What went wrong with muru-D?

The death of an accelerator: Why programmes are going bust in Singapore

muru-D's untimely exit raises concerns about corporate reliance of accelerator models.

Accelerator programmes have steadily become a mainstay in Singapore's thriving startup ecosystem. But just like the firms they nurture, accelerators also struggle to find their niche and ensure their own sustainability as they grapple with the same risk of going bust just like the most promising startups.

The sudden closure of the Singapore operations of Telstra-backed accelerator programme muru-D in July 2018 illustrates this point quite well. Backed by Australian telco giant Telstra, the accelerator programme was abruptly shut down mere months after completing its third cohort.

Any accelerator trying to sustain itself independently will find it very tough going in this part of the world.

Startup bootcamp team during Demo Day

Although Telstra did not disclose specific reasons for the shutdown, muru-D Entrepreneur-In-Residence **Craig Dixon** said in an earlier blog post that the programme's untimely end was brought about by the "complete reliance on its corporate sponsor."

"I think relying on one sponsor is inherently risky, the epitome of the adage 'Don't put all your eggs in one basket.' A corporate-backed accelerator is unlikely to be core to the C-level strategy and shifting winds from quarter to quarter can mean the end of even the most successful corporate accelerator," Dixon told *Singapore Business Review*.

Most of the accelerator programmes in the city state are supported by one corporate sponsor, he added, which may pose a problem as these programmes need to strike the balance between nurturing startups and ensuring that the sponsors are receiving sufficient value for their investment.

The role of corporate entities in accelerator programmes have grown in recent years with the share of accelerators in Asia and Oceania planning on generating earnings through corporate partnerships or sponsorships rising from 57% in 2015 to 66% in 2016, according to the Global Accelerator Report 2016.

The report added that corporate funding has outpaced non-corporate financing into accelerator programmes after accounting for 52.1% of global capital injections in 2016. Although corporations have proven time and time again that they can add significant value to startups, corporate and time-bound priorities may sometimes clash against startups whose disruptive ideas may take some time to gain traction, suggested **Hugh Mason** of JFDI.Asia.

"Firstly, most power and money in a corporation is held by business units who must hit their KPIs next quarter," said Mason. "So they need off-the-shelf, tried-and-tested solutions, not startups that 'fail fast' and can only ever show real impact in a few years."

Future-proofing the accelerator

The accelerator programme traces its roots to US-based Y Combinator who introduced the cash-for-equity model in 2005 which involves investing seed money in exchange for equity. Over ten years later, the world has seen a proliferation of such programmes to match the number of startups with nearly 600 accelerators in operation around the world that have invested in US$206.74b in startups, according to the Global Accelerator Report 2016.

"The growth of accelerator programmes has certainly outpaced the supply of startups in Singapore in recent years with both the public and private sectors funding multiple initiatives," observed Jupe Tan, managing partner, Asia Pacific at Plug and Play Tech Center.

Accelerator programmes focus on providing startup founders with learning opportunities and funding support in addition to giving them an invaluable space to connect with various stakeholders like corporates, government, angel and VC investors, clients and mentors.

"Startups at different stages have different challenges, from funding to product development to human capital," added Tan. "There will always be a role for accelerators to play in terms of helping startups to grow and to identify and plug knowledge gaps."

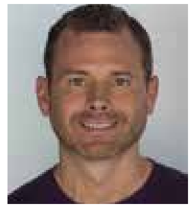
In fact, a survey by NUS Entrepreneurship Centre notes that nearly half (47.9%) of Singapore-based startups have tapped on support schemes like mentoring, incubation and accelerator programmes for their growth requirements in 2017.

"It is critical for Singapore to nurture home-grown accelerators and collaborate with established international accelerators to enable our local startups to access global resources, networks and markets," said **Michelle Kung**, executive director of Business Angel Network of Southeast Asia (BANSEA).

Despite their growing importance and patronage in Singapore's startup ecosystem, accelerators grapple with operational costs of maintaining their programme as they cannot simply wait for exits to fund their operations given the rare and drawn-out nature of exits in generating ROI. An earlier report by Ministry of Trade and Industry (MTI) economists Chia Keat Loong and Reuben Foong confirms this as out of the 460,000 startups formed during 1998 to 2017, only a mere 984 were able to publicly list on the stock exchange a few years after formation or exit through acquisitions.

"I believe that in an ideal world a startup accelerator would live off of startup exits. However, since exits from startup investment typically take 3-8+ years (assuming a successful exit) there needs to be a short to medium-term funding strategy," said Dixon. Such model never quite worked for Mason's JFDI.Asia whose accelerator programme was widely considered as a pioneer in what was then Asia's nascent startup ecosystem but eventually shut down in 2016. The company has since remodelled into a corporate venture partner but not before raising $3m and investing in 70 startups.

"Like many of our peers outside the USA, we never found a way to recirculate risk capital fast enough to make JFDI a self-sustaining business. In the US, some Techstars accelerators have been able to virtually guarantee that one startup from each of their batches will realise value within 18 months or so after the programme finishes. So the accelerator's investors get 2-3 times back on their money and everyone is happy to roll the dice again. In Asia, the time to exit is more like 6-8 years and the valuation at exit is perhaps 30% of that it would be in the US. So any accelerator trying to sustain itself independently will find it very tough going in this part of the world," the firm said in a 2016 blog post.


Craig Dixon


Hugh Mason


Jupe Tan


Michelle Kung

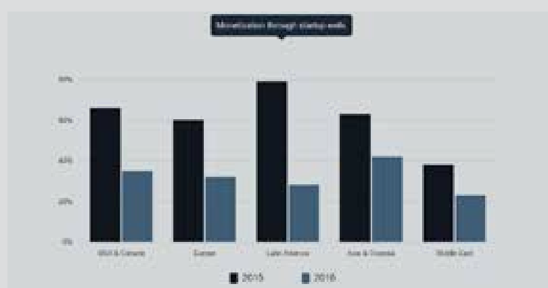
To ensure their sustainability, accelerator programmes across the world have been taking a leaf out of JFDI.Asia's book and shunning startup exits as their main income-generating method. In fact, the percentage of accelerators in Asia & Oceania relying on such model fell from 63% in 2015 to 42% in 2016 in line with a downward trend observed in USA & Canada, Europe, Latin America and Middle East.

Alternative business models have therefore emerged to dilute reliance on rare exits with accelerators instead charging for mentorship, subletting spaces, hosting events and working with corporations. Despite the invaluable role corporations must play to oil the gears of accelerator programmes turning away from exits, Dixon suggests that this function could be watered down through the presence of multiple stakeholders in order to avoid corporate overreliance that hastened muru-D's exit.

He brings the accumulated experience and lessons from running muru-D as he sets up accelerator programme, Accelerating Asia with fellow co-founder Amra Naidoo — one that aims to fill the gap left by muru-D and go beyond its shortcomings as it leverages on a partnership independent of one particular corporate partner.

"We partner with corporates and other organisations to provide innovation consulting services specific to areas that engage with startups. The advantage to this model is that we can diversify our revenue streams and maintain our independence. If one of our partners pulls out, our program will continue," he said. *Sandra B. Sendingan*

The Accelerator Business Model



Source: KPMG