

THE RISE OF THE UK ACCELERATOR AND INCUBATOR ECOSYSTEM

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Feilim Mackle, O2's Sales & Service Director and O2 Board sponsor for Wayra in the UK.

Much has been written about the UK's accelerator and incubator ecosystem in recent years – and understandably so. The landscape is evolving at a rate of knots, with an ever-growing list of home-grown programmes seeking to mirror the achievements seen by the likes of Silicon Valley's Y-Combinator, which lists tech giants Airbnb and Dropbox among its success stories.

Few attempts have been made to quantify the exact rate of the model's growth in the UK, which is why we set out to produce the first truly comprehensive piece of analysis of the UK's accelerator and incubator ecosystem.

Based on extensive research into start-up programmes across the country, the finished report demonstrates just how much of an impact participating in a formal programme can have for the entrepreneurs and start-ups involved – benefits we're lucky enough to see first-hand via our own accelerator, Wayra.

In 2014 alone, the programmes we spoke with have supported more than 1,100 start-ups. The average survival rate for these businesses reaches almost 92% which is nearly 20% more than that of other small businesses who choose to go it alone.

We're also seeing a notable increase in the number of start-up programmes backed by large corporations – and in fact these programmes make up 12% of the total number of accelerators and incubators operating in the UK today. I'm proud to count Telefónica amongst this number.

Since opening its doors in 2012, Wayra UK has accelerated 73 start-ups and to date, raised \$28.6m, with our current cohort taking \$3.3m in revenues alone. That's thousands of talented entrepreneurs, many of whom came to us with nothing more than a good idea and a great deal of passion, who have had the chance to grow their business with the backing of a global corporation.

From our perspective, with so many new and innovative companies coming through the doors, there's no question of the value we derive from backing a start-up programme like Wayra. Indeed, who wouldn't want to be privy to – and have the first opportunity to take to market – the technology of tomorrow, and perhaps as importantly, to learn from and share knowledge with agile small businesses?

EXECUTIVE SUMMARY

The UK accelerator and incubator ecosystem has experienced extraordinary growth over the past five years. While a great deal has been written about the rise, few concerted efforts have been made to quantify the exact size of the UK ecosystem or the rate of its growth. This report, commissioned by Telefónica UK, aims to do exactly that, charting the rise and impact of accelerator and incubator programmes on start-ups in 2014.

The UK accelerator and incubator ecosystem is in good health

The in-depth interviews of almost 60 start-up programmes currently operating reveals that the ecosystem is in remarkable health. Of the start-up programmes operating within the UK in 2014, more than half were launched within the last three years – representing a 110% increase since 2011. This dramatic rise has put the UK's start-ups in a good position with more start-up programmes operating here than any other country in Europe.

A stubborn regional divide

Despite efforts by the UK Government to increase the number of programmes operating outside of London, almost two thirds (61%) are based in the capital – ten times more than the number outside it. A shortage of credible tech investors and networking opportunities means that many talented entrepreneurs are gravitating towards larger start-up hubs such as London to get the benefits of the accelerator and incubator boom.

But, while the lure of London may dwarf the appeal of all others, there is a promising sign of change. Cities such as Birmingham and Edinburgh are both demonstrating growth as accelerator and incubator hubs, both at least doubling

the number of programmes operating in the past two years to four and three respectively.

The rise of the corporate incubator

While the drivers for incubator and accelerator growth varies, there has been a dramatic increase in the number of start-up programmes backed by large corporations or business partnerships, with the likes of John Lewis, Barclays and Red Bull all entering the market. These incubators and accelerators make up 12% of the total number of programmes operating in the UK today.

The emergence of sector-specific programmes

The growth of the corporate incubator also coincides with the rise of the sector specific programme. As more and more start-up programmes launch, accelerators and incubators are increasingly finding themselves in a war for talent – competing against one another to attract the brightest and very best. In response, a number of programmes are carving out a new niche for themselves, targeting entrepreneurs and start-ups in specific sectors such as FinTech or e-commerce to enable them to attract high calibre talent.

A training ground for the next generation

The rise in the number of programmes is also playing a new role in upskilling the next generation. Aside from providing support to budding entrepreneurs of all ages, a number of initiatives, including the Sussex Innovation Centre and Wayra, provide opportunities for young people to hone valuable workplace skills through internships and work experience opportunities with start-ups.

Increased chances of success

And finally, and perhaps most importantly, the report also charts the impact that accelerator and incubator programmes have on start-ups themselves. Not only are entrepreneurs and start-ups likely to secure significant financial investment – on average raising more than £68,000 – but of those programmes able to quantify the number of start-ups still operating, the survival rate for start-ups reached almost 92%, compared to a two-year survival rate of 75.6% for all small businesses¹.

While this is a boom time for accelerators and incubators the rapid rise in programmes has led some to fear that the UK is witnessing an accelerator bubble that will sooner or later burst. While it's too early to make predictions on the health of the sector as a whole, the substantial benefits felt by both start-ups and start-up programmes alike suggests that the model is here to stay.

1. Data taken from the latest ONS Business Demography report
<http://www.ons.gov.uk/ons/rel/bus-register/business-demography/index.html>

INTRODUCTION

In broad terms, accelerators and incubators (collectively, startup programmes) are organisations that give early-stage businesses the boost they need to grow and prosper. They do so by providing various forms of support, including mentorship, routes to investment and access to future clients and customers. They are most commonly associated with the digital technology sector, but increasingly the models that benefit tech startups are being adopted by other industries, such as healthcare, food and fashion.

This report provides an overview of the accelerator and incubator ecosystem in the UK, which has experienced extraordinary growth over the past five years, evolving at every turn. The report, commissioned by Telefónica, which runs start-up accelerator Wayra, and based on intensive research carried out in summer 2014, aims to be the most comprehensive survey to date.

Criteria

In the next section, we will explore the differences between accelerators and incubators, which have broadly similar goals and can often be difficult to tell apart. A more immediate challenge is to distinguish accelerators and incubators from other organisations on the startup landscape which could be mistaken for them, but ultimately fall short of either category. These organisations may provide workspace and assorted services to their clients, but what is lacking, most often, is a structured, goal-oriented programme of support.

For this survey, we have only included organisations that satisfy the following criteria:

- A selective application process
- A fixed location for the duration of

the programme – for meetings and workshops if not actual workspace

- Advice and support services are a key part of the package – the programme is not just selling workspace with limited added value
- Targeted primarily at early-stage startups

While payment (such as rent or membership fees) is a good indicator of a conventional workspace, it is not absolute. In instances where fees are charged, it is important to look at the value exchange between organisation and startups.

Key findings

- The UK accelerator and incubator ecosystem is in good health overall – the country currently boasts more startup programmes than any other country in Europe².

Incubators or workspaces?

Mike Herd, executive director, Sussex Innovation Centre (Brighton):

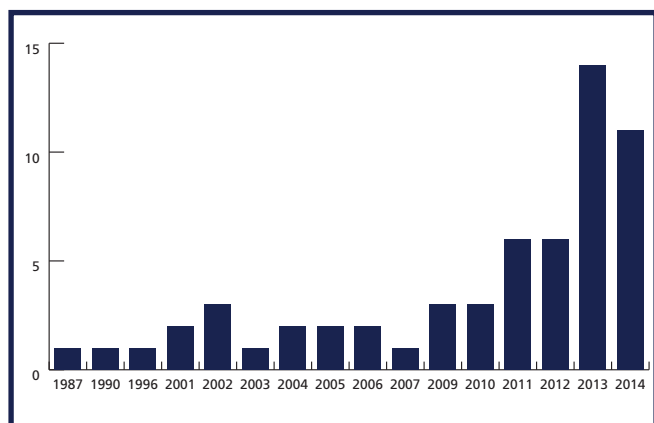
“There are lots of organisations at the moment that call themselves incubators but are really just managed workspace for startups. They offer a meeting with a mentor once a month and call it full incubator support, but it’s not. Unless you actually provide the practical support to back up the strategic mentoring, then you don’t get the impact. Teaching someone to make their first ever sales call is as important as having a strategic sales and marketing plan. It’s about how do you bring those two things together.”

- There has been a recent explosion in the number of programmes launching in the UK – driven primarily by the surging popularity of the accelerator model. More than half of the accelerators and incubators currently operating in this country were launched within the last 3 years.
- Much of this activity is concentrated in London, which boasts more startup programmes than the rest of the UK put together. Smaller clusters are developing in cities such as Birmingham, Edinburgh and Cambridge, but the rest of the country is still comparatively underserved.
- Nearly a third of all startup programmes in the UK make pre-seed investments in their startups. Most investments range from £10,000 to £20,000 per team but some go into six figures.
- There has been a dramatic rise in the number of corporate-run accelerators and incubators in the UK, with the likes of Microsoft, Barclays and Telefónica UK entering the market in the last 3 years.
- Over 40% of startup programmes are privately run (but a third of these receive public funding) and nearly a quarter are run by universities and business schools.

2. For more information, see Telefonica's 2013 report on The Accelerator and Incubator Ecosystem in Europe: <http://www.slideshare.net/BRASLS/the-accelerator-andincubatorecosystemineurope>

THE ACCELERATOR EXPLOSION

This is a boom time for startup programmes in the UK. More than half of the accelerators and incubators currently operating in this country (32 out of 59) were launched within the last 3 years (since January 2012). Fewer than a third (18 out of 59) were established before 2010.



This is largely due to the rise, over the last decade, of the accelerator programme. The model has its origins in the United States and was made famous by the success of one organisation in particular. Since launching in Mountain View in 2005, Y Combinator has invested in over 700 startups. Its alumni, including Dropbox and Airbnb, reportedly have a combined valuation of over \$30bn³.

It didn't take long for the accelerator programme to cross the Atlantic. Now, according to a recent Telefónica report⁴, there are as many if not more accelerators per capita in Europe than the US – and the UK currently boasts more startup programmes than any other European country.

There are 33 accelerator programmes in the UK today – 24 in London, six in other parts of England, two in Scotland and one in Northern Ireland.

³ Statistics taken from <http://www.ycombinator.com/>. For more information, see <http://www.vanityfair.com/business/2012/10/y-combinator-start-up-think-tank> and <http://techcrunch.com/2014/07/16/y-combinator-1-billion/>

⁴ For more information, see Telefonica's 2013 report on The Accelerator and Incubator Ecosystem in Europe: <http://www.slideshare.net/BRASLS/the-accelerator-and-incubatorecosystemineurope>

The main features common to most accelerator programmes are:

- A competitive application process
- Pre-seed investment for equity
- Intensive support over a limited period (often 3 months)
- Regular intakes of startups (often 10 teams or fewer)

Case study: dotforge, Sheffield

A pre-seed accelerator for early-stage technology companies based in Sheffield, dotforge was launched in April 2013 with financial backing from Creative England and a group of 12 angel investors. It runs one intensive programme per year for up to 10 startups, investing £15,000 in each team in return for 8% equity. (They completed their second cohort in June 2014.) "We don't have the pulling power of bigger brands in London," says programme director Emma Cheshire, "so we go out and find people rather than waiting for them to apply."

Given that many applicants are from overseas – the 2014 cohort included teams from Portugal, Romania and Chile – support often begins with helping founders set up shop in the UK. The 3-month programme includes one-on-one mentoring, group training sessions and workshops. The programme director meets with the companies individually each week to review progress and set targets. At the end, demo days and one-on-one meetings are set up with investors and angels (in London as well as Sheffield). Afterwards, graduates are offered an extra three months of free workspace at dotforge's Sheffield HQ.

The company is now planning to expand its operations with three more accelerators across the north of England.

THE RISE OF THE INCUBATOR

Y Combinator may have popularised a new funding model but it was by no means the first organisation to offer structured support to startups. The incubator dates back more than half a century and, like the accelerator, has its origins in the US. (The Batavia Industrial Center in New York, established 1959, is usually cited as the earliest example.)⁵ At first, incubators provided low-cost space and a set of shared services to growing companies. As the concept evolved, services extended to training, mentoring, access to networks and help with raising investment.

The incubator model took off in the UK in the 1980s. It was adopted, in part, to satisfy a demand for easy-in-easy-out space for startups. Vacant buildings, plentiful in post-industrial Britain, were redeployed as low-cost offices and workshops. Incubators became more established over the years and today many of them are attached to large institutions, such as universities and business schools.

Case study: Sussex Innovation Centre, Brighton

One of the longest-running incubators in the UK, the Sussex Innovation Centre started out in 1996 as a joint venture between a group of universities and local authorities but is now fully owned by the University of Sussex (though it is financially independent). The focus is broad, with a bias towards software and internet companies. According to executive director Mike Herd, "All members have one thing in common: they have a new idea that could lead to high growth."

Herd heads a 10-person in-house support team that focuses mainly on finding first customers and creating client and market engagement for new products. Thanks to the Sussex connection, startups have access to skilled, cost-effective university interns and subsidised project-placement students.

The 50,000-sq-ft building, located on the Falmer campus just outside Brighton, accommodates between 40 and 50 companies (about 300 people) at any one time, with hot-desk and collaborative workspace also available for virtual members (of which there are usually another 40). No long-term commitments are demanded – Herd says he operates a churn of about 30% of the companies each year.

Since 1996, over 350 companies have been through the programme (or 700 to 800 if you include virtual clients). The three-year survival rate is 79%, and 44% of all the companies have achieved revenues (or investment) of over £500,000 per annum.

Herd is now planning to open to more premises: a scalable space for high-growth businesses in central Brighton, and a new incubator at East Croydon station.

⁵ See https://www.nbia.org/resource_library/history/ and <http://worldbusinessincubation.wordpress.com/2013/03/22/426/>

	Accelerators	Incubators
Duration	Accelerators typically offer intensive support over a limited timeframe, with a fixed number of intakes per year	Incubators tend to offer a longer, less intensive period of support, with rolling admissions and no formal cut-off point.
Investment	Many accelerators offer pre-seed funding to startups in return for equity.	The majority of incubators do not invest directly but instead help startups attract investment through their networks.
Fees	The majority of accelerators invest for equity rather than charging a fee upfront; some do charge programme fees but increase their investment to cover the amount.	The majority of incubators charge membership fees or rent, staggering the amount according to a company's ability to pay.
Workspace	Accelerators put greater emphasis on training and mentorship, offering workspace for limited periods.	Long-term office or lab space with state-of-the-art facilities is usually a central part of the incubator package.

THE UK ECOSYSTEM

For anyone passingly familiar with the UK tech startup scene, it will come as no surprise to learn that one cluster dwarves all the others. Not only does London have nearly 10 times more accelerators and incubators than the next-largest cluster (Birmingham); it has more than the rest of the UK put together. Out of the 59 startup programmes we identified across the country, 36 are in London. (Of the remaining 23, 15 are in other parts of England, 6 are in Scotland and two are in Northern Ireland.)

There is no great mystery here. After several years of concentrated investment and development, London's Tech City is now one of the most vibrant tech startup clusters in the world; according to a recent report from Oxford Economics, it is set to create £12bn of economic activity in the next decade⁶. World-leading technology companies such as Google, Facebook and Cisco have offices in the city and are actively contributing to its startup scene. It also helps that London is one of the world's biggest financial centres.

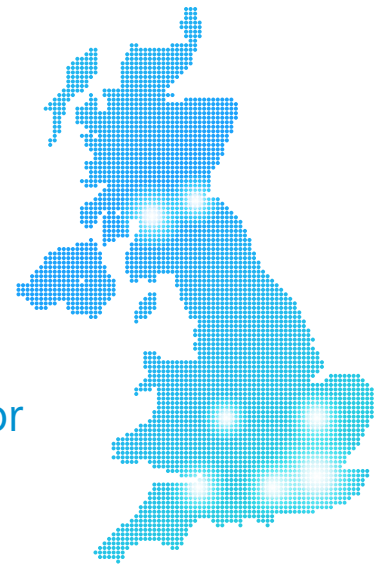
"Within Europe, it is the most important ecosystem," says Gary Stewart, director of Wayra UK. "People respect London: they know there's money here, they know it's potentially a gateway to US markets. It has the capacity to attract entrepreneurs from around the world. And I think the government is being particularly aggressive about supporting startups."

Take-up in other regions has been comparatively sluggish, but there are encouraging signs of change. Increasingly, startups are resisting the lure of London and basing themselves in regional cities, where workspace and cost of living are cheaper. The support structures across the country are getting stronger. Outside

⁶ For more information, see <http://londontechnologyweek.co.uk/2014/06/mayor-london-leaders-global-tech-scene-come-together-launch-london-technology-week/>

⁷ <http://www.bbc.co.uk/programmes/b03yn66h>

Accelerator and incubator clusters in the UK



London, the largest cluster of startup programmes can be found in Birmingham (4), followed by Edinburgh (3), Cambridge, Bristol, Glasgow and Guildford (all 2).

Still, many regions and indeed countries are underserved. Wales has a lot of business centres and a few dynamic new co-working spaces – notably Indycube⁷, which is opening outposts throughout the country and has recently launched an investment arm – but none of them fully qualify as an accelerator or incubator by our criteria.

Despite having vibrant startup scenes in Belfast, Newry and Derry, Northern Ireland also lacks support programmes. (We identified just one accelerator and one incubator in the country.)

Lucy-Rose Walker, chief solutions officer, Entrepreneurial Spark (Scotland):

"Of our three centres across Scotland, Glasgow seems to be the most entrepreneurial in terms of volume of applications, but some of the ideas are not quite what we're looking for. Edinburgh has a good volume and it has some cracking ideas as well. Obviously, geographically and because of population, Ayrshire struggles. Across Scotland, we've seen the standard stay pretty steady over the past two-and-a-half years."

Similarly, there is great excitement around tech startups in Manchester and Liverpool, but the North West remains relatively underserved, with one accelerator and one incubator in the region. A shortage of credible tech investors is a major factor obstructing development in all these clusters. Other key elements of a healthy startup ecosystem, such as meetups and events, are often lacking or in short supply. As a result, many promising startups end up gravitating towards London and other major clusters in Europe and the US.

It is significant that in London nearly two-thirds of the startups programmes currently running were launched within the last three years (i.e. since January 2012) and that all but two of these are accelerators.

Paul Miller, partner, Bethnal Green Ventures (London):

“It’s getting a lot better, but there are still bits of the system that don’t work and lots of crevasses that people can fall down. Early-stage funding is still very piecemeal and depends very much on your personal networks – the best startups don’t necessarily get the best funding. In our world [social ventures], there are lots of problems in terms of working with public services and so on, which our team is trying to help. Also, we find there are lots of people who want to move to London to start ventures, but the visa process is useless. Recruitment and hiring is quite difficult because of that.”

The fire sparked by Y Combinator has taken hold in London, which has the greatest resources to fuel it – the city currently has 24 accelerators and 12 incubators. But it has not spread as dramatically throughout the rest of the UK, where the older incubator model still dominates – we identified 14 incubators outside London and only nine accelerators. More than half of the regional programmes were established before 2011.

Yashu Reddy, director, Healthbox (London and US):

“Healthbox opened in three cities across the US before launching in London. The companies we see in the UK all have the same concerns and challenges, but I do think the stage of development is different. There’s much more familiarity with accelerator programmes in US and much more experience among entrepreneurs, whereas in the UK it’s still not as advanced. That said, I think the potential could be bigger over here and the opportunity for growth even larger.”

Paul Smith of Ignite100, a successful accelerator based in Newcastle, has experienced the difficulties of competing with London. It is conventional for accelerator programmes to end with a demo day, at which graduating startups pitch their products to potential investors. Smith recently decided to cut demo days from his programme. “If you’re one of the big London accelerators you’ll have 500 people at your demo day,” he says, “but for any programme that isn’t based in London it’s difficult to put on anything of scale, and the team and programme gets judged by that.”

WHAT DO THESE PROGRAMMES OFFER - AND DEMAND IN RETURN?

No two startup programmes are exactly alike, and the ways they structure their support are often markedly different, but the core services do not vary greatly from one to the next.

Most accelerators and incubators in the UK offer the following services:

- in-house training
- mentoring and workshops
- networking events and/or demo days
- legal and accountancy support
- discounts and deals from sponsors
- workspace

Every programme in this report offers some form of mentoring, whereby individuals with relevant expertise (usually founders and investors) will drop in on the programme to give advice to startups. Sometimes this happens in a group situation; sometimes one-on-one. Some mentors are available throughout the programme; others will materialise just once, if at all. Certain programmes sell themselves on the size of their bank of mentors, boasting networks of hundreds or even thousands; others limit themselves to just a few.

Lucy-Rose Walker, chief solutions officer, Entrepreneurial Spark (Scotland):

“Accelerators seem to be popping up all over the place and I think it’s one of those bubbles that will probably burst at some point. Ultimately they’ll be judged on the successes of the companies coming out of them. Accelerators work for some people and not for others. But I think it can be very beneficial for the companies if you get the right support and people are in it for the right reasons.”

More intensive training, often provided by an in-house team, guides startups through the ins and outs of setting up a company, dealing with business plans, product design, interaction with clients, sales, marketing and PR, and so forth. Support with legal and accountancy matters is often provided pro bono or at a discounted rate by a third party.

Many accelerator programmes culminate with demo days, at which graduating startups pitch their products to investors and/or potential clients. Relationships with investors and potential clients are also fostered mid-programme through other networking activities, such as talks and dinners, and through mentoring.

Almost all incubators and the majority of accelerators have a fixed premises at which startups can work for the duration of the programme (although co-location is not always obligatory). Some programmes, lacking adequate premises, offer desk space at third-party workspaces. A small number – usually those targeting the hardware space – operate on a largely virtual basis and only bring their startups together for special meetings and events.

Investment

A number of startup programmes, particularly accelerators, invest directly in the startups they support. Most often, this is pre-seed investment for equity – the amount and percentage are usually fixed per founder or team – and is awarded at the start of the programme. 19 of the 59 programmes surveyed (16 in London, three elsewhere in the UK) invest on this basis; with several offering follow-on investment to successful companies at a later stage. (This constitutes nearly a third of all UK programmes.)

An additional seven programmes provide startups with loans or grants as part of the package.

Most investments range from £10,000 to £20,000 per team (or two founders), with equity averaging around 8%. The two largest pots belong to sector-specific accelerators: Distill Ventures, which focuses on spirits, typically invests £150,000 to £200,000 in companies in its entry-level “seed-stage” programme and between £500,000 and £2m at the more advanced “growth-stage” level; EcoMachines, which focuses on hardware in energy and renewables, invests up to £100,000 at the start, with up to £500,000 anchor funding available later on to successful companies.

How much do startups pay?

Sixteen of the programmes we surveyed – 13 accelerators and 3 incubators – offer their services for free. (Two of these take a percentage if they make an introduction that leads to an investment being raised.) A further 12 programmes – 11 accelerators and 1 incubator – invest for equity rather than charging a fee upfront. (One of these, the London food accelerator Kitchenette, takes a stake in each startup without making a financial investment.)

Eight programmes, all of them accelerators, charge programme fees ranging from £600+VAT (Accelerator Academy, a 12-week programme) to £30,000 (Collider, a 13-week intensive programme with a further 9 months of support). Four of the 8 programmes charge between £10,000 and £15,000. Most increase their investment in the startups to cover the fee, in effect passing the charge on to the investors.

Fifteen programmes, all of them incubators, charge rent for physical incubation. (Some of these also offer virtual incubation for a lower fee.) For example, at Level39, a FinTech incubator in Canary Wharf, a hot-desk is £325 per month, a fixed desk is £525 and offices are £625 per desk, inclusive of facilities and support.

Some incubators stagger their rents in a way that encourages early-stage startups in and more mature companies out. At Sparkhouse, the University of Lincoln’s business incubator, the tariff for a 2/3-person office starts at £80 per month for the first 3 months, then goes up to £120 for 3 months, then £200 for 6 months. By 24 months, tenants are paying rent at full market value of £345.

At several university incubators, including London City University, external companies pay rent while students get workspace and support services for free.

Programme duration

At the accelerators we surveyed, programme duration ranges from 8 weeks to 9 months. The average duration is approximately 18 weeks. A number of accelerators also offer additional periods of less intensive support ranging from 3 to 9 months.

Incubators tend not to have fixed durations. Some review performance after a year; most aim to graduate startups within 2 or 3 years but don’t have a formal cut-off point, with some companies incubating 5 years or more. A few more recently established incubators are putting their startups through shorter, more structured programmes: at Social Incubator East, which launched in June 2014 at the new Future Business Centre in Cambridge, the programme lasts 12 months.

WHO IS BACKING THESE PROGRAMMES?

Seventeen of the startup programmes we identified across the UK are privately run businesses that are either self-funded or backed by private investors. An additional eight programmes are privately run but depend, at least in part, on public funding.

Fourteen of the programmes – 12 incubators and 2 accelerators; half in London and half elsewhere – are run out of universities or business schools. (This constitutes nearly a quarter of all UK programmes.) As well as giving students and graduate entrepreneurs a leg up, many of these provide commercialisation support to university spinouts. Some of the programmes are exclusively for students, academics and the university's recent alumni; others actively encourage external companies to join and see value in the cross-pollination that occurs.

There has been a dramatic increase in the number of startup programmes backed by large corporations or business partnerships. The 7 programmes we identified in the UK – 6 accelerators and 1 incubator, all London-based – all launched within the past 3 years. (They now constitute nearly one-eighth of all UK programmes.) They are: Barclays Accelerator, Microsoft Ventures, Wayra (O2 Telefónica), Red Bull Amplifier, JLab (John Lewis), Distill Ventures (Diageo) and BBC Worldwide Labs. One of the key attractions for startups on these programmes is gaining access to, and potentially doing business with, one of the major players in their field.

We identified one accelerator programme, Webstart Bristol, which raises most of its capital via the crowd-funding website Seedrs.

Case study: WebStart Bristol, Bristol

When Mike Jackson founded WebStart Bristol in October 2013, he took an approach to fundraising that was at once unorthodox and entirely appropriate: he raised the money for his first programme through the crowd-funding website Seedrs. The incubator, which focuses on web and app technology, used the web to get itself going.

When he approached Seedrs with his bright idea, they thought that FCA regulations would prevent him from starting a fund, but that turned out not to be the case. He kickstarted his first round, which had a funding target of £150,000, by putting in £30,000 himself. The remaining £120,000 came from a total of 132 people, none of whom he knew.

The first programme ran from January to March 2014 and comprised 10 very-early-stage startups. The £150,000 raised on Seedrs went towards pre-seed investments in each startup – £10,000 for a single founder, £15,000 for two, and £20,000 for three and above, all for 10% equity. (These amounts were inflated to cover a programme fee of £4,000 for one founder, £6,000 for two or £8,000 for three and above.) On top of the funding, the startups received intensive business training over the 10-week duration and were paired up with individual mentors, whom they met once a week. "We also offer a free internal service for graphic design and copywriting and give free legal and accountancy," says Jackson.

A second programme was successfully crowd-funded in February 2014, with 149 people pitching in, and it ran with another 10 startups between April to July. "I definitely believe it's the future," says Jackson of his pioneering approach to funding. Then again, he doesn't see it as all that unorthodox. "If you look at a lot of traditional investing – how do VCs raise that money? They go out and get money from a crowd. This isn't really any different."

SECTOR SPECIALISTS

From Y Combinator onwards, accelerator programmes have tended to focus quite broadly on the digital technology sector. Increasingly, that focus is narrowing as new accelerators carve out a niche for themselves in a single sector, such as FinTech or e-commerce.

At the same time, the accelerator model is being adapted to industries outside the technology sphere. Today, in the UK, you will find accelerators specialising in fashion (Front Row), education (Emerge Education, EdTech), healthcare (Healthbox), food (Kitchenette) and social ventures (Young Foundation Accelerator). Almost all are based in London and were launched within the last 3 years.

Most of the corporate-backed accelerators are specialist to some degree. Distill Ventures, backed by drinks giant Diageo, is an accelerator for spirits startups;

John Lewis's new accelerator, JLab, focuses on retail technology. The focus at Microsoft Ventures is more diffuse, taking in cloud, social, mobile, big data, e-commerce, games industries and more – but the emphasis is on software, not hardware, mirroring Microsoft's area of expertise.

The rise of the sector-specific accelerator has been driven by push as well as pull factors. According to Marc Davies, programme director of Emerge Education, it is becoming increasingly difficult to compete with the leading broad-focus (or "generalist") accelerators. "If you're starting up a generalist accelerator, the people who come to you will have already applied to Y Combinator, Techstars, Wayra, and so on. It's getting really hard to say you're attracting the best or anything near it. So going straight down a vertical is, I think, the way forward."

Case study: JLab, London

The retailer John Lewis created a lot of buzz when it announced its new incubator in early 2014, in partnership with the tech investor Stuart Marks. JLab, which focuses on retail technology and had its first intake in June, received 500 applications from startups to become one of 5 "finalists" on the 15-week programme. Upon entry, each company is given £12,500 for 4% of their business. Fifteen weeks later, the finalists pitch for a single "prize" – a follow-on investment of £100,000 for a pre-agreed valuation specific to the winner.

The programme, run out of a rented space in Canary Wharf, is structured around mentoring. Each startup has three mentors – one from John Lewis, one from the wider business world, and a visiting mentor – whom they meet once a week. There is also a "guest mentoring programme" of one-off talks and workshops, with speakers from the likes of Paypal, Apple, Amazon and Cisco.

JLab is the latest in a growing number of startup programmes being launched by large companies who see the potential in harnessing the creativity of tech startups to improve their own services. The benefit goes both ways: startups gain access to the resources and experience of a major player in their field. In some cases, they end up being acquired by the larger company, but the association can pay off in more immediate ways. "A couple of our startups put off closing funding rounds so they could come into JLab and get access to John Lewis," says programme manager Josh Fruhman. "From our perspective, we've already increased the value of our share-holding."

WHAT IMPACT ARE THESE PROGRAMMES HAVING ON UK STARTUPS?

Forty-seven out of the 58 programmes we surveyed across the UK were able to tell us how many startups they have supported since launching. The total number is 3,255. On average, therefore, each programme has supported nearly 70 startups. In London, where 28 programmes have supported 1,144 startups, the average is just over 40. This lower average can be explained by the fact that London has newer programmes than the rest of the UK as well as a higher proportion of accelerators, which tend to take on fewer startups.

The total number of startups currently enrolled in startup programmes, based on figures from 36 organisations, is 1,117. (The average per programme is 31.) In London, 19 programmes were supporting 365 startups – an average of 19.2. (It is worth noting that 12 of the programmes we surveyed were between cohorts when we spoke to them, and 2 had yet to launch.)

Thirty-five programmes were able to tell us how many of their alumni were still operating. From this, we calculated that the average survival rate in London – which has a much higher proportion of new programmes, and therefore less time for startups to fail – is 94.77%. In the rest of the UK, the average survival rate is 86.28%.

Seventeen programmes, which have supported 1,655 startups between them, could say approximately how much investment their startups have raised dating from when they joined the programme. The total figure is £112.83m. This means that, on average, each of those startups has raised £68,176. In London, where 10 programmes helped 279 startups raise £46.3m, the average per startup is £165,949.

Corporate

So far, the 7 corporate-backed accelerators in London have supported 133 startups between them. Two have just launched and so it's too early to judge their survival rates. Out of the remaining 5 accelerators, 3 were able to tell us how many of their startups were still operating: the average survival rate here is 90.1%.

CONCLUSION

These are boom times for accelerators and incubators in the UK, but, as we have seen in this report, the ecosystem is imbalanced in a number of ways. Startup activity is overwhelmingly concentrated in London, which dwarfs all other regional clusters. Despite exciting developments in cities such as Sheffield, Newcastle and Glasgow, the magnetic pull of London as a hub for tech startups (and startup programmes) will continue to be felt across the UK regions if current trends continue.

Within London, it is feared by some that the accelerator explosion is creating a bubble that will sooner or later burst. An increasing number of accelerators are responding to this possibility, and to the dominance of a few leading programmes, by carving out a niche for themselves. Given the scope for specialisation within the tech industry and beyond, it looks like this trend will continue to grow in near future.

The same may be said for the rise of corporate-backed accelerators, which also tend to focus on a particular sector. The example set by Wayra, Microsoft Ventures et al may persuade other large businesses that starting an accelerator programme would make a valuable addition to their corporate profile.

Despite the imbalances, this is a hugely exciting time for startup programmes in this country and for the UK tech startup scene in general. It will be fascinating to see how the ecosystem develops and changes in the months and years to come.

ABOUT O2

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Research methodology

This research was carried out over 8 weeks between May and July 2014 by independent researcher Killian Fox. We drew up a shortlist of over 90 UK organisations, of which 59 made it onto our final list of accelerators and incubators. Representatives of over 50 of these organisations responded to our requests for information. We would like to thank all the organisations who contributed to the report and gave up their time to speak to us.

The UK startup scene is moving faster than ever before, with companies and programmes opening, closing and changing direction all the time, so no study of it can claim to be entirely definitive. However, as a snapshot of the UK ecosystem in 2014, we have worked hard to make this study as accurate and comprehensive as possible.

A full list of organisations included within the report is available below:

Accelerate Cambridge	London BioScience Innovation Centre
Accelerator Academy (at Innovation Warehouse)	London Business School Incubator
Accelerator London	London City Incubator
Alba Innovation Centre	Manchester Science Park MedTech Incubator
Barclays Accelerator	Mewe360.com Incubator
BBC Worldwide Labs	Microsoft Ventures
Bethnal Green Ventures	Noribic
Carbon Limiting Technologies	Oxygen Accelerator
Centre For Fashion Enterprise	Propel
Climate-KIC	Red Bull Amplifier
Codebase	Seedcamp
Collider	SeedCloud
Connect London	SETsquared
Digital Enterprise Greenwich (Digital Accelerator Programme)	Social Incubator East at Future Business Centre
Distill Ventures	Solve Together
dotforge	Sparkhouse
EcoMachines Incubator	SparkUp
EdTech	Startupbootcamp
Emerge Education	Strathclyde University Incubator
Entrepreneur First	Surrey Space Incubator
Entrepreneurs for the Future	Sussex Innovation Centre
Espark	TechStars London
Front Row Accelerator	The Bakery
Healthbox London	The Hive
IDEAScotland	TrueStart
Ignite100	University of Edinburgh Technology Transfer Centre (ETTC)
Imperial Incubator	Wayra
JLab	WebStart Bristol
Kitchenette	Young Foundation Accelerator
Level39	

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