case. You need to have the political will to shut down the BAIs that don’t work. Program design matters and delivery matters. We have done a lot of work on the metrics and how we measure success. It gives us all the chance to prove our contribution to economic development. That’s an important aspect of the learning process and figuring out how to better allocate public funding for BAIs.”

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CHAPTER 2

BAI EXECUTIVES ON GOVERNMENT

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“Some rationalization of funding is warranted,” said another executive. “We went through all the players in our regional ecosystem. We found 25 other entities. That’s not really sustainable in a region in our size. We have some very strong players. But there could be some rationalization of the funding. The government should provide more resources to the organizations that are really adding value and providing world-class services to entrepreneurs.”

Underpinning these comments is an increasingly common assertion that Canada has too many BAIs relative to the size of our startup ecosystem. The surplus dilutes the impact of the whole ecosystem and makes it harder for the top performers to rise above the noise. More selective funding, argue some BAI leaders, would lead to less duplication and make the overall public contribution to early stage startup support programs more sustainable.

CHALLENGES WITH PUBLIC SECTOR FUNDING CYCLES

Easily the most consistent feedback from executives on their relationships with government revolved around what many perceive as a perpetual fundraising cycle, especially in the aftermath of CAIP. As noted in some of the commentary below, executives argued that short-term funding commitments from government cause BAIs to divert valuable time and resources from service delivery. Many also referenced the consequences of fiscal instability, which makes it hard to retain the best staff or invest in program development.

- “The timelines of the funding cycles are challenging. CAIP was 5 years. You could plan and hire the right people to run programs. With CAIP ending, we are back to 1-year funding. You are always in fundraising mode. It creates instability. Trying to keep the best staff is a big challenge.”
- “Year-to-year funding makes it impossible to invest. When we secured 5 years of CAIP programming it helped us focus on implementation and building sustainable programming. The annual cycle doesn’t enable diversification.”
- “We don’t want to spend 70% of our time focused on fiscal survival. We get distracted from our core mission. You can’t focus on the companies and supporting them properly.”

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CHAPTER 2

BAI EXECUTIVES ON GOVERNMENT

The upshot is that BAIs would like to see more consistent funding for early-stage startup programming. Numerous executives argued that although the essential delivery of early-stage programming does not change, government funding programs require BAIs to invent new ways to dress them up differently. Echoing earlier comments about feeding the top of the startup funnel, BAIs would like the government to view their contributions in early-stage programming as an investment in building the foundation of Canada's startup ecosystem.

- "Consistency of funding is really important. When you assess the high impact programming – consistency over time is one of the most successful contributors to helping startup companies. The foundational programs for getting companies going don't really need to change dramatically over time."
- "Early stage entrepreneurs need the same basic stuff. That never changes. You need basic company building skills and none of the early stage companies have money to pay for services. You need that foundation and government will have to pay the bill for that."
- *The fundamental problem on the federal side is the incremental funding. It's hard to maintain what you have built. Funders should ask: Do you want constant flux by funding what is new and sexy? Or do you want to build some key pieces of infrastructure and keep them going? Killing a good program because it's not new doesn't help anyone."

Finally, the perceived need for greater flexibility to evolve programming within their funding agreements was another point of consensus for many of the executives interviewed by the DEEP Centre. Executives also want consistent support for core operations, more resources for business development and a greater focus on outcomes rather than milestones in their contribution agreements.

- "We need more flexibility to evolve the strategy and the delivery model. The trend in the public sector funding program is to get more and more granular about what the specific industry contribution is going to look like when you are generating matching dollars. We are trying to get the government to see the difference between investing in a strategy to deliver an outcome vs. a strategy to deliver a program with specific activities. There's risk management and accountability on their side, but we have to be responsive to our industry partners whose needs evolve constantly."

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CHAPTER 2

BAI EXECUTIVES ON GOVERNMENT

- “Flexibility is key. With our startup programming we have targets to hit that makes you deliver services to companies that don’t really merit it. In short, you end up over-delivering. Don’t make it milestone based. Make it outcomes based.”
- “We need more support for core operations. They often don’t want to fund core operations, but they demand so much in terms of reporting. The operating expenses of BAIs are non-trivial and the foundation is very important to the success of the program.”
- “They could help us with funding to do business development. They want us all to become less reliant on public funding. But its takes time and effort to invest in business development.”

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CHAPTER 3

BAI EXECUTIVES ON PRIVATE SECTOR REVENUE MODELS

In this chapter, we take a closer look at what executives had to say about each of the individual private sector revenue models. More specifically, we examine the shift to cost-shared advisory service models and the opportunities and challenges in building mutually beneficial partnerships with corporations and other institutional partners. We also look at the arguments for and against taking equity stakes in client companies and summarize executive reflections on whether return-on-equity models are viable in the Canadian startup ecosystem. Finally, we briefly review the opportunities BAI leaders see to generate revenue from intellectual property and real estate leasing.

SERVICE FEES

A key finding from DEEP Centre research on BAIs is that high-quality mentorship is a crucial differentiator among support organizations. Mentors impart advice, helping council entrepreneurs on how to shape a viable business, and how to avoid costly mistakes. In most BAIs, in-house experts or entrepreneurs in residence (EIRs) are also available to supply targeted operational and strategic advice around issues ranging from branding to accounting.

In the quintessential business acceleration formula, founders relinquish a share of their equity in exchange for services like these. In the more prevalent non-profit model in Canada, there is a growing tendency for BAIs to charge their clients service fees instead. Indeed, the survey results and interviews confirm that cost-shared advisory services, along with other nominal participation fees, are increasingly common across the ecosystem.

The upshot is that BAIs would like to see more consistent funding for early-stage startup programming. Numerous executives argued that although the essential delivery of early-stage programming does not change, government funding programs require BAIs to invent new ways to dress them up differently. Echoing earlier comments about feeding the top of the startup funnel, BAIs would like the government to view their contributions in early-stage programming as an investment in building the foundation of Canada's startup ecosystem.

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CHAPTER 3

BAI REVENUE MODELS

Many argue that cost-shared services as a useful discipline that also helps make BAI operations more sustainable. “We cost-share 3rd party expertise to fill the gaps that can’t be addressed by our volunteer mentors or by our EIRs,” said one executive. “It’s a useful way of keeping companies aligned with the key priorities. Companies have to put real cash on the table. It’s a useful discipline.”

At present, there is no one-size-fits-all model for cost-shared services in Canada. The ratio on the cost-share varies from program-to-program, entity-to-entity and across regions of Canada as well. We found models where startups contribute as little as 25% of the cost of consulting work to circumstances where startups pay 60% of the cost of delivering a custom consulting project.

In situations where BAIs lack the appropriate in-house expertise to address specific client needs, it is also common for companies to source their consultants themselves. As one BAI leader explains:

"We retain consultants to deliver specialized consulting services around IP strategies, regulatory strategies, and marketing and sales strategies. We arrange the consulting relationship, but they can also source a consultant themselves. It’s typically a 60/40 split. We pay the consultant 100% of the consulting fee. The client puts 25% of the cost down upfront and then contributes the other 15% when the project is complete."

Many BAIs that charge for services apply a tiered approach to pricing, with nominal program participation fees for early-stage companies and bespoke pricing for custom consulting. “We charge early-stage companies $200 per month, which equals about four hours of mentorship,” said one executive. “We pay mentors or EIRs $75/hour, and the companies are paying about $50/hour.” The executive went on to describe the pricing and delivery model for scaling companies.

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CHAPTER 3

BAI REVENUE MODELS

"We charge scale-ups about $1000 month to meet with EIRs once a week. The companies typically have $1-2 million in annual revenue and are generally not interested in the programmatic components. The engagements are much more tailored. We do offer structured group programming on marketing, communications, investment and other topics. If you provide very concrete services to the group and don't call it a program, then you get ready adoption.

Since the scale-up programming is new, the costing is still being tested and could be subject to revision. "The $1000 fee can be a challenge for some," said the executive. "There is some push-back on the fees."

Meanwhile, some BAIs have experienced trouble with custom projects and bespoke pricing because, as one executive put it, "we were not clear on what the pricing was." In this instance, the fees were based on project scope and also the perceived ability of clients to pay, including factors such as size, maturity, and recurring revenues. "This caused some issues with the community," said the executive, "because we couldn't be transparent on pricing."

Critiques of the cost-shared service model
While many BAIs see service fees as a revenue growth opportunity, the fee-for-service model has its critics. The most cynical see service fees as a means for BAI execs to funnel paid consulting work to friends and business associates. Others that have gone down cost-shared service path worry that the transactional nature of service delivery undermines the spirit of community that has traditionally been a vital component of the incubation experience.

"The downside of the cost-shared service models is the impact on the alumni base and our sense of community," said one executive. "Services are very transactional, and companies come to think of you as a service provider rather than a community. We started to see serious lack of meaningful alumni engagement. The lack of that community hurt us by undermining the level of community advocacy for the good that we create."

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CHAPTER 3

BAI REVENUE MODELS

Most of the critics, however, are skeptical about the credentials of in-house consultants and EIRs. Executives with VC-backed accelerators, for example, question whether entrepreneurs are getting the quality advisory services they need. “BAIs are saying it’s a success because they are getting paid,” said one executive. “But companies would have a hard time getting genuine consulting services at the same rate. This is not McKinsey level of consulting.”

“Service fees are not for us,” said another BAI executive. “We dedicate ourselves to identifying good founders with promising tech ideas and helping startups to increase their valuations. The services that startups need ought to be part of the operational costs of running a business. Good companies with revenues will get funding and can pay for high-quality services in the private market. The question then is the level of expertise. You get what you pay for. What kind of track record do the BAI service providers have?”

Many BAIs that charge for services apply a tiered approach to One common complaint about the mentorship and advisory services offered by BAIs in Canada is that mentors or EIRs assigned to firms often lack real experience in building successful growth companies from scratch. Many mentors and EIRs have been recruited from business schools or have previous experience working as executives in large companies. And as one investor put it, “Folks who have time, often aren’t the ones you need.”

Even BAIs that charge services concede that finding the right people to deliver advisory services is a significant challenge. “Acquiring the right subject matter and business expertise is difficult. The EIRs have to have scaled a company before; otherwise, their advice is not as credible.” “Human capital is the biggest challenge for our Canadian ecosystem,” said another executive. “Even the fund management space has challenges. The expertise in creating scalable tech companies is not broadly available. There is no MBA for private-sector investing at the seed and series-A level. Acquiring that knowledge is one of the biggest challenges.”

CORPORATE PARTNERSHIPS

The consensus from those interviewed by the DEEP Centre is that corporate partnerships can create a lot of value for the ecosystem, bringing opportunities, experience and connections to startups.

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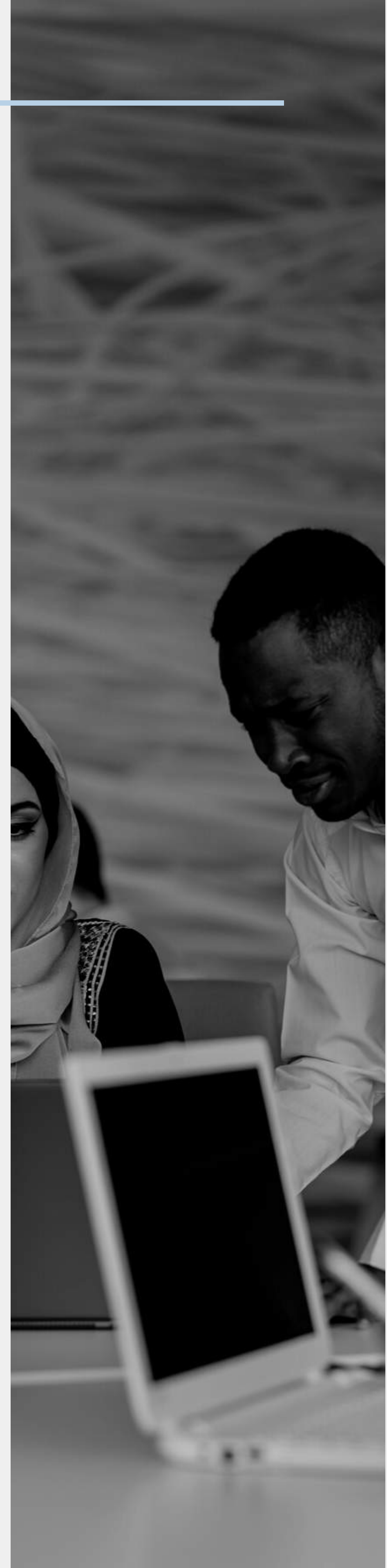
CHAPTER 3

BAI REVENUE MODELS



As highlighted in the survey results, most BAIs across Canada receive sponsorship dollars from large Canadian companies, and just over forty percent of the sample has established more lucrative partnerships to deliver corporate innovation programming. Despite this progress, corporate innovation partnerships are still relatively new in Canada, and both BAIs and corporates expressed concerns about the extent to which contributions from corporate Canada will provide a long-term solution for the fiscal sustainability of our startup support system.

In chapter five, we highlight input from corporate executives. Here, we focus on what BAIs executives told the DEEP Centre about their partnerships with both foreign and domestic corporations. Our conversations with executives reveal that BAIs have different models for structuring their relationships with large corporations. The strategies range from innovation outposts and corporate accelerators to custom consulting projects, venture showcases and educational workshops. We take a brief look at each model below.

Innovation outposts. In the innovation outpost model, corporations embed a full-time innovation team within a technology hub, incubator or accelerator to develop, monitoring and acquire new technologies, talent and startup companies. In other words, outposts facilitate matchmaking by providing an interface between startups and large corporates, but they generally do not perform fundamental research or core product development.

For large companies, innovation outposts help insulate corporate innovation teams from the organizational structures, processes and policies that often stifle creativity and impede innovation. Eventually, it can work in reverse as exposure to new ways of thinking and working helps instigate significant culture change in the broader corporation, making sclerotic bureaucracies more agile and innovative. Having an innovation team embedded in a thriving technology hub also enables large companies to keep closer tabs on the trends and technologies that are transforming and potentially disrupting their industries. In other words, the outpost becomes the company's early warning system. Embedding a corporate venture or M&A team opens up further opportunities to forge relationships with local startups, which in turn can lead to large companies adopting their products, making an investment or pursuing an acquisition.

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BAI REVENUE MODELS

For startups and SMEs, on the other hand, outpost teams represent a visible and accessible entry point into large companies and thus dramatically enhances their ability to market their capabilities, technologies and solutions to corporate customers.As one BAI executive explains:

> *"We have brought many Toronto-based companies into our ecosystem. It makes them more accessible to our companies. The corporate labs help smaller companies navigate the larger enterprises. The lab manager can broker the relationships with senior executives running the business lines. Corporates can become investors, customers and even acquirers. In some cases, larger enterprises come to understand the depth of the talent pool and opened up larger facilities in the region."*

Corporate accelerators are programs designed to support the successful development of entrepreneurial companies – or innovations within companies – through an array of business support resources and services, including mentoring and access to capital. Vertically focused corporate accelerators in life sciences, medical devices, autonomous vehicles, industrial automation, artificial intelligence and other niches are common in the US and some parts of Europe. Though less abundant in Canada, companies such as Blackberry, Cenovus, RBC and Telus have backed several Canadian corporate accelerators in domains such as cleantech, fintech and secure IoT solutions for mobility and autonomous vehicles.

For large firms, corporate accelerators are designed to power innovation opportunities in conjunction with early-stage startups and are becoming a staple in well-rounded corporate innovation programs. When done correctly, they are capable of increasing brand awareness, encouraging experimentation, and opening the door to potential partnerships and investment opportunities for corporate brands. More advanced corporate accelerators only accept mature startups with market-ready products and revenue. Their focus is on preparing these startups for additional VC investment, an acquisition or a joint venture that can make a non-trivial contribution to corporate growth.

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CHAPTER 3

BAI REVENUE MODELS

Corporate accelerators have clear advantages for startups as well. Sitting side-by-side with large corporations in a startup's area of focus can open up access to global value chains. It can also allow them to take advantage of other synergies that accelerate business, including hands-on mentorship and exposure to the corporate partner's executives, employees and customers. One BAI executive claims that corporate accelerators represent one of the best options for ensuring that they have a clear pathway to securing a first sale with a motivated corporate customer. "Many of our startups are working on revenue-generating opportunities with our corporate partners," they said.

Corporate innovation consulting. In the corporate innovation consulting model, BAIs provide companies with custom consulting services in projects that typically pinpoint business challenges and then pair large companies with startups that can deliver solutions. The engagements tend to be highly customized and less structured than the outpost or corporate acceleration models. A typical project will begin with a diagnosis of innovation needs and involve a combination of executive education and matchmaking sessions with the local startup population. As one BAI executive explains:

> *"Our focus is on executive education and consulting with partnership agreements that typically span three months to a year. We create a program to address specific challenges. Our teams will work with corporates to solve those challenges through a combination of workshops and curated venture showcases that introduce corporates to startups in our community."*

The ultimate goal of many corporate innovation consulting engagements is to build a roadmap for innovation that will create business opportunities for the startups in their portfolio. Depending on the sophistication and experience of corporate partners, BAIs may also educate corporations about working with startups and help companies foster a culture of innovation.

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CHAPTER 3

BAI REVENUE MODELS

Challenges with the corporate partnerships
A top-level finding from all of the DEEP Centre's research to date is that corporate innovation partnerships hold significant promise, but there are also significant challenges that can hamper progress. According to the executives we interviewed, BAIs are often challenged to attract corporate partners, find the right talent to deliver corporate programming, and ensure that corporate programs add value to the bottom line. We take a brief look at each challenge in turn.

Attracting corporate partners. While a handful of Canadian BAIs have attracted the lion's share of corporate investment, many BAIs have experienced difficulties recruiting corporate partners. BAIs outside of Toronto and Montreal say their lack of proximity to corporate headquarters makes it especially challenging to lure in the more significant partnership agreements. "Anywhere outside of Toronto or Montreal is very difficult," said one executive. "Once you count all of the costs, it is a big price tag. It's costly to set them up, and very few have the human resources to make it work. In short, it's hard to put enough into the price to recoup the investment in getting these deals done."

Others cited a long sales cycle and insufficient deal flow for keeping corporate partners interested. "It is tough to get the money. You have to go to Toronto to get the money. Once you go there, most BAIs need additional government funding to help pull them in. Not many of us can do that. We just can't offer corporates the deal flow that will make it interesting for them."

Sustaining engagement. Several BAIs that have secured corporate partners have struggled to keep them engaged after the initial partnership agreements expired. "We had a corporate partner for three years," said one BAI executive. "They won't renew for year four. They are going to internalize the program. Tech adoption is low in Canada. R&D spending is low as well. And unfortunately, there are too few tech scaleups that corporates would find interesting. It will take years to grow more of these in our ecosystem. And even if we did, very few corporates are into open innovation in our local market."

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CHAPTER 3

BAI REVENUE MODELS

One BAI executive conceded that their organizations has been challenged to roll-over some partnerships after three years of engagement. “There is only so much we can do for an organization like TD Bank,” said the executive. “Once they have been here for three years, they may have exhausted what they want to do. Do we graduate them? Can we find new things to do? How do we improve the offerings so that we can keep them engaged? We need to build stuff quickly so that we can stay ahead of where they are.”

Turning a profit. BAIs recognize that corporate partners can create value for the ecosystem, but most also hope that corporate partnerships will enhance their fiscal self-reliance. Several BAI leaders noted, however, that corporate partnerships are often far less lucrative than they appear. "The money from the corporate partnerships is like sales revenue," said one executive. "We have to hire people and build programs to support it. There is a margin, and sometimes the margins are thin."

In some cases, BAIs have struggled to break even. Some even estimate that they have lost money servicing corporate clients. As one BAI executive explains:

> *“The revenues we have generated are material and substantial, but now we need to make it profitable,” said one executive. “Every one of our engagements is unique. They are not easily repeatable. It's hard to create a real margin. We spend the money that comes to deliver the programs. It's not really helping improve our financial sustainability. If we had a standardized model, we could scale it. We need a strong operations level to understand what we are selling and what it costs to deliver. We need more structure to ensure the work that we are doing creates impact and has a net benefit. "*

Acquiring the right talent. A common challenge for all BAIs is finding the sophisticated management talent required to deliver value to corporate partners.

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CHAPTER 3

BAI REVENUE MODELS

As one BAI executive explains:

> *"Talent is key. Not anyone can come in and run these programs. You need to negotiate deals and set up the right structure. You also need to get all of the right stakeholders to agree. Then we need people who understand talent, the market, how to raise capital, the regulatory environment and the industrial technology landscape. You also need infrastructure. You need all of those aspects to make it work. We need more communication and marketing skills. You need a gamut of experience to make these projects work."*

Another BAI executive agreed that finding the right talent support corporate programming is critical. "You need to have the right skill sets to run these programs effectively. The people you need are expensive. It's hard to make a margin on these programs. It's only a great business model if you can make it work."

Prospects for growing corporate partnership revenue
A hypothesis coming into the project was that corporate partnerships represented a promising opportunity to bolster the fiscal self-reliance of Canadian BAIs. While not discounting the possibility, the executive interviews with BAI leaders highlight a mix of optimism and pessimism about the potential to expand corporate partnerships across the ecosystem.

One of the biggest challenges will be overcoming the lack of innovation leadership in Canada's industrial sectors. The population of large corporations in Canada is small and predominantly consists of firms that are late or reluctant adopters of new technologies. The problems with institutional inertia and risk aversion are so endemic that entrepreneurs often choose to ignore the Canadian market altogether and concentrate on Asia, Europe and the United States instead.

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CHAPTER 3

BAI REVENUE MODELS

As one BAI executive explains:

> *"The big financials in Canada don't have many incentives to take big risks. They just have to keep pace with one another. The telco space is the same. The other big sectors are not as innovation-driven. Most companies we support are looking for big corporate clients in the US. The deals will be 10x the size. TD and RBC are fine for early adoption, but they are not going to double your valuation."*

Other BAI leaders complain that some companies engage with startup ecosystems for the wrong reasons. They want to show that innovation is happening, but their investments don't lead to tangible outcomes. "Many companies are relatively early in their journey and unsure about how to engage with an innovation ecosystem," said one executive. "They are seeking to inject more creativity into a staid corporate culture or put a more attractive hue on a corporate brand." Others noted that large companies in Canada have also scaled back R&D teams, which means their in-house capabilities for evaluating and adopting new technologies are generally poor, and their skills for working with or investing in startups are immature to non-existent.

> *"Trying to engage with banks is like pulling teeth," said one executive. "Many companies do tire kicking and innovation tourism and not a lot of follow-up. They don't plan for success or for scaling up. Collaboration is challenging for large companies too. They don't have internal resources or expertise to assess all of the emerging technology solutions. Corporates have to be super clear about what they are looking for. We don't want to waste time for startups that are looking for genuine opportunities."*

BAIs are also experimenting with different methods for engaging corporates. They believe BAIs have unique value to offer, but they are still trying to identify a sustainable and differentiated model.

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CHAPTER 3

BAI REVENUE MODELS

“We are trying to figure out where we fit,” said one executive. “We don’t want to compete with traditional consultants. We need to recognize our unique value proposition. We have unique insights given our work with ventures. We can leverage this experience to provide unique services to corporates.”

Others are optimistic that a multi-stakeholder approach, with the government at the table, could provide the key to making corporate innovation partnerships work. “We can grow this work, but engagement with government to create leverage is key,” said one BAI executive. “If we tie corporate innovation to government objectives, we can get funding to help companies innovate. Working with other partners can lower the costs even further. There is a lot of opportunity in Canada. Energy, transportation, construction, agriculture. There are 800 companies with $5-10 million in revenue that can innovate.”

EQUITY STAKES

The traditional accelerator model has focused on the exchange of equity for funding. Our survey shows that a small number of venture-backed accelerators in Canada have adopted the conventional model and remain convinced that a return-on-equity remains the best way to finance and operate a startup support organization. Most publicly supported entities in Canada, on the other hand, are far less likely to take equity stakes. For a mix of philosophical and pragmatic reasons, the leaders of these organizations are skeptical that the return-on-equity model is viable in the Canadian market. We take a brief look at these opposing viewpoints below.

The case for equity stakes
In the conventional formula, startup accelerators support early-stage, growth-driven companies through education, mentorship, and financing. Startups enter accelerators for a fixed period, and as part of a cohort of companies. The accelerator experience is a process of intense, rapid, and immersive education aimed at accelerating the life cycle of young innovative companies, compressing years' worth of learning-by-doing into just a few months.

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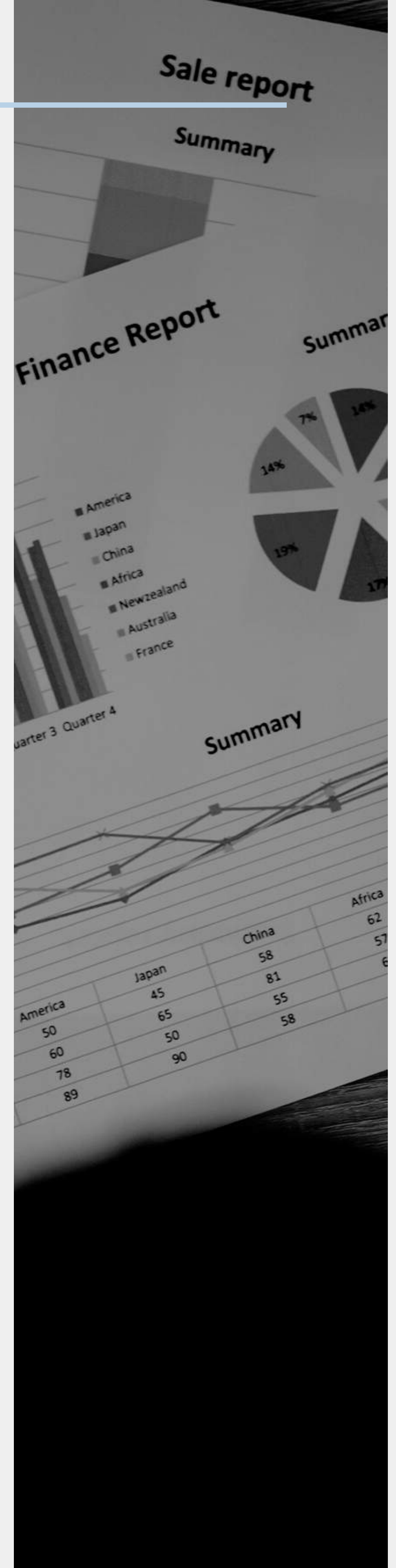

CHAPTER 3

BAI REVENUE MODELS

In exchange for this experience and an initial round of seed funding, founders typically give up 5 to 7% of the equity in their companies. Startups that graduate from top programs should see an acceleration in reaching key milestones, such as time to gaining customer traction, raising venture capital, and exit by acquisition. In other words, if the accelerator does its job, both the startup and the accelerator win. Startups can leverage their learnings to accelerate their path to maturity. And, when successful startups have a liquidity event, accelerator programs are often compensated handsomely for their investment.

For Canadian BAIs, where high-value exits are still rare, faith in this model requires patience. Yet, with more and more acquisitions taking place, some BAIs see the benefits. “You can’t sustain BAIs based on project funding and grants and contributions from government alone,” said one executive. “It may have taken some time for the equity positions to pay off, but, having exited a few positions, the return on equity now constitutes about 50% of our revenue. This allows us to sustain our operations and invest in new programs.”

A recurring theme in our conversations with venture-backed accelerators is the need for patient investors. Said one executive:

> *“Our model is self-sustaining, but for the time being its unrealized profits. We know we are successful because of the increased valuations of our companies. Most of our portfolio companies are still operating. But the timeline for exits is 7 to 11 years. We are just starting to see some of the exits now. Nothing material yet. We are looking for exits that are $100 million or more. We are playing the longer-game, and that means having patience. It's a challenge to plan for ten years, but we have convinced our LPs that it is a 10-year cycle.”*

Another BAI executive agrees on the timeline but is still unsure about whether the return on equity from future exits will provide adequate compensation for the years of support they have provided. “Two of our companies are talking about a liquidity event,” said the executive. “What is that number? Will we break even? It is hard to say yet. In Canada, most organizations will not break even.”

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CHAPTER 3

BAI REVENUE MODELS

The case against equity stakes
Venture-backed BAIs are in the minority in Canada, and one thing became clear in our interviews. In essence, return-on-equity models only work for entities with a highly selective intake that prioritize later stage companies for whom it is easier to obtain exit financing. The return-on-equity model makes much less sense, on the other hand, for BAIs with a broader community mandate and for those that work primarily with early-stage startups. Our interviews with executives highlight a couple of reasons why this is the case.

Equity dilution. The first reason is that most BAIs don't have investment funds with which to make seed investments. And those that can make seed investments, typically don't have the deep pockets required to make follow-on investments. When a BAI takes an equity position in an early-stage startup and is unable to participate in follow-on rounds, the equity dilution is such that the payoff in a future liquidity event can be trivial. In short, the economics of equity-driven models don't add up for early-stage startup support organizations. As one BAI executive explains:

"When you take equity in an early-stage company, you usually get a cheque for a small amount because you are so diluted by the time they exit. We had 12% equity shares in a company that sold for $40 million, and we got a cheque for $4,000. The equity model doesn't work for early-stage startup support in Canada."

Another executive with a VC-backed accelerator put it this way:

"If you are at the top of the funnel, you see 100 companies a year. You are lucky if one out of a hundred is investable. After ten years you might have 10 to 15 companies with significant investment and only one of those will go to a significant exit. You might get a cheque for $50-100,000 for 10 years of work."

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CHAPTER 3

BAI REVENUE MODELS

Community mandates. Other BAIs argue that equity-driven models are inconsistent with their broader mandate to serve the community. As one executive put it, "The small accelerators that are picky can make the numbers work. But they are very selective. It is much harder if you have a broad mandate to help the community. We would go bankrupt. In Canada, equity-driven models are not sustainable on an ecosystem basis."

Another BAI leader agreed and suggested that the need to pick winners would cause disharmony in the community.

> *"It would be very tricky given that we represent the whole industry. We are non-profit and benevolent. We don't want to muddy the waters. In the end, it boils down to the type of community and ecosystem you are trying to support. Equity stakes make sense if you are an investment-driven accelerator who wants to cherry-pick great companies. But we're doing something different. We are trying to enhance connectivity between the key stakeholders in the ecosystem, including companies, investors, and service providers."*

Sector dynamics. Unique sector dynamics provide a third reason for eschewing the return-on-equity model. BAIs that support companies in capital-intensive sectors with long commercialization timelines argue that it would take too long to see a return on their investments. "Equity works for accelerators that can increase equity valuations quickly," said one executive. "It's harder to make it work with health, science and engineering companies. These companies take so much longer to get to market."

Trust. The most cited reason for not taking equity, however, is the perception that equity investments undermine trust-based relationships. As the commentary below suggests, several BAI executives believe that return-on-equity models require a more detached and calculated approach that clashes with the organizational culture they have worked to establish.:

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CHAPTER 3

BAI REVENUE MODELS

- "All the decisions about what is good for the business should be made with the founding team. We find that an equity investment changes the relationship. We also work with hundreds of early-stage companies. We don't have an investment fund, and we have don't have the resources to pick the winners."
- "We are about creating a level of trust between the client firm and our staff and mentors. We want entrepreneurs to show us all the warts and worries and concerns that they have. If you take an equity position, the CEO puts their best face forward all the time, and that trusted relationship disappears."
- "We have some concerns about cherry-picking. Are you treating your companies fairly if you selectively put equity in some and not others? Does it give a negative signal to the market about the companies that you didn't invest in?"
- "Equity investments should come with a large cheque and the right valuation. And you would only give a cheque to a strong team, with the right path to market. They don't need micromanagers. They need connectivity. Companies trust us because we don't take equity. 7% off the top can go wrong."

IP LICENSING AND BRAND FRANCHISING

Licensing revenue makes up a tiny fraction of the overall revenue pie for BAIs in Canada. After all, only two out of 25 BAIs in our sample found a way to monetize the IP they own. Others claim to be exploring the possibility, however. And, during the interviews, a small number of executives expressed some compelling ideas for IP licensing that are worth documenting.

The first idea is to white label and license the IP the BAIs generate. Many entities make considerable investments in developing bespoke tools, templates and broader program curricula. Why not seek to leverage this value by licensing it to others?

“We are going to investigate the “accelerator in the box” model," said one executive. "We have generated a lot of IP around our platform: a problem-solution fit module, a sales acceleration module and other playbooks. We have an online platform to enable all of this, and we have evidence that the virtual model is working. It fits with the geographical reality in our region. We need to bring accelerator services to the places where entrepreneurs are situated. Other areas of Canada face similar challenges.”

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CHAPTER 3

BAI REVENUE MODELS

The other idea is to license valuable BAI brands by establishing a network of domestic and international franchises. The accelerator franchising and global expansion strategy pioneered by entities like TechStars and Startupbootcamp shows considerable promise. Both entities harnessed their strong brand recognition to replicate their models around the world. Canadian entities such as Creative Destruction Lab and Ryerson Futures believe they can leverage their domestic success to do the same.

As one BAI executive explains:

> *"We have a replicable model. We have launched a bunch of branded programs around the world, including India and Vietnam. Silicon Valley may be saturated, but there are lots of markets that are in desperate need of the type of programming that we offer. In a lot of cases, our international ventures start as co-working spaces. Eventually, we build out programming focused on product validation and investor readiness. They are all joint ventures, but we hire and manage the teams."*

We take a closer look at this franchising strategy in our best practice case study on Ryerson Future and its global Zone Startups brand.

REAL ESTATE LEASING

The survey results suggest that just over half of the BAIs in our sample earn revenue from real estate leasing. The question we put to executives was whether real estate was contributing to their fiscal sustainability. We learned that the answer turns on whether the BAI owns or leases the physical building it occupies. Since very few BAIs own real estate assets, the short answer from most executives was that most real estate revenue is cost recovery. "Looking around the world, the institutions that own their real estate asset are making money there. Real estate provides long term stable funding. When you lease the asset, it is cost recovery, and, at best, we might break even."

BAIs that own their real estate assets, however, see it as a significant advantage and a long-term source of stable funding.the winners."

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CHAPTER 3

BAI REVENUE MODELS

Said one executive:

> *"Our venue is very appealing with events, programs, and a great community. We know that we are serving the community and curating a great experience because we have a waiting list for space. The fact that we own the building is a huge advantage. It gives us stable and consistent revenue and buildings go up in value over time. We have a lot of equity that we can leverage. Acquiring more buildings would allow us to expand our footprint. We hope to have a new building within the year."*

Other BAI executives expressed interest in trying to acquire real estate assets in the near future. "We would like to try to buy a building and rent it as part of our strategic plan," said one executive. "It would expand our revenue and provide access to lines of credit. We are putting away surpluses to generate enough cash to buy a building."

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CHAPTER 4

BAI EXECUTIVES ON REVENUE GROWTH AND FISCAL SUSTAINABILITY

In this chapter, we synthesize feedback from executives on the opportunities and challenges associated with achieving fiscal sustainability. First, we delve into some of the unique challenges in achieving fiscal sustainability for BAIs with programming and services that cater to early-stage startups. Then we shift the focus to the unique funding needs and growth challenges for BAIs in specific regions and sectors.

FISCAL SUSTAINABILITY AND EARLY-STAGE STARTUPS

Since the DEEP Centre released its 2015 report on Canada's startup support system, there has been a steady movement towards building programming and service offerings that cater to later-stage growth companies and scale-ups. The progression to later stage programming reflects the increasing maturity of the Canadian ecosystem, as well as a push from government funding programs. On the other hand, BAIs that attract more mature startups can also enhance their survival prospects. Later-stage companies often have revenue or seed funding to pay for services. Corporations are more interested in partnering with startups with market-ready solutions. And, perhaps most important, it is easier for BAIs to demonstrate impact when they are working with companies that are closer to generating revenue and raising capital.

The question is, where does this leave entities that focus mainly on early-stage startups, and those BAIs with broad community mandates to serve companies across a spectrum of maturity? We find that BAIs that work with early-stage companies see little potential for revenue growth across any of the revenue streams identified by the DEEP Centre. Said one executive:

> *"Early-stage startups are missionary work. Pre-traction and pre-revenue, they have nothing or very little to contribute financially. There is also zero ROI for private sector engagement. At the early stage, our focus is growing the funnel and increasing the survival rates of those companies."*

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CHAPTER 4

REVENUE GROWTH & SUSTAINABILITY

There was broad agreement that BAIs with an early-stage focus will fail to achieve fiscal sustainability in the absence of generous government funding. As another BAIs leader put it, “Incubators dealing with pre-revenue firms are less likely to generate a balanced private and public funding model. Membership fees and little sponsorships will not add up to a lot.”

Other BAIs have signalled that they are moving out of the early-stage market because of their inability to generate enough revenue to sustain their operations. Said one executive:

"We have abandoned the early-stage market. In the absence of government funding, we couldn't keep the lights on. Now we have gone upmarket to work with Series A companies with a focus on paid services."

In light of these challenges, executives made a consistent call for the government to treat early-stage support as a public good and to continue to invest in developing the pipeline. “Early stage company development is analogous to public education,” said one executive. “You need the foundation public education system to get students coming to graduate-level education. You have to invest in the foundational level."

Pointing to high failure rates, another executive highlighted the importance of continuing to invest in supporting a healthy pipeline of startups. sustainability.

"Entrepreneurship is tough. It's not just technical. It is personally challenging. Entrepreneurs go through tough times, but they can have an enormous impact when they succeed. We have helped 3,500 companies and about 300 have gone to series A stage, so less than 10 percent. One percent of Series A startups will become significant companies. We need to invest in the pipeline, identify the high-potential companies and encourage the rest to fail fast.”

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CHAPTER 4

REVENUE GROWTH & SUSTAINABILITY

Finally, some executives called on VCs to support BAIs to fulfill their "essential role in building the ecosystem." Indeed, more than a few BAI executives suggested that VCs are getting a free ride on the public investments in ecosystem building, with disproportionate financial benefits flowing to investors and very little trickling down to the BAIs that build the pipeline. As one BAI leader explains, "We designed our program to present best-in-class startups to investors. Investors are not paying for the coordination of the ecosystem. Investors could be chipping in more funding because of the deal-flow they get. Would investors be willing to put some money into early-stage incubators because we play an important role in building the pipeline?"

SECTOR-SPECIFIC REVENUE GROWTH CHALLENGES

Sector specialization is an essential driver of performance for BAIs because companies operating in different sectors have unique needs that are impossible to service adequately without in-depth sector-specific knowledge and connections to customers, channel partners and investors that operate in those sectors. Industries such as agri-food, biotech, cleantech and advanced manufacturing, for example, all have needs that are not adequately addressed by the quintessential business support formula that caters to digital technology startups. Executives suggest that BAIs serving these sectors also need unique funding solutions from the government. Several argued, for example, that BAIs in capital-intensive sectors with long runways for commercialization need long-term support and the capacity to use public funding to leverage more private sector engagement.

Firms in the biotech sector, for example, typically need more significant amounts of startup capital, given the high costs and long timelines associated with drug discovery. Later in the commercialization process, biotech firms need specialized support to navigate the regulatory approval process. "The bio-sector is tough because companies can be pre-revenue for years," said one executive. "It's not a 12-week process. We engage in multi-year relationships. Everyone wants quick wins, but our timelines are longer. Economic development agencies must make a conscious decision that this is a sector they want to support for the long term."

Another executive agreed and suggested that the bio-sector needs a ten-year timeline and adequate funding to demonstrate its ability to generate a significant return on investment.

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CHAPTER 4

REVENUE GROWTH & SUSTAINABILITY

"We could double the number of healthcare and biotech companies, but much more seed capital would be required. It won't happen in 3 to 5 years. To have a real impact, you need to build the ecosystem for over ten years. We can't rely on the universities to drive the commercialization of new companies. We need to change the approach."

The situation is similar in cleantech. Companies not only need early-stage equity, like series A venture capital, they also need late-stage equity and access to project debt to fund demonstration projects and build manufacturing capacity when they are just going commercial. Emerging cleantech firms also need opportunities to test, refine and scale-up their innovations, ideally in partnership with large industrial customers. BAIs are calling additional resources to help their portfolio companies run large-scale demonstration projects that will establish the viability of their solutions at an industrial scale. Said one executive:

"We need more robust support for the cleantech accelerators in Canada. There are not many of them, and they don't get enough funding to run their programs properly. You need to hire the right people. They also need seed funds so that accelerators can help close the gap in early-stage funding. Then we need matching dollars so that we can use public money to leverage more private capital in the demonstration phase. It is very tough to get pilots off the ground. In Canada, we do a lot of spray and pray. We provide small money, but not enough to do the job. Startups are shopping around for small investments. The system creates a lot of 'grantpreneurs' who struggle to get their technologies out of the pilot phase."

Another executive notes that barriers to commercialization are very high in industrial sectors with entrenched service providers and solutions. The only way to overcome these barriers, suggests one executive, is to provide sufficient funding to enable cleantech companies to demonstrate that their solutions can outperform the incumbents.

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CHAPTER 4

REVENUE GROWTH & SUSTAINABILITY

In the cleantech space, startups operate in industries that have existed for hundreds of years. There is very little ground that hasn't been tread at some point. The bar is very high for solutions that will work. It's not like digital where there are wide open green spaces, and you can raise money around an idea without having to demonstrate that it works. In heavy industries, you have to demonstrate a mature process. We have reliable cleantech alternatives in areas such as chemicals, fuels and water, but you have to supplant that existing solutions that are proven and are working at scale. The bar is incredibly high. There is no easy solution."

Even within the broader technology sector, there is a recognition that BAIs need nuanced approaches to different verticals. As one executive explains:

> *"You need different types of interventions for different stages and sectors. Blockchain startups need POCs to drive adoption and build awareness of the technology at the end-user level. Machine learning and AI companies need access to data scientists from universities and to large scale data sets from corporates to validate their AI programs. Virtual reality companies need support identifying revenue sources. They are doing custom work and service-based work to generate revenue because their IP will take a long time to build out."*

REGIONAL REVENUE GROWTH CHALLENGES

Even as Canada continues urbanizing, vast swaths of the country are largely rural with low population density. The relative remoteness raises a set of unique challenges for the entrepreneurs and BAIs in these regions. These include limited local demand for products or services, a lack of proximity to significant business networks, an absence of diversity, inadequate access to capital for startups, and the inability to acquire the general and skilled talent required to maintain operations and meet future growth goals. BAIs seeking to grow new revenue streams also face challenges linked to a dearth of large anchor companies in the ecosystem and the inability to keep high-performing firms from migrating to denser urban areas.

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CHAPTER 4

REVENUE GROWTH & SUSTAINABILITY

High-potential founders tend to want to live and work in dense urban environments. They need proximity to an airport, a great downtown, access to the creative arts and high-quality restaurants and services. As one interviewee put it, “Innovation spaces in dense urban areas create a centre of gravity that pulls people in. In Toronto, you have a critical mass of talent, customers and capital, and it's connected to other hubs. Montreal, Ottawa and Vancouver are similar. Distance from dense urban centres makes a difference and community mindset makes a difference as well.”

Several of the executives we consulted explained how their lack of proximity to major urban centres is undermining their ability to attract corporate partners. "Private sector funding is very location-dependent,” said one executive. “Trying to get a $5000 cheque was like pulling teeth in our region. In Toronto, they will spend $50,000 to sponsor events.” Other executives echoed this sentiment and added that the lack of a robust supply of local talent is a genuine constraint on growth. “It will be challenging to grow corporate partnerships given the limited pool of corporates in our region,” said one executive. “Finding access to the right expertise to grow our scale-up programming is also a challenge. Our 12 mentors are at full capacity. We are looking to draw on retirees in the region. We can only grow as much as we can find resources to deliver.”

Finally, there were acknowledgements that location can influence the cost of delivering programming, with BAIs in remote areas having to absorb higher costs. “Geography matters,” said one executive. “We fly people in from Ontario, New York and Boston to engage with our companies. There is a cost to our location. Large companies tend to invest in BAIs that are close to their corporate HQs, and where there is an infrastructure that makes it attractive for them to make investments."

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CHAPTER 5

VENTURE CAPITAL AND CORPORATES ON PARTNERSHIPS WITH BAIS

In this section, we feature a suite of insights and observations about Canadian BAIs from our conversations with 31 executives with organizations that frequently interact with business accelerators and incubators in Canada. These organizations include large companies, industry associations, innovation consortia and venture capital firms. Among other things, we highlight input from venture capital executives about whether Canadian BAIs build investment-ready companies and whether they look to BAIs for deal flow. We also review what corporate executives told us about how and why they engage with startups, what they look for when evaluating opportunities to partner with BAIs, and whether they expect to maintain, increase or decrease these partnerships over time. Finally, we synthesize feedback from executives on what assistance public sector partners could offer to put BAIs on a more sustainable economic footing.

DO BAIS BUILD INVESTABLE COMPANIES?

A hallmark of a high-performing BAI is its ability to crank out a steady pipeline of investment-ready companies. Thus, our first question to VCs and corporate executive was whether they think Canadian BAIs are building investable companies. For the most part, we encountered skepticism, with many executives saying that they doubt the capacity of BAIs to influence the trajectory of tech startups positively. There is also a consistent view that Canadian startups can take advantage of a growing array of private-sector options for creating high-growth tech startups, including full-stack VCs, company-building venture studios and corporate venture capital.

An executive with a corporate venture capital unit claimed that most BAIs in Canada couldn’t take credit for creating venture track companies. “We see very little evidence of a trajectory alteration in a positive way,” said the executive. “There is a real moral hazard around participant selection. Most entrepreneurs that have options are not going to incubators and accelerators. They can get a desk anywhere. Why suffer the costs of going through an incubation program? Most of the companies we have seen don't go through BAIs. They have an abundant set of options for startup financing and support in the private market.”

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CHAPTER 5

VCS AND CORPORATES ON BAIS

Other investors were somewhat more sympathetic, noting that BAIs often build viable businesses, but very few create VC track companies. As one executive argues, the capacity to develop venture grade scale-ups is an exceptionally rare feat.

“The vast majority of BAIs do not create investable companies. They can create viable businesses. Most do not create VC-ready companies. The truth is that the vast majority of companies will not get to the VC stage. 1% make it past the chasm and execute on their vision and can attract capital and compete on the global stage. That is a rare phenomenon. True scale-ups are the 1% of the investable companies. In other words, if you have 100 investable companies, you have one that will make it to true scale-up."

Another investor was keen to point out that the definition of “investable” changes depending on the audience.

VCs are explicitly looking for unicorns. They want to invest in companies that can quickly scale to $500 million to $1 billion in annual revenue. They look for a significant market cap and 50% year over year growth. That said, there is nothing wrong with the $100-200 million business that employs 100 or more people. That’s where angel investors are active. They are happy with 5x returns. VCs want a minimum 20x return, while corporations sometimes invest for returns and sometimes for strategic fit.

While angels, VCs and corporates all have different needs, approaches and investment goals, they all demand quality, and there remains much doubt about whether BAIs are delivering the quality that VCs and corporates need.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

Corporates and VCs attribute their skepticism to a perceived lack of experienced entrepreneurial talent at BAIs. Venture capital investors, for example, cite the lack of local bench strength as the reason why they overlook local BAIs as a viable source of support for companies that are approaching the scale-up phase. "Scaling companies need to research the distribution opportunities and test and iterate quickly around go-to-market in a variety of key markets," said one investor. "We can't do all of that work for them. We need to connect them with people who can. Most of the time, that means connecting them with individuals in the United States."

Another investor argued that BAI programming is ill-suited for the companies with genuine potential to scale because of their lack of in-house experts with experience in scaling companies. "The companies and entrepreneurs that need programs are typically the ones with problems. They are struggling, and the paradox is that once they are at that stage, they are in trouble. They are trying to extend their financial runway rather than scale-up." "The good companies," on the other hand, "are choosing not to engage in the locally available programs. The BAIs simply don't have the bench strength of people that have done it."

Corporate executives were mainly on the same page of VCs, with several arguing that the causal effects between BAIs and the creation of great companies is unclear at best. An executive with a corporate venture capital unit claimed that most BAIs in Canada couldn't take credit for creating venture track companies.

> *"There are relatively successful startups that house themselves at BAIs. That's less about the incubator and accelerator helping the company and more about the fact that BAIs provide a great environment for networking, for events and thought leadership. They are passionate and have good intentions. But I don't think they have the right skills and experience to build global companies. We look at our peers, and no large corporates are consistently saying that they are investing in BAI-linked companies."*

Another corporate executive argued that the accelerator market is over-crowded with inferior entities. They called for BAIs to sharpen their entrepreneurial edge.

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VCS AND CORPORATES ON BAIS

“The political mandate to create accelerators has gone over the top. There are lots of good intentions and good people, but the BAIs that have proven they can be successful are led by serial entrepreneurs who have real experience. Too many accelerators are doing a half-ass job. Government funding for BAIs in perpetuity doesn't make sense. EIRs on the payroll is shocking. They should be doing this to scope out new investment opportunities. This is not a bureaucratic function. This needs a real entrepreneurial edge."

Both VCs and corporates also took aim at what they perceive to be overly generous government funding programs. “Plentiful government funding means there are a lot of walking zombies,” said one investor. “Some companies survive for years on government funding by changing their business model and going to different funding bodies. The fragmentation of funding opportunities perpetuates this problem. The array of provincial and federal programs creates many opportunities to shop around for support.”

“Perpetuating mediocre business ventures locks up good people and money in bad companies,” said another executive. “Some companies survive on government support for years and years and would never survive in the marketplace. The ecosystem needs to have more failures.”

ARE BAIS A GOOD SOURCE OF DEAL FLOW?

As a follow-on to whether BAIs build investable companies, we asked VCs where they currently scout investment-ready companies, and more specifically, whether they look to BAIs for deal flow. We asked corporates about how they source new technologies and identify partnership opportunities, and whether they are actively developing (or interested in developing) partnerships with BAIs.

VC and deal flow at BAIs
In general, we learned that VCs are always on the hunt for deal flow. Most cast a wide net, looking at hundreds and sometimes thousands of companies a year. They may only invest in a small number, but VCs like to track companies from a relatively early stage so that they don't miss out on promising investment opportunities.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

To build their investment pipelines, VCs cultivate extensive personal networks and spend a lot of time on the road going to conferences and visiting the world's premier innovation hubs. While VCs are generally open to new deal flow, we also heard that VCs get inundated with inbound requests for their time, attention and money. Most have their preferred channels for identifying promising companies and Canadian investors feel confident that they see most, if not all of the relevant deal flow in Canada. As one VC put it,

“We have a variety of channels for deal-flow. We attend events. We get referrals from co-investors. But, for the most part, startups tend to find us. We are the largest in terms of assets under management in Canada. We have no shortage of inbound interest.”

The inclination to look to BAIs for deal flow varies from VC to VC and BAI to BAI. The proclivity to look at BAIs also appears to depend on the stage at which investors are making investments. We heard, for example, that angel investors and seed-stage investors are the most likely to spend time looking at the portfolio of companies in BAIs. As one investor explains:

“Seed stage investors and angels do the hard work of sorting through the ecosystem and selecting the companies that have the team and the tech with the potential to grow. They spend a lot of time with the BAIs. We spend time with every organization that has half credible deal flow. We look at 1,000 companies a year. We see things other VCs don’t see because we go coast to coast. Small VCs don’t have the budget to scour the whole universe of BAIs. Seed VCs are trying to go upstream to make more money for less work.”

Series-A + investors, on the other hand, typically don't see BAIs as a reliable source for deal flow. "We get a lot of inbound inquiries. Then we have our outbound activities. We talk to our network, and we research the spaces that we are working in. We are a later-stage investor and typically write $10-30 million cheques. BAIs are generally too early for us. But we are always happy to have insight into promising companies.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

When VCs do make time to look at the deal flow at BAIs, they tend to be very selective. “Y-Combinator works, and CDL works,” said one VC. “The competition is healthy, and we know as investors that we only see the best of the best. You have high-quality mentors around the table and high-quality companies. No one else in our team has conversations with BAIs anywhere, and that's not just in Canada. That includes San Francisco, Houston, Boston, New York and other centers of innovation."

On the other hand, investors in the United States have fewer touchpoints in Canada and are interested in a better line of sight into Canadian investment opportunities. As one US-Based VC explains:

> *We know there is a strong and growing ecosystem in Canada. We are interested in better visibility. We connect with the guys at MaRS. But there are so many incubators that it takes forever to figure out who is doing what and where the value is. There is significant value in filtering out the noise. We can't have our hands in 30-40 BAIs. If there were an ability to aggregate across, there would be a lot of value in that."*

Corporates and deal flow at BAIs

Several corporations consulted by the DEEP Centre began their BAIs relationships with high expectations but have seen diminishing returns over time. “Connectivity to the ecosystem was highly valuable at first,” said one executive. “It helped to put our finger on the pulse. But our experience also made us realize that not every startup presents a partnership opportunity. While it was eye-opening in terms of new technology in development, it did not necessarily result in deal flow for acquisitions or new product development."

Herein lies the problem for many corporations that have experience partnering with BAIs. They want to support the ecosystem, but they must justify their investment of time, money and human resources based on a return on investment to the corporate bottom line. In our conversations with corporates, none could say that they have been able to point to a definitive ROI.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

Said one executive:

"The essential lens for justifying these relationships is partnerships and commercial opportunities. Over time the value of our exposure to the ecosystem has had diminishing returns. We justify these relationships based on ROI. Have we done POC? Have we moved new code into production or developed a new product line that can drive real top-line growth? We have seen very little evidence of this."

While VCs are looking for deal flow and will often start tracking promising companies from an early stage, corporates tend to look for significant acquisition targets or mature startups with products and solutions that they can scale into the core business. Corporates would like improved visibility into emerging solutions and best practices. But they also realize that they face significant challenges in integrating startups and SMEs into large-scale corporate operations.

In most instances, these challenges are related to the inability of smaller firms to meet the innovation objectives and needs of larger companies. More specifically, startups and SMEs face several obstacles that are related to their size, capacity and lack of established quality controls. These characteristics reflect their relative immaturity as companies and inevitably make them less attractive partners for large companies that need viable, cost-effective and market-tested solutions that will integrate seamlessly into national or international operations.

"We don't work with a lot of smaller companies," said one executive. "The general feeling is that they are not mature enough or scalable enough. The economics don't make sense. They need to understand what they are trying to replace. What process are they trying to disrupt? What are the economics? It's one thing to run it at lab-scale; it's something completely different to prove that its viable at an industrial scale. Incumbent solutions are tough to displace.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

While it is easy to point the finger at immature startups, it is equally true that large companies are often ill-equipped to work with startups and can be difficult partners as a result. Indeed, interviewees were keen to point out that large corporates should shoulder their share of the blame for the failure to strike effective partnerships with startups and SMEs. As one executive explains:

> *“Startups are motivated to move quickly and get their products built. But they often do so without a complete understanding of the complex dynamics of the industries they are marketing their solutions to. Startups need to understand the inner workings of our companies, the regulations that govern our commercial conduct, our processes for procurement and the contractual obligations we have with customers, partners and suppliers. In some cases, we had regulatory, fiduciary and contractual obligations that didn't allow us to move quickly enough to meet timelines that make sense for startups.”*

Large companies also tend to be conservative when they have multi-billion-dollar projects in play. And the reality for large-scale industrial businesses is that new technologies must make a significant difference at scale to make sense for investment purposes. The uncertainty of the technology and supplier landscape means that many companies tread carefully when it comes to partnering with SMEs. As one corporate executive put it:

> *"We are a member of MaRS and work with similar groups to scout technologies. These incubators and accelerators are great for innovation. But if we invest significant capital into water recycling and bio-digestion facilities, we need solutions that are scalable very quickly. We can't mess around with small scale pilots and demonstrations. We need something that can work at an industrial scale. It not only needs to be scalable but also repeatable. We have 30 plants across Canada that are operating 24/6.*

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CHAPTER 5

VCS AND CORPORATES ON BAIS

Finally, corporate culture plays a vital role as well. Interviewees repeatedly cited a lack of executive leadership for innovation as a common problem. "Every organization has a different culture and structure," said one executive. "There is no cookie-cutter approach that will work for all companies in all situations. It depends on the CEO, the desire, the regulatory environment, among other things." Even companies that have made investments in startups or struck partnership deals with BAIs still face significant challenges. As one executive explained, "Although we have tried to insulate the innovation team, they are still part of the same bureaucratic structure and subject to the same regulatory processes. The culture and speed of execution are very different for big companies, which has a huge impact on our ability to be entrepreneurial."

EXPERIMENTING WITH CORPORATE ACCELERATORS

In Chapter 3, we noted that several Canadian corporations are partnering with BAIs to run corporate accelerators. As featured in our domestic best practices, Evok Innovations was among the first of its kind in Canada. Launched in January of 2016 in Vancouver and headed by Silicon Valley veteran Marty Reed, Evok is a $100-million entrepreneur-led innovation fund and accelerator that expedites the development and commercialization of cleantech solutions for the oil and gas industry. Evok is presently funded exclusively by its industry partners, Cenovus and Suncor, who have each committed up to $50-million for ten years.

In 2018, RBC partnered with Highline Beta to launch RBC Reach, a corporate accelerator program that opens the door to a commercial deal with RBC for select post-seed to pre-series A startups. The program accepts applications from companies that have developed solutions that specifically help address issues that RBC business clients face and where RBC can be a valuable partner in assisting companies in getting to market. Selected companies receive an initial investment of $100,000 and coaching to help them grow their business. At the end of the program, companies that sign commercial agreements with RBC will continue part-time programming to implement the pilot. These companies can potentially receive additional investment from RBC and Highline BETA, and support from Highline BETA on raising future rounds of funding.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

When asking corporate executives about these and other examples in Canada, we learned that most companies are still in the experimentation phase and waiting to evaluate the outcomes these programs deliver. In short, the jury is still out on the viability and longevity of the corporate acceleration model, with executives offering a mix of confidence and doubt about whether they would maintain their investments over the long-term.

An executive with a VC-backed accelerator says the corporate market is growing slowly in Canada. On the positive side, they see opportunities to market corporate acceleration services to global players.

> *“We truly believe that we can build global startups. By 2030 we have the ambition to be in the top 2 or 3 in the venture studio model and commercial accelerator model. We are smaller and have less capital than the global players, but we are growing. Our legacy metrics were focused on equity value creation. Today we measure the number of commercial deals. Twenty-one companies went through the first cohort, and twenty came out with a corporate deal. Some were tech partnerships. Some were commercial, business deals.”*

Another VC executive, who runs a corporate mentorship program in partnership with a global pharmaceutical company and a local BAI, notes that the program has been great for health sciences startups. The health tech accelerator sees two US-based pharmaceutical executives commit to quarterly mentorship meetings with seven Canadian companies. "Canada has good tech,” said the executive. “They didn’t want to lose sight of that. The program gives [the pharma company] visibility into the ecosystem and an inside look at some of the best health sciences companies across Canada.” For the startups, the opportunity to spend time with two experienced pharmaceutical executives provides access to invaluable know-how and advice.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

While the relationship is a net benefit to the ecosystem, our contact argues that the program will not boost the fiscal sustainability of the BAI that is hosting the program.

> *"[The corporation] is only paying the equivalent of a technology scout salary to do this. It's not a moneymaker. 100% of the money goes to a little bit of admin, salaries and travel. There is no margin. They can only use the money for operations. There is no profit here for the BAI."*

Some corporate executives, in the meantime, see their corporate acceleration partnerships with BAIs as an intermediary step toward running an in-house program. As one executive explains:

> *"Our investment in a corporate accelerator provides a lower-cost way to acquire the learnings. Are we going to be partnering with BAIs on the same business model in 5 years? No way. This is mission-critical – we don't need BAIs to do this over the long term. For the time being, they are augmenting our human capital, but we have the capabilities to do this ourselves. We just haven't prioritized it. Once we get 3-5 years into the relationship, we will have enough insight and experience to figure a model that we can execute ourselves."*

Over the long-term, the success of the corporate acceleration model will depend on the outcomes Canadian corporates achieve with their early experiments. And, just as important, it will require large companies to commit to genuine innovation, rather than optics and brand-building. "The jury is still out on this," said one executive. "What we have learned from TechStars is the involvement of the most senior level corporate stakeholders is the key to success. The CEO and SVP have to be actively involved. Most Large Canadian companies have not done this." In other words, Canadian CEOs will need to set bold innovation goals, remove barriers to achieving the vision and hold managers accountable for reaching company targets.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

BAIS AS INNOVATION CONSULTANTS AND CONCIERGES

As noted in chapter 3, a small number of BAIs are providing large corporations with custom consulting services. In most projects, a BAI team will run workshops to identify business challenges and then pair large companies with startups that can deliver solutions. The engagements tend to be highly customized and involve a combination of executive education and matchmaking sessions with the local startup population.

We asked corporate executives about their experiences with the corporate innovation consulting provided by BAIs. The feedback was consistent and, unfortunately, it highlights some delivery challenges that BAIs will need to correct if they want to develop consulting and executive education into viable revenue streams.

> *"BAIs want to diversify their revenue streams, but it's hard to serve two masters: the startups and the corporates. They are going through an identity crisis, and they don't have a viable plan to address the needs of both. Demonstrating value and ROI for corporates requires a different type of expertise. But they haven't instilled confidence in their ability to create the kind of business value that will keep large corporate plugged into the ecosystem."*

Much of the criticism suggests that with their push into corporate innovation consulting, BAIs are competing with traditional consultancies such as McKinsey, Deloitte and Accenture. Yet, without the bench strength to deliver world-class advisory services and executive education, they are leaving their clients disappointed. Said one executive:

> *"They have hired consultants to bring in a model that is repeatable and scalable. But companies want customized programs. McKinsey and Accenture are in that game, and they are very good at it. BAIs are trying to be experts and partners to large corporations without really having the competencies to deliver. They don't have the in-depth business expertise. They don't have the leadership and resources to drive valuable business outcomes from their programs."*

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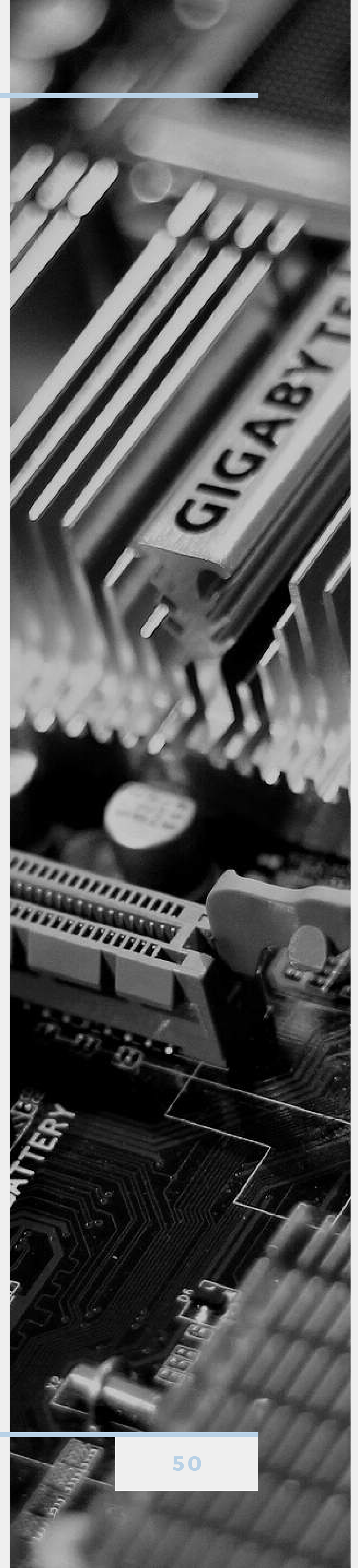
Another executive agreed, citing their experience with the executive education programming at a major innovation hub.

> *"They created a laundry list of programming that they are somewhat good at delivering in areas such as open banking, smart cities, the future of work and agile development. Corporate partners can pick what is of interest to them from an education and training perspective. We can upskill our workforce by participating in these training programs, and there is some value there. But the programming is standardized, one-size-fits-all. It's not bespoke enough. Nor is it profitable for BAIs to customize every engagement. Unfortunately, they don't have the bench strength of McKinsey and Accenture to deliver the high degree of executive-level training and advisory services that the consultancies offer."*

We also heard repeatedly that the shelf life on partnerships between BAIs and corporate partners is short, between one to three years, at best. For example, in one case, we heard from a large international corporation that one year of programming with MaRS was more than enough to exhaust the value in the relationship.

> *"We used to have a relationship with MaRS," said one executive, "but we quickly decided we had a good handle on what was available in the cleantech space. The services they provided weren't as needed. They held curated workshops for us. But you don't double the number of cleantech startups every year. We can stay on top of anything new. We also look at NRC, NSERC and IRAP. I have good connections. We know many of the universities and keep tabs on their research."*



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CHAPTER 5

VCS AND CORPORATES ON BAIS

BAIS AS ECOSYSTEM BUILDERS AND CONVENERS

Our conversations with VCs and corporates reveal that while the deal flow is mixed, they value BAIs for their convening power and the networking opportunities they create. After all, accelerators and incubators act as hubs around which entrepreneurial networks form —networks that attract diverse but complementary stakeholders that can catalyze outcomes together that are more powerful than they could if acting alone. As one corporate executive put it:

> *"BAIs will continue to be valuable as conveners. It creates an impetus to have exposure to other thought leaders and gives us a wider purview of what is working and what is not working. That includes our industry peers, cross-sector peers and fintech companies. There is value in the connectivity. The programming and events are useful. But the convening role is less of a commercial driver than acquisitions and co-development partnerships."*

Several corporate executives agreed that the convening role of BAIs is essential and worth sustaining. The ability to pull diverse groups together for events helps to establish richer and denser interpersonal networks among entrepreneurs, investors and corporates. These denser networks, in turn, can lead to serendipitous outcomes (e.g., ad-hoc validation of a new product idea or an introduction that leads to new customer) that otherwise wouldn't have materialized. However, executives question whether this value can justify significant, long-term partnership agreements that could be integral to sustaining the ecosystem. Said one executive:

> *"We recognize and want to support these organizations. We have a responsibility to the community. We need them in the ecosystem. There is a big question mark about the value proposition for spending $300-400,000 – $1 Million a year on a partnership agreement. It would not take long to see that there is a lack of true metrics to support an ROI on these investments. We see a role for corporate Canada to help stand up these organizations. We don't see it as our responsibility to sustain them over time."*

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CHAPTER 5

VCS AND CORPORATES ON BAIS

ON PUBLIC FUNDING FOR BUILDING THE FUNNEL

Contrary to many BAI leaders, corporate executives and VCs mainly do not see the value in considerable investments that have gone into building a large funnel of early-stage companies. They claim that BAIs are pumping out too many low-quality startups with little realistic prospect of becoming venture-ready companies. As one VC put it:

> *“It’s a number game. VCs invest in 5 to 10 companies a year. How many startups do we need to produce if only 10% will get to the seed stage? We can tell within three months who is likely to be successful. But it takes many BAIs two years to get to the stage. We have too many zombie companies that are tying up resources."*

Continuing a theme that ran throughout the conversations with VCs and corporate, we heard that BAIs that are disproportionately funded by government are not well equipped to attract the people and resources that are required to make startups successful.

> *"Heavily government-funded organizations are doomed to fail. They don't run well. The investor community has to be engaged. The accelerator model does not work well in most cases without significant philanthropy. You need the angel community to give money and significant time to helping the ecosystem grow – that includes mentors that are giving their time. You need startups to get in front of money. And you need large corporates that can be early adopters.”*

Moreover, several interviewees argued that the abundance of easy money is only helping to prop up a large cohort of low-calibre companies. Said one VC:

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CHAPTER 5

VCS AND CORPORATES ON BAIS

"Too much free money creates entitled and less hungry entrepreneurs. The calibre of the companies is low, and many companies have gone through too many programs. They get an inflated sense of their importance. The government gives too much money out. It becomes a regular job for entrepreneurs. We coddle entrepreneurs too much and keep them alive when they should fail. Many companies could fail and free up the talent for viable companies."

When asked what distinguishes the best BAIs, many were quick to point out that VC-backed entities are in it to win and are not afraid to make the hard calls. Indeed, their success depends on making hard calls, rather than extending the lifelines or survival rates of companies that can't cut it. As one VC explains, "90% of the time when a company comes to us, they don't have the right executives to lead the company. An incubator can't fire the CEO. The single most important thing we do is getting the right CEO at the helm."

When asked how they would invest public funds differently, several stakeholders said they would place more weight behind entities that are willing to pick winners, as well as those with the credentials and track record to provide genuine scale-up support.

"It should be a privilege and not a right to raise funding for your startup," said one VC. "We have over swung the pendulum. We are now past the point where it makes sense to let a thousand flowers bloom. Now we need to scale. We should be funnelling capital into talent recruitment, scaling businesses and increasing linkages with the companies that are potential customers."

On the other hand, there are VCs and corporates that recognize that different BAIs do different jobs. They appreciate that there is considerable diversity in the structures and approaches used to support startups and SMEs in Canada. Given the diverse economic realities present within different sectors and regions, there is also some appreciation that it is only fair to judge outcomes against targets that BAIs can reasonably achieve in a given context.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

Several VCs also see a role for organizations that are helping to build capacity in the ecosystem. As one VC put it:

> *"The capacity building function is important. There is nothing wrong with trying and failing. Sometimes entrepreneurs pick up valuable skills, or they join other companies. When you look at the role of different organizations, they operate at different stages of the funnel. It's not an apples-to-apples comparison. Many BAIs are not in it to create unicorns. There is nothing wrong with creating $100-200 million businesses that employ 100 people or more."*

ON FISCAL SUSTAINABILITY AND ONGOING ENGAGEMENT

In the end, corporates want to stay engaged in Canada's startup ecosystem, but they are hungry for a new and better model. Many expressed a strong desire to find a model for engagement that works for all players. "We will play a role in sustaining the ecosystem, " said one corporate executive. "Our board of directors believes it is part of our corporate role to make the ecosystem prosper. Getting the public and private sectors together to figure out a better model would be valuable."

Another corporate executive agreed with the importance of ongoing engagement, but they foresee a shift in how they will engage going forward. Rather than an ROI-driven approach that generates material commercial outcomes, they are looking at a softer approach that generates brand exposure and linkages to thought leaders:

> *"Supporting the ecosystem is important, but the kind of engagement we are contemplating will be different. We are going to decouple anything that is ROI driven. The value proposition is less quantifiable: it's about branding, exposure, and engagement with thought leaders. We recognize that we are part of the ecosystem. But over four years, we have matured as an organization. The BAIs haven't evolved with us."*

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VCS AND CORPORATES ON BAIS

The interviews revealed that corporate Canada increasingly sees the contributions they make to BAIs as an act of good corporate citizenship. However, many would much prefer to base their engagements on the ability to derive real commercial benefits:

> *“Our roadmap wouldn’t change if BAIs disappeared tomorrow. We can find other ways to participate in the startup ecosystem. We will continue to stay invested because we want to be good citizens. But BAIs will need to refocus their energies. They need to focus on creating venture track companies.*

Above all, corporate executives are calling on BAIs to help them demonstrate the value creation required to renew financial commitments and justify ongoing engagement. Said one executive:

> *"We need to work together to show value. I would challenge BAIs to think about the relationship from the corporate POV. Help me to sell this internally. In so many ways, they simply can't make the case. With the economic outlook and a question about the value we can extract, a five-year commitment is going to be very tough. We can sign a 3-year commitment, but there are going to be exit clauses at 12 and 24 months."*

ON THE ROLE OF THE PUBLIC SECTOR

As for the role of government in helping to boost fiscal sustainability, VCs and corporate made several policy suggestions. Three common recommendations included: create clarity around ecosystem roles, tie funding to verifiable performance, and back for-profit entities. We take a brief look at each in turn.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

Create clarity around ecosystem roles
Corporates and VCs would like federal and provincial funding partners should use their position in BAI funding and accountability to help establish clear roles and responsibilities for BAIs across Canada. Clarity about the division of labour will enable better triaging of clients to the appropriate center of expertise based on sector, technology, or company size/stage of development. It would also make it easier for VCs and corporates to identify hotspots for engagement that align with their innovation roadmaps.

"We need clear definitions around who is doing what," said one VC. "What is their purpose in the ecosystem? We also need better coordination between different players, more careful measurement and more strategic allocation of funding for BAIs. Some should probably shut up shop. And if you are coming for funding as an accelerator, you need to come to the table with private sector partners that will co-fund the operations."

Echoing comments by other stakeholders, there is widespread support for fewer generalists and greater specialization. "If you would show me four fintech BAIs in Canada, I can guarantee that every bank would be a supporter," said one executive. "Could there be a blockchain specialization? We would be there as well, and it would be more apparent to our senior management team why we are involved in these organizations because they fit with our technology roadmap."

Another executive agreed with the need for a better division of labour and argued that the funding priorities set by the government are redirecting the focus of too many BAIs to scale-up programming when very few are qualified to deliver adequate support to scaling companies.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

“Not every organization should be going after unicorns. Not all organizations should go after VC dollars or corporate dollars. Generally, BAIs are not well set up to support later-stage companies. That is the role that VCs should play. If they are worth their salt, they should be brokering relationships with customers, bringing in talent, and finding other sources of investment. VCs have better relationships than BAIs. Changing on a whim is a problem too. You waste money on building infrastructure and programming that takes a long time to develop. You end up creating gaps in the ecosystem when you announce that scale-ups are the priority. You need a structured portfolio approach. Don’t chase your tail. Canada needs a long-term strategy with a structural approach.”

Tie funding to verifiable performance

VCs and corporates would like to see the government roll-out its performance measurement framework with greater haste. They would also like to see a higher bar for BAI and startup funding and a focus on identifying the strategic investments that will strengthen the ecosystem. As one corporate executive put it:

"We are a huge fan of active engagement from the Government of Canada. But they set the bar for funding far too low. There are entrepreneurs, ideas, and opportunities, but the reality is that they are not going to be successful. They are living in a bubble and will have a harsh wakeup call in the absence of the public support they receive. The bar needs to get higher. The bar is higher in other countries, and the lifecycle is shorter. Other countries don't coddle companies as much."

Several executives suggested that we should do more to create a culture of accountability and high-performance in BAIs. They would also like the government to make evidence-based decisions about which firms and which BAIs merit ongoing public support. And finally, one executive argued that performance measurement could also lead to the identification of gaps in the ecosystem that require further investment.

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CHAPTER 5

VCS AND CORPORATES ON BAIS

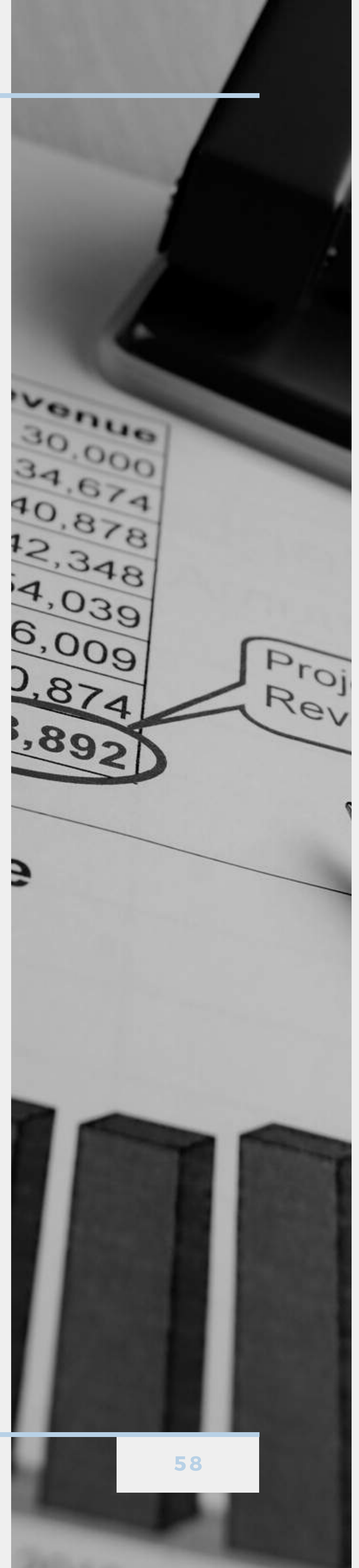
"We would like to see more focus on the value delivery and the metrics used to measure the effectiveness of BAIs. Performance measurement should be less mechanical and more strategic. We should identify the things that can move the market and the ecosystem forward. It should be less about numbers and more about determining the strategic investments that will strengthen the ecosystem and support the creation of more global technology champions in Canada."

Back for-profit entities

Finally, there is a perception that government funding agencies have given disproportionate funding to non-profit entities and generally shied away from providing support to for-profit and VC-backed BAIs. Several executives would like to see this change and indicated that they would come to the table to support scale-up programming that was delivered by credible entities.

"Many for-profit accelerators get no government dollars," said one VC. "Others don't want to take money from the government because it's a hassle, and because they get measured in the same way as other BAIs, with metrics that don't align with their philosophy. If VC funds knew there was money on the table from government, they might consider running programs for early-stage companies. Small VCs don't usually have the capital to run these programs independently. I would be aggressive in only funding entities with deep vertical expertise and a unique service offering."

An executive with a corporate venture capital fund voiced support for the backing of for-profit entities and called on the government to up the ante with more stringent requirements for significant matching dollars from sophisticated investors.



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CHAPTER 5

VCS AND CORPORATES ON BAIS

“BAIs should be venture-backed and more verticalized with deep domain specialization. You can’t be an expert in more than one field. The execution would be better, and they would have the right incentives. VCs are in it to win. They want companies that can scale to $100 million or more. Corporates could play this role too. We are all under cost pressure. I would love to have a program that we could invest in jointly with other companies. The government could also up the ante. They should be writing cheques for $10 million and telling BAIs that they have to match that from the private sector. If BAIs can’t raise $10 million from sophisticated investors, then that's an indication that you probably don't have the credibility to work with later-stage companies.”

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CHAPTER 6

STRATEGIES FOR BOOSTING IMPACT AND FISCAL SUSTAINABILITY

In our conversations with executives, we asked about their strategies for growing private sector revenues. Executives shared a wide range of suggestions, which we have condensed into five strategies for boosting impact and improving fiscal sustainability. These include increasing specialization, tapping new markets, attracting seasoned entrepreneurs to run programs, boosting the overall clock speed of the ecosystem and pooling resources to run programs more efficiently. We take a brief look at each of these strategies below. In Part 4 of the study, we articulate more specific recommendations for taking action on the suggestions from executives.

INCREASING SPECIALIZATION

If there is one defining trend in business acceleration over the past decade, it is arguably the demise of the one-size-fits-all accelerator. In its place, increasingly specialized entities are catering to the unique business growth dynamics of firms in different sectors and at various stages of growth. For example, some accelerators have migrated “upstream” to focus on scaling, while others have emerged to offer specialized support to sectors ranging from clean technologies to fashion and food. Even tech-focused BAIs increasingly specialize. For example, many entities focus on specific verticals (e.g., gaming and virtual reality, artificial intelligence and machine learning, and the Internet of Things) or on sector-specific applications of digital technologies such as fintech and health IT.

While Canada has some specialized programming, the majority of BAIs generalize their client intake in a bid to fill their pipelines. Numerous interviewees made a case for greater specialization in the Canadian ecosystem. They argue too many organizations seek to do the 'whole stack' of entrepreneurial support services—from ideation through to the later stages of growing a viable company—despite possessing a somewhat limited ability to serve firms along all elements of "the stack."

In other words, some entities are better placed to focus on activities such as developing and refining a minimum viable product, while others are better equipped to deploy their specialized expertise and networks to accelerate the high potential companies that emerge from incubation environments.

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CHAPTER 6

BOOSTING IMPACT & SUSTAINABILITY

Such specialization would reduce redundancy and increase the potential for an efficient "flow-through" of companies along a defined roadmap of support. It should also boost the quality of services, as BAIs hone their skills, programming and human capital to focus on specific client segments.

"We tend to focus on corporate plays or B2B plays. More often than not, that means working with people who are starting companies after spending 10 to 15 years in the industry. They understand the pain points and the problems and have the experience to develop viable solutions."

In addition to stage-appropriate support, there is also a need for sector-specific services. Although some sectors present challenges for growth (as discussed earlier), executives with top institutions believe that specialized BAIs can offer superior support and that they are often more attractive to investors and corporate partners.

"We tend to focus on corporate plays or B2B plays. More often than not, that means working with people who are starting companies after spending 10 to 15 years in the industry. They understand the pain points and the problems and have the experience to develop viable solutions."

While one might expect a significant focus on the ICT sector in Canada, other industries that merit attention include agriculture and food, clean technologies, life sciences and the ocean sector. One BAI executive recommends that entities hone their approach to focus on an alignment of needs with the local economy. "There is not enough risk capital in Canada to fund big consumer ventures, like the next Facebook," said the executive. "We have all the banks and telcos in Toronto, and that helps immensely with our approach. Look at the critical assets in the local environments. Who are the potential customers? The volume game doesn't work. Generalist BAIs don't want to pick winners. If you want traction, focus on the assets you have in your community."

TAPPING NEW MARKETS AND GROWTH STRATEGIES

Some executives interviewed by the DEEP Centre are concerned that an abundance of government funding leads to complacency.

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BOOSTING IMPACT & SUSTAINABILITY

They argue that leading BAIs should be tapping into new markets and new client segments to expand their offerings and generate revenues that will increase their self-reliance. Said one executive:

> *"We have been forced to find new ways to be sustainable. We have to be entrepreneurial. We are helping growth-stage companies connect to investors in different markets. Our annual conference is a big revenue generator. We have one of the top startup VISA programs in the country and are flying to Asia to grow this stream. We are putting the time and energy behind it to make it work. We generate consulting fees by helping international companies expand into Vancouver. We are also building partnerships in India and China. The fiscal sustainability is going to come from other countries, not from Canada."*

Several executives expressed an interest in expanding their services to market segments that have not traditionally participated in acceleration programs. Mature SMEs represent a significant area of opportunity, according to some.

> *"We are exploring opportunities in market segments that we haven't reached before. An electric utility is using our program and methodology to bring new products to market around EVs and smart grids. We also have a software testing company with sales in the $15 million range that is using our program to reignite growth. We are keeping a close eye on this. Can we run a dedicated cohort for mature SMEs? Unlike startups, they can pay for services."*

This particular BAI claims that mature SMEs are attracted to their virtual accelerator model. "We can deliver the accelerator services inside of their companies," said the executive. "They stay in the corporate environment and access what we provide internally." Other executives agreed that mature SMEs represent an under-served market that could benefit from growth coaching services. For example, they see opportunities to help SMEs grow their overseas revenue and invest in technology to boost productivity.

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Moreover, they think the impact of this programming would be more immediate and open up a viable and sustainable revenue stream for BAIs. As one executive explains:

> *“Governments have put a lot of money into startups. We think they should look at SMEs. The impact can be larger and more short-term. When you work with SMEs with 20 million in revenue, you have to know your stuff. Civil servants will say SMEs have the resources to pay and don’t need help. We find SMEs don’t have the internal resources to strengthen their operations. They still need specialized support.”*

Finally, BAIs are also exploring new vehicles, including philanthropic foundations, to raise funds, while building reserve funds to ensure they can survive any discontinuities in government funding.

> *"Our board mandates us to put a reserve fund in place so that we can have a 6-month runway to deal with gaps in government funding. We are also exploring different vehicles to boost our revenues, including growing our membership, starting a philanthropic foundation that our most successful alumni companies could donate 1% of their shares to, and participating in an angel investment fund."*

ATTRACTING SEASONED ENTREPRENEURS

A defining challenge for Canada's startup ecosystem is the limited availability of repeat entrepreneurs and experienced executives who have seen companies scale, have done it internationally, and can join startups to share that experience and provide management depth. The same holds for BAIs, which have been criticized for their lack of genuine entrepreneurial bench strength.

In our conversations, executives routinely talked about the need to “flood the system” with genuine startup experience, instill sound business judgement, improve access to targeted strategic and operational advice, and help entrepreneurs open the right doors and avoid costly mistakes. In short, there are loud calls for more entrepreneur-led BAIs with an outstanding team of hands-on mentors and leaders with deep entrepreneurial experience.

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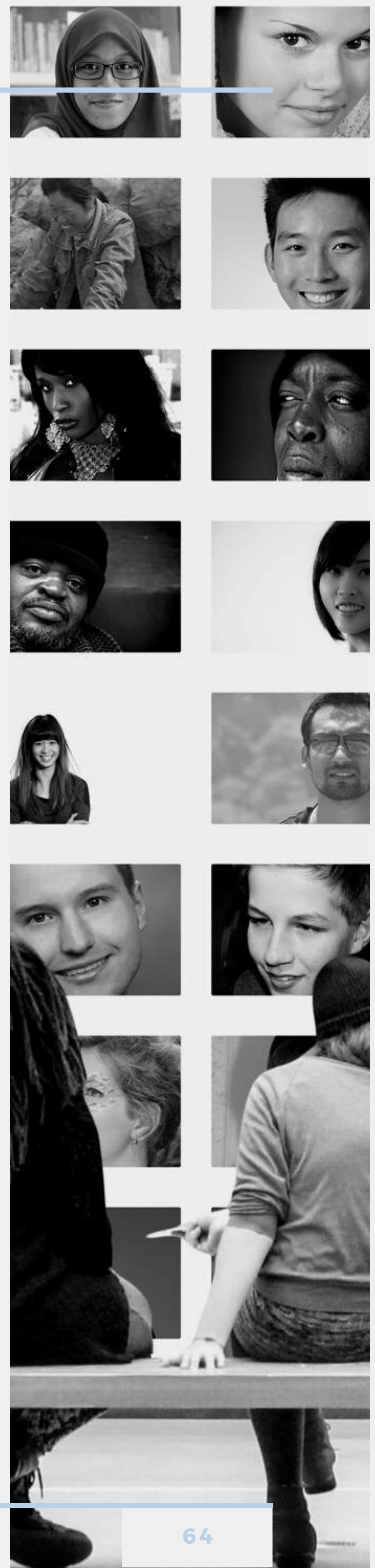
"Since 2010, 250 BAIs have popped up across Canada. Every region is creating incubators. And, every city is trying to transform its economy from resources to technology. Unfortunately, most publicly funded entities are run by people who don't understand the technology, can't identify proper business models, and don't know how to build a viable technology business. For many BAIs, their EIRs are glorified consultants. They haven't built large technology businesses. It becomes a little boys club. If we want to boost impact, we need real entrepreneurs leading these organizations."

The BAIs consulted for this study recognize the value of high-quality mentorship. When asked about the most valuable services they provide, virtually all interviewees focused on the relationships and connections that they broker for clients, rather than on their boilerplate content or curriculums. Nevertheless, executives recognize the need to do more to integrate experienced mentors, executive coaches and investors into Canadian BAIs.

"The investor network is the key thing," said one executive. "It's hard to recreate. We have a big dataset on who invests in companies, and we do our best to engage with them regularly. After that, we must have the capacity to set the right goals and ensure founders hit their milestones. We have common knowledge for all companies, but there is a lot of individual mentoring that goes on. Each company needs specialized advice."

BOOSTING THE METABOLISM OF THE ECOSYSTEM

Speed is a defining attribute of the world's leading startup ecosystems and is abundantly evident in the almost religious commitment of their key participants to driving faster pivots, weeding out bad business ideas, and getting genuinely great ideas to market as quickly as possible. Compared to places like Boston, Berlin, New York or Silicon Valley, many stakeholders worry that Canada is overly nurturing. They claim that Canadian entrepreneurs lack a sense of urgency and that the country's slow clock speed will undermine the ability of its startups to compete globally.



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CHAPTER 6

BOOSTING IMPACT & SUSTAINABILITY

In our interviews, several executives made impassioned calls for a faster clock speed, greater emphasis on building capable founders and establishing better linkages to VCs. As compared to the US, observers suggest that the Canadian ecosystem is too patient and lacks a hard entrepreneurial edge. As a consequence, they argue the ecosystem is producing a large pool of "walking dead" companies that simply aren't good enough to compete on the world stage. “If your idea is not good or disruptive enough in the US, you quickly get turned away. But no one judges that as a failure,” said one interviewee. “Unfortunately, this attitude isn't prevalent in Canada. So, the pool of walking dead just keeps walking around. We have to help these companies hear what the market is telling them.”

Some executives expressed considerable concern that BAIs willing participants in this malaise. In short, they argue that BAIs shelter companies from marketplace realities, and that it takes too long to root out failures. The upshot is that good people, and valuable investment capital, get stranded in unproductive enterprises. As one executive from a VC-backed accelerator put it:

> *“Incubators are like the land of the living dead right now. They shelter companies from marketplace realities for too long. Companies are not forced to think about their business model in a meaningful way. They get bogged down in tinkering with their technology when they need to be out winning customers and generating cash flow. In short, the environment is too comfortable. Companies need a real incentive to move faster. Everything in the real world is working at a much higher tempo."*

What’s the answer? “We need to get a little more competitive and more aggressive and more cutthroat,” said one executive. “We can't coddle the companies. You risk undermining capital investment if you don't have quality deal flow." The world’s best accelerators help founders compress years’ worth of learning into a period of a few months. In the end, both founders and the host accelerator should have collected enough input from the market to either validate the need for further investment or to declare the venture a failure.

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CHAPTER 6

BOOSTING IMPACT & SUSTAINABILITY

Several executives argued that we can accelerate the metabolism of the ecosystem by shifting the focus from incubating products and companies to developing entrepreneurial talent. The advantage here is that you can encourage competent founders and teams to abandon non-viable ideas and pivot to something with legs. Said one executive:

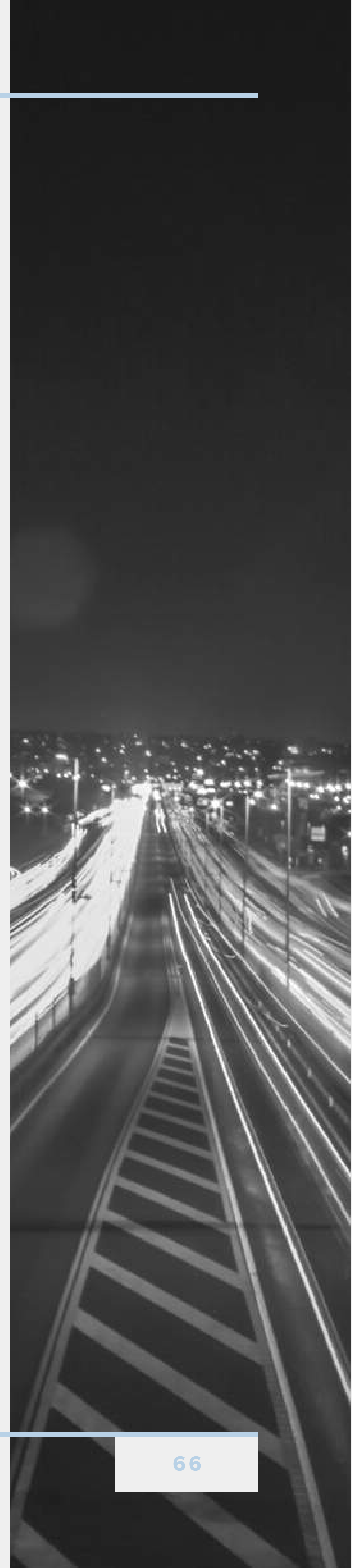
> *“We invest in companies, but we noticed that the people are the key. We try to focus more on supporting the people, rather than just the operations. We focus on bringing in the ingredients to support the personal development and growth they need to manage their organizations. Switching from the skillsets to the mindsets and capabilities for leaders. You can google growth hacking. How do you balance growing fast and staying sane? The accelerator is like a pressure cooker."*

POOLING RESOURCES AND SHARING BEST PRACTICES

While there are genuine examples of collaboration among BAIs in Canada, it does not go as deep as it could. In other words, BAIs collaborate when it's in their best interests to do so. Yet, their willingness quickly evaporates when collaboration requires profound changes to operating mandates or puts their survival at risk. As one interviewee put it, "Competitiveness inhibits collaboration. BAIs feel like they are competing for the same funding, and by empowering others, they may be undercutting their funding in the future."

Another interviewee put it this way: "We are all collaborating and sharing, but we are not all in the same canoe. We are building redundancy and wasting dollars at the programming and support level. We need collaboration at a more fundamental level, which means sharing programming tools rather than reinventing the wheel, agreeing to reduce duplication and aligning programming around the gaps."

Numerous BAI leaders agreed that collaboration and pooling resources could free up valuable resources and increase the value delivered to clients. As one executive explains:



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"Pooling of knowledge, insights and resources across BAIs could be valuable. Some feel that sharing resources will decrease the funding. But we think it could make the whole ecosystem more effective. We are successful when our companies are successful. We think there could be more collaboration on corridor demo days, helping with foreign delegations and field trips to the United States. We can do that better together than alone. We are all small teams, and we are under-resourced. It is hard to do everything that we could be doing to make our companies successful."

Executives suggest there are plenty of opportunities to work on shared programming and tools. For example, there is no need for dozens of entities to build unique programming for export development or international market intelligence when a shared curriculum could be delivered, in a customized way, by local BAIs to create the same value for less cost. BAIs could collaborate on other national or regional solutions to encourage corporate investment and address the regional talent gaps.

Finally, a few BAI leaders see opportunities to deploy resources more efficiently. In particular, they see a chance to harness online delivery models that could reach a larger audience of early-stage entrepreneurs for far less cost. Said one executive:

"We are moving the foundational elements of our early-stage programs – including business canvas modelling and product validation – into an online offering. You don't need EIRs to do that work. We would rather EIRs spend most of their time with companies that are ready to take the next step. The online program serves the wide part of the funnel and will help get new startups off the ground. We typically have 500 companies applying. And we used to spend an inordinate amount of time screening early-stage companies. Now anyone can do the online program and only the graduates will be screened for intensive support with EIRs. It's a great discovery model."

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CHAPTER 7

KEY FINDINGS FROM THE DEEP CENTRE'S EXECUTIVE INTERVIEWS

1. Most BAIs need government as an ongoing funding partner but many are keen to grow new revenue sources and demonstrate their value.

- **Many BAIs see their value as building a pipeline of venture-track technology companies**. Others see a more modest role for BAIs as economic development engines that produce sustainable SMEs that will contribute to local growth and employment.
- **Balanced public-private funding models are optimal according to the majority**. The public-private mix allows diverse organizations to contribute to and benefit from building the startup ecosystem. Many think asking entrepreneurs to pay for services creates good discipline.
- **BAIs want to be measured against their ROI.** Many executives think there is an oversupply of BAIs and see an opportunity to rationalize funding. There is support for using the national performance measurement framework to ensure that funding goes to entities that create value.
- **BAIs prefer longer-term funding commitments** and want stable support for core operations and programming. The perpetual fundraising cycle diverts resources from service delivery, creates instability and requires BAIs to reinvent foundational programming.

2. Service fees and corporate partnerships represent the biggest opportunity areas. In both cases, there are constraints on growth.

- **Service fees are increasingly common, but there are challenges in delivering value**. Human capital is a real constraint on scale and quality. The expertise in creating scalable tech companies is not broadly available.
- **Corporate partnerships create value for the ecosystem but are hard to sustain outside of Toronto and Montreal**. The lack of high-quality deal flow is a problem. Partnerships are time-consuming to set up and expensive to staff up and deliver. Experience suggests that it is hard for BAIs to make any margin.

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CHAPTER 7

SUMMARY OF KEY FINDINGS

- **Equity stakes work for VC-backed entities but are not a viable revenue source for most BAIs.** It's a 7 to 10-year cycle to see meaningful exits. Most BAIs don't have investment funds, don't want to pick winners and worry that equity investments undermine trust-based relationships.
- **Franchising and licensing present genuine international growth opportunities**. It requires real entrepreneurial hustle to make it happen, however. Most BAIs are not equipped or incented to pursue franchising.

3. Conversations with VCs and corporates point to the need for a re-evaluation of the role of BAIs in building the high-tech economy of the future.

- **The corporate honeymoon period is over**. After 3 to 4 years of exposure, corporates are looking for real ROI on their relationships with BAIs. Corporates want to contribute to building the ecosystem but can't justify large cheques in the absence of meaningful deal flow.
- **BAIs are not the principal source of deal flow for VCs.** With some exceptions, most VCs doubt the capacity of BAIs to create venture-track companies. BAIs must sharpen their entrepreneurial edge.
- **Danger of a near-term retrenchment in private investment**. The lack of a ROI-driven value proposition for engagement undermines the potential for revenue growth and a self-sustaining BAI sector.
- **Most BAIs shouldn't be in the scale-up game**. The rise of full-stack, company-building venture studios and corporate venture capital suggests there is a growing array of private sector options for creating high-growth tech startups.

4. Wide-spread difficulties in achieving fiscal sustainability point to the need for a carefully calibrated funding strategy. Entrepreneurial leaders will run their BAIs like a business and build more efficient delivery models.

- **Canada needs different funding models for different stages, sectors and regions of the country**. Funding programs should establish a clearer division of labour among BAIs and fund entities to do specialized jobs in the ecosystem based on client stage, sector and location.

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CHAPTER 7

SUMMARY OF KEY FINDINGS

- **Leading BAIs are tapping into new markets and new client segments to grow new revenue streams**. Entrepreneurial leaders put time and energy into growing their BAI like a business. The biggest gap for many is finding the right people to lead BD activities.
- **Canada needs more BAIs led by seasoned entrepreneurs** who will instill a faster clock speed, create better linkages to VCs and foster a more competitive dynamic within BAI programming. Growing high-tech companies requires private sector skills and a private sector mindset.
- **BAIs also need the right talent to execute key programs and lead their growth strategies**. BAIs would like to fast track their transition to self-sustaining models, but many find that the biggest gap is finding the right people to make this transition. BAIs need people who understand talent, the market, how to raise capital, and how to engage and deliver value to corporate partners.
- **Ecosystem collaboration and more efficient delivery models could free-up valuable resources**. Pooling of resources and efforts would enable resource-constrained entities to do more. Online delivery of foundational programming could serve large user bases for much less cost.

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ABOUT THE AUTHOR

Anthony Williams is founder and president of the DEEP Centre and an internationally recognized authority on the digital revolution, innovation and creativity in business and society. He is co-author (with Don Tapscott) of the groundbreaking bestseller *Wikinomics* and its follow-up *Macrowikinomics: New Solutions for a Connected Planet*. In addition to his work with the DEEP Centre, Anthony is a research director with the Blockchain Research Institute, an expert advisor to the Markle Foundation's Initiative for America's Economic Future, a senior fellow with the Lisbon Council in Brussels, and chief advisor to Brazil's Free Education Project, a national strategy to equip 2 million young Brazilians with the skills required for a 21st Century workforce.

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READ ON

PARTNERS FOR INNOVATION AND PROSPERITY: TOWARDS FISCAL SUSTAINABILLITY IN CANADA'S STARTUP ECOSYSTEM

With the *Partners for Prosperity and Innovation* project, the DEEP Centre led the first nation-wide effort to assess the viability of self-sustaining business models for business accelerators and incubators (BAIs) in Canada. Drawing on a national survey and a wide-ranging series of executive interviews, the study highlights critical strategies for growing private sector revenue streams and establishes a better understanding of the challenges different organizations are encountering in their pursuit of fiscal sustainability.

PART 1 provides a taxonomy of BAI revenue models and the findings from a national survey of business accelerators and incubators across Canada.

PART 2 highlights key insights and findings on fiscal sustainability from a series of executive interviews.

PART 3 includes an analysis of domestic and international best practices in business acceleration.

PART 4 provides a summary of the key conclusions and recommendations for executives and policymakers.

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CENTRE FOR DIGITAL ENTREPRENEURSHIP & ECONOMIC PERFORMANCE

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