A Year of VilCap Communities:

How Ecosystem Builders Can Best Help Entrepreneurs Succeed

PREPARED FOR

Ewing Marion KAUFFMAN Foundation

IN PARTNERSHIP WITH

STICHTING DOEN

SORENSON IMPACT FOUNDATION

Table of Contents

She Leads Africa in Lagos, Nigeria

Founder's Note

Jerry Nemorin is an entrepreneur who participated in an early Village Capital program. Jerry grew up in South Florida, the son of refugees from war-torn Haiti. As a kid he watched his immigrant mom getting ripped off by payday lenders, and in 2011, after spending a few years on Wall Street, he moved to Charlottesville, Virginia to start a company called LendStreet that helps people refinance their predatory loans.

Jerry needed venture capital to grow his company - hire more employees, expand to new markets - but initially, he struggled to find investors. As he later told our team at Village Capital, "Investors often talk about 'pattern recognition' when they're making funding decisions. As a black guy, living in central Virginia, solving poor people's problems, I was 0 for 3!"

Jerry's story is a reason why we created the VilCap Communities initiative. Starting a business is easier for some people than others. Entrepreneurs that don't necessarily fit the startup mold need a "community" - what some refer to as a startup ecosystem, or simply a support system.

As Jerry pointed out, it's harder to find your community if you're not living in a city with highly-concentrated venture capital. Nearly 80% of startup investment in the U.S. goes to three metro areas: Massachusetts, California, and New York,[1] and more than half of global venture deals happen in those same metro areas.[2]

It's harder to find your community if you come from a different background than most investors. In 2015, female founders only received 8% of dollars invested, while Black founders received even less, around 1%.[3] These patterns apply internationally, as well: in a study Village Capital conducted with the Gates Foundation, we found that 71% of startup investment in Africa over the last three years has gone to just four enterprises—all run by foreign expats.

And it can be harder to find your community if you are solving "real world problems" as opposed to what many investors see as "my-world problems". Only fifteen percent of unicorns, startups valued at over a billion dollars, are in the industries that comprise the highest amount of consumer spending and have the highest real-world impact (health, education, energy, agriculture, financial services, and housing).

VilCap Communities was a one-year pilot experiment to work with twenty-six existing communities across the world - sixteen in the United States and ten outside the US - to share best practices and test a model, peer-selected investment, that Village Capital developed in 2009 in order to promote collaboration within small groups of startup founders and create mini-communities of peer entrepreneurs. Like any pilot, it had high points and opportunities for learning, and this report will share both. Most importantly, the VilCap Communities pilot gave our team unique insight into how leaders across the globe try to answer the proposition: what works in entrepreneur support?

Ross Baird

President, Village Capital

A Global Pilot: How Can We Scale What Works in Entrepreneur Support?

Silicon Valley is the envy of the entrepreneurial world, and it deserves to be. It's a seamless community (or "ecosystem") for entrepreneurs: if you're in the Silicon Valley community, and have a great idea, you can find the resources you need to succeed.

But in other cities, local leaders have had to create this ecosystem from the ground up.
In 2007, in Boulder, Colorado, Brad Feld and Dave Cohen built Techstars as an early "accelerator", surrounding new businesses with the resources and mentors they needed to succeed. Since then, accelerators have launched in more than 1,000 communities across the world.

Most entrepreneur support either focuses on the founder or the investor. But the VilCap Communities pilot, along with many other complementary efforts worldwide, is in part a way to name, frame, and support a specific role in the middle of the "Pioneer Gap": the ecosystem builder.

The people who run accelerators, incubators, seed funds, and other entrepreneur support organizations (ESOs) play a critical role in their communities. Nearly 80% of startup investment in the US (and more than half globally) goes to just three states. The ecosystem leaders who run these programs are working every day to attempt to close that gap - and many are also working to address the problem that less than 5% of venture capital goes to women, and less than 1% goes to African American founders.

But with so much money, political resources, and hope going to ESOs around the world, it's worth asking: when do these programs work, and when do they fail? Are there best practices for building a local ecosystem to lift up entrepreneurs?

Our team at Village Capital has been fortunate to be on the front line of early research around this question. In 2013 we partnered with Emory University and the Aspen Network of Development Entrepreneurs to release the first global research study on ESOs: Bridging the Pioneer Gap. Three years later, we opened our program data up to researchers from the Global Accelerator Learning Initiative, for a first-of-its-kind study on what works and what doesn't in acceleration (What works? Investor meetings. What doesn't work? Spending too much time on financial modeling).

Last year our team set out to take this question one step further, with VilCap Communities. In February 2016, with the support of the Kauffman Foundation, the DOEN Foundation and the Sorenson Foundation, we selected a pilot class of 26 ESOs from cities across the world — 16 in the US and 10 outside the US —to run investment readiness programs using Village Capital's peer selection model. Every organization committed to investing $50,000 into local entrepreneurs, and also to share their insights with the rest of the "Communities".

This was an experiment in a few ways. First, we were able to test out our peer-selection model (entrepreneurs decide who among their peers receives investment) in a local, place-based context. Second, we were able to work directly with ecosystem leaders around the world, be part of the conversation as they shared best practices, and contribute to the literature around what works and what doesn't in entrepreneur support.

Third, and most importantly, we sought to gather information on what works, broadly, to bridge the gap between amazing (but overlooked) entrepreneurs and funding. Building off of our 2016 report with Emory University, we wanted to go deeper into the question of how accelerators can better help entrepreneurs, investors, and ecosystems alike.

This report reviews what we learned. First, we'll define different types of entrepreneur support organizations and what roles they can play in building a startup ecosystem. Next, we'll share lessons learned from the pilot program of VilCap Communities - for instance, why entrepreneur support organizations may benefit from a sector focus.

We offer a number of specific lessons, but ultimately one lesson stands above all: there is no one-size-fits-all model for entrepreneur support, and communities that seek to copy a successful model - for instance, the Silicon Valley model - will often find that what works in an a long-established ecosystem may flounder in a nascent one. Ultimately, every startup ecosystem is unique. But there are shared strategies, values and lessons that can help ecosystem leaders build community for the entrepreneurs that need it most.

What Roles can Entrepreneur Support Organizations Play?

In the past decade, thousands of local leaders have built ESOs to surround new businesses with the resources they need to succeed.

One common type of ESO is the "accelerator". Between 2008 and 2009, the number of accelerators in the United States grew from 16 programs to 27. In 2010 that number grew at an even faster rate to 49, and by 2014 there were 170, while that number has appeared to grow at a similar tick since then, about 50% year after year.[45]

There is an ongoing debate around the value of accelerators, and a growing amount of data and research on this topic. A representative finding in 2014 (during "peak accelerator")[6] by the Academy of Management Proceedings found that top accelerators do, in fact, help companies reach important milestones, but most aren't effective, and some are even harmful to startup development.

This is a rather open-ended conclusion that reflects the nascence of the accelerator movement as a whole, and the loose definition of what an accelerator (or ESO) is. This is natural: many cities are experimenting with different models, and as we learned from VilCap Communities, flexibility is key. Still, there is value to defining the different roles that accelerators and ESOs can play.[7]

FINDING entrepreneurs. ESOs can play an active role in seeking out the top entrepreneurs in a city, state, or industry, and even in finding entrepreneurs that are in investors' "blind spots" and would otherwise not be able to get the funding they need. Sometimes the incentive for the ESO is that they are funded by a local or state government or industry group with a mission to support a diverse group; many ESOs are non-profit organizations with the mission to support innovation.

Through VilCap Communities, we found very little innovation in "finding" entrepreneurs. Nearly every organization used the same process for recruitment and selection: highlight a program, market it on social media, receive applications, and have a selection committee pick the best.

As we will explore below, we see substantial opportunity for innovation in uncovering and evaluating entrepreneurs.

TRAINING entrepreneurs. This is the ESO role that most people are familiar with. In general, ESOs either create their own in-house curriculum or license curriculum from another ESO to target the range of topics companies most need to develop over the course of their time in the accelerator. These topics can range from the ideation stage all the way through a round of funding. ESOs can compete to attract talent to their programs by offering unique or niche training topics, or by generalizing their training to cover a broad range of topics for a specific stage. In exchange for participation, many ESOs will take equity in their companies or charge a small fee.

VilCap Communities sought to test the effectiveness of ESOs that focus on training entrepreneurs. This is an ongoing question we at Village Capital have been tracking and evaluating for since 2013 through GALI and Emory University.[8] What we've learned over the years working on this research includes the insight that startups go on to raise eight times as much capital post-program. Later in this paper, we will discuss the different aspects of curriculum, what is most effective for ESOs to implement as a part of their curriculum, and what entrepreneurs need most in curriculum.

INVESTING in entrepreneurs. Not all ESOs invest in companies. Investment decisions can take the form of post-program investment, a small percentage of equity, or grant funding from a partner organization. This stage is important to drive the companies' success in implementing the changes or developments they worked on throughout the program.

If an ESO cannot invest in their companies, there are still other ways to monetarily support their post-program success, such as introducing them to investors or offering partnerships with related organizations.

Designing VilCap Communities

In November 2015, Village Capital opened applications for ESOs across the globe to apply to the VilCap Communities program.

The program offered ESOs the chance to use Village Capital's curriculum and peer-selection model (see text box for more information) in their own community. Applications were open to anyone, but we required applicants to commit to three things:

1. Operate a time-bound program that supports entrepreneurs in a specific place (city, county, emerging market country)
2. Run a program with a "problem-based approach": a specific sector theme that fits with local/regional strengths (as discussed below, not all ESOs carried through with this)
3. Pre-commit at least $50,000 for the peer-selection process; allowing entrepreneurs to decide who receives that funding

The selected "Communities" would receive access to Village Capital's curriculum (including facilitator guides, pre-program preparation materials), our ranking and management platform, and a dedicated VilCap Communities team member to help train the Community and be on-call for any questions that would arise during the program.

Communities were allowed to modify, add, or remove curriculum they felt would create the best program for their entrepreneurs. Additionally, Communities were not required to recruit companies from a particular stage or scope.

Finally, Communities would also be gathered three times: once for a kick-off training (in Amsterdam for Global Communities and Salt Lake City for US Communities), once in July for a mid-year check-in, and once in October for a "Connecting Communities" event to bring all Community leaders together to workshop problems and solutions the Communities were facing.

What is "peer selection"?

Village Capital curriculum can be broken into two major aspects: the peer rank and its surrounding framework, and the day-to-day lesson plan. All Communities that ran programs used peer rank and subsequently used the framework to inform the rank as well as the platform to rank each other. For every Community that used our curriculum successfully, peer selection was rated the top reasons why that Community wanted to participate in the first place.

Why peer selection? In the words of Village Capital's investment analyst, Greg Bennett: "Investors and entrepreneurs are often speaking separate languages. Entrepreneurs don't understand the context that investors operate within, and investors are often one step removed from the market where entrepreneurs operate. Village Capital helps entrepreneurs understand how investors think--and help investors get the finer points of context that only entrepreneurs can see. The entrepreneurs do the ranking."

We think peer selection is the best way to mitigate investor bias, empower entrepreneurs, and most importantly, invest in the best companies. In the words of our 2016 FinTech cohort entrepreneur Doug Speight: "Peer selection enables entrepreneurs to evaluate a startup and startup leadership on their own merits (market potential, team strength, founder coachability, go-to-market strategy, traction, execution) by the very peers who are closest to it."

We received applications from 39 ESOs in the United States and 66 ESOs outside the United States. We approached this pilot year from a place of experimentation and testing; as such, we selected communities with a wide number of variables, in order to better understand the nuances between different kinds of ESOs in different places. We ultimately narrowed the applicant pool down to an inaugural cohort of 10 international and 16 US-based Community partners.

Our 2016 VilCap Communities

WiSTEM - 1871
Chicago

Cintrifuse/Hamilton Mill/
Pipeline H2O
Cincinnati

Lean Labs
Kansas City

The Water Council
Milwaukee

MN Cup
Minneapolis

Nashville Entrepreneur Center
Nashville

SixThirty
St. Louis

Johns Hopkins Technology
Ventures
Baltimore

Launch NY/Critical Path/
University of Buffalo
Buffalo

Cintrifuse/Hamilton Mill/
Pipeline H2O
Cincinnati

Groundwork
Washington, D.C.

Ben Franklin Partners
Philadelphia

Maine Accelerates
Growth/Venture Hall
Portland

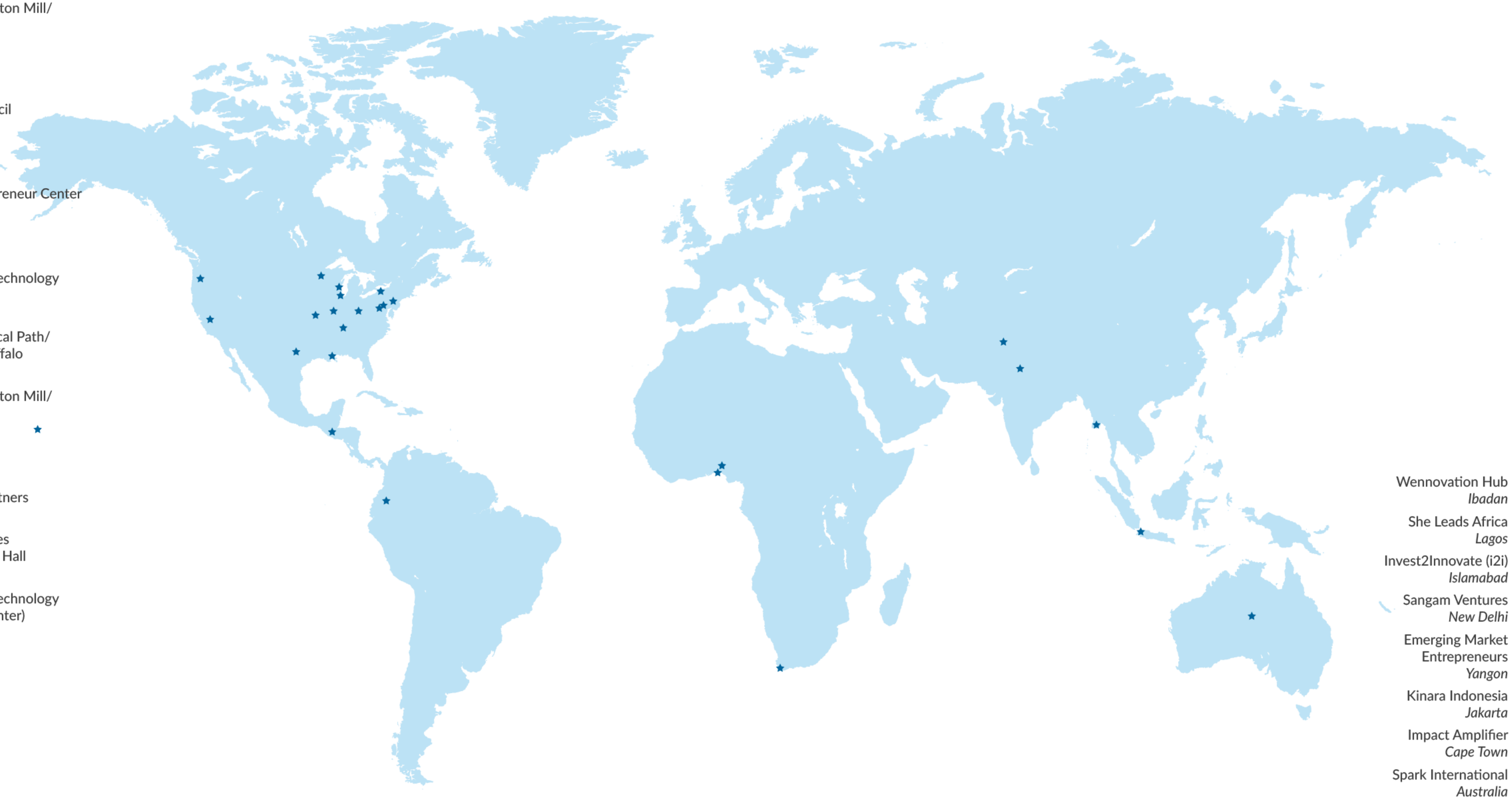
Water, Energy, Technology
Center (WET Center)
Fresno

SoftMatch
Austin

Propeller
New Orleans

Pomona Impact
Antigua

Kiwa Summit
Quito



Wennovation Hub
Ibadan

She Leads Africa
Lagos

Invest2Innovate (i2i)
Islamabad

Sangam Ventures
New Delhi

Emerging Market
Entrepreneurs
Yangon

Kinara Indonesia
Jakarta

Impact Amplifier
Cape Town

Spark International
Australia

Village Capital's Model: Putting the Power of Investment in the Hands of Entrepreneurs

Village Capital's mission is to find, train and invest in entrepreneurs solving real-world problems, in economic opportunity (health, education, and financial inclusion) and resource sustainability (energy and agriculture). Since 2009, we have we supported more than 500 companies across 50 programs in 13 countries. We've invested in more than 70 companies, making us one of the most active early stage investors in the world. At the center of our model is the peer selection process.

Our model on the "lens of the investor". It has been honed based on feedback from GALI,[10] to incorporate a number of core principles:

- Focus less time on delivering curriculum, and more time for entrepreneurs to work on their own.
- Emphasize networking among the cohort members. We do this by selecting companies in the same sector, but who aren't directly competing with each other.
- High-performing programs focus more on developing communication, networking, and organization structure skills than financial acumen.
- Mentor quality, and mentor matching, is key for entrepreneurial success.

At the end of the program, the entrepreneurs rank their peers in an open, transparent and collaborative process on six criteria. As a group, they select the two companies that they consider most investment-ready. This process, called peer selection, puts power of investment in the hands of entrepreneurs themselves.

Our belief is that peer selection democratizes entrepreneurship, and helps get past some blind spots that inhibit innovation: lack of early stage-capital for entrepreneurs; high cost of deploying financial capital (vetting and due diligence); and skewed power dynamics between entrepreneurs and investors.

invest2innovate in Lahore, Pakistan

Agriculture | Education | Energy | Financial Services | Health

Over seven years, we have seen the following results:

Quality programs that produce the best companies...

98% of alumni would recommend the program to a peer and over 50% give the program the highest possible rating. Additionally, our peer rank process has produced high-growth, sustainable companies that go on to raise more than eight times as much follow-on investment funding.[11]

Our portfolio companies - companies that have been selected by their peers for investment - have a 90% survival rate compared to the BLS average of 50%. Of our 72 investments, our funds has made 11 exits and seven write-offs.

... from an inclusive background of entrepreneurs...

Companies selected through Village Capital's peer review model outpace traditional venture capital in making entrepreneurship accessible to everyone. 36% of investments are in companies who have women CEOs (compared with 4-8% in traditional venture capital), and 88% of investments are in companies outside of New York, Boston, and California (compared with 25% in traditional venture capital). In the US, 20% are Black- or Latino-led ventures (compared with less than 5% in traditional venture capital).

... making the biggest impact.

At Village Capital, we believe "impact" is at the core of every company we work with, because our alumni companies are solving real-world problems that affect society and the environment.

We measure direct impact: the service or good provided is direct to the consumer that needs it the most. 550 alumni have created 11,102 jobs and served 6 million customers. Our portfolio companies have offset over 50 million pounds of CO_2 emissions, served 325,605 low-income students, reached 293,547 low-income patients, provided 49,545 individuals with access to affordable financial services, installed 3,317 kw of solar power, and served 10,351 smallholder farmers. Across agriculture, financial service, health, education, and energy, Village Capital companies make a huge impact in their sectors to the people who need them the most.

Lessons Learned: The Many Facets of Running an ESO

For this report, we surveyed entrepreneurs that participated in each of the completed programs. Of the 77 entrepreneurs asked to participate, 28 provided data. These entrepreneurs represent nine Communities, six domestic and three international. We also interviewed Community leaders (we consider lessons from Communities that did not complete programs).

We've divided the lessons into a few buckets, which track with the process for finding, training and sometimes investing in entrepreneurs. We looked into:

- How do entrepreneur support organizations **FUND** their programs?
- Where do they **FIND** entrepreneurs?
- How do they **FACILITATE** their programs?
- What sector or industry do they **FOCUS** on?

Let's start at the beginning: how do ESOs get the funding to run their programs in the first place?

How do entrepreneur support organizations FUND their programs?

In a 2014 paper, MIT researchers found that regional accelerators have a positive impact on regional entrepreneurial ecosystems, particularly with regard to the financing environment.[12] Yet ESOs often have a hard time raising money.

At the end of the first year of VilCap Communities, 11 of the 26 Communities were unable to reach their capital goals for launch — and none of them were "sustainable" without philanthropic subsidy. We found that 55% of every dollar taken in by the 26 programs was philanthropic. Antony Seppi of Hamilton Mill in Cincinnati explained that **"an incubator is a part of the city's infrastructure, and we're not in it to make money. We're a nonprofit, and there are a lot of things we can do that other organization can't do."**

As it turns out, ESOs may never be "revenue-sustainable" in a traditional sense. We believe that is actually OK. ESOs, when effective, are critical infrastructure for a city or a community, and should be treated as such.

Lesson: Blended capital helps sustain programs

Having a great partner can certainly sustain a program for a year. But to get an ESO to place where it can be sustained year over year, look to diversify how you make money.

Kalsoom Lakhani, who runs the for-profit invest2innovate in Lahore, Pakistan, funds her programs through consulting engagements, grants, contracts, equity for participation, and sponsorship from the World Bank and DFID. "Because we're a for-profit, we have to be creative about how we make money. The majority of our partnerships are local, all of the mentors are local - banks, telecom companies - we're very local. Even last year, we were funded by DFID but through a partner in Pakistan."

Lesson: Sector-specific programs help bring money to the table

So often, we hear programs have an issue raising programmatic funding (money used to run the program itself). When we dig deeper to find out why, we regularly hear that "no one was interested in funding an agriculture program," or another sector that the ESO intended to pursue. We call this "push vs pull": the idea that ESOs should not be pushing an idea for a program onto a funder, but rather pulling them in and asking what their needs are, securing the funding, and building out a program from there.

Portland, Maine was originally a VilCap Community comprised of Venture Hall and Maine Accelerates growth, a non-profit accelerator and a funding partnership, respectively. Throughout the creation of their health program, Portland connected with Unum Group and MaineHealth. They were attracted to Venture Hall's existing programs but encouraged to partner as they built out their program with Village Capital's involvement. Now, Portland's health ecosystem is thriving and will be a stronger startup city in the long-run.

There are two important takeaways here. For policymakers, foundations and elected officials who commit publicly to supporting entrepreneurs: remember that you'll more than likely need to put your money where your mouth is, and support those who support entrepreneurs.

For ESOs: make sure you are accurately communicating what your goals are and sharing your progress with entrepreneurs, funders and any other stakeholders. Are you trying to make every company that goes through your program ten times more profitable? Are you trying to build a more resilient community? If you fail to set expectations, you risk alienating those who can support you financially.

Where do entrepreneur support organizations FIND entrepreneurs?

When we surveyed the VilCap Communities ESOs, we found that 38% of Communities recruited locally, 31% nationally, and 31% internationally - meaning only a slight majority of Communities preferred to find companies from their own city. With an almost perfect split in recruiting preferences, we wanted to know why there doesn't seem to be consensus on what works, and how each ESO should think about recruitment in a way that makes sense for their program.

One piece of feedback we saw as a commonality was that sector specificity was actually a positive in company recruitment. As Antony Seppi from Hamilton Mill in Cincinnati put it: "**Sector specificity made it easier to recruit entrepreneurs that focused on very specific problems.** We were looking for 8-10 and we were able to hit that, no problem. We had 66 applications worldwide - it was hard to whittle down."

Venture Hall in Portland, Maine

Lesson: Focus more on quality of applicants than on quantity.
We saw a wide variation in applicant numbers. The target number of applications ranged from 20 to 100, with a slight preference to target 40-60 applicants.. Despite varying degrees of target applicants, 6-10 was the overwhelming target cohort number, with only 31% of Communities targeting a higher cohort number. While organizations think differently about if and how quantity of applications leads to quality of the cohort, there is a consensus around successful cohort size.

In our Village Capital programs, we actually found a negative correlation between applicant pool size and quality of program: the average total applicants for high-performing programs was 75.6, and the average total applicants for low-performing programs was 98.5.[13] As we continue to evaluate the success of the Communities, this will be an important metric to monitor to see if this holds true in our Communities as it does with our core programs.

Lesson: ESOs don't need to recruit from within their own city to build a strong cohort and contribute to ecosystem health.
The even split between where ESOs recruit is interesting for two reasons: one, this means that largely, Communities were using their programs to get companies to move (at least temporarily) to their cities, which leads to economic growth for their region. And second, there were already enough companies in over a third of the Communities to pull from local talent as opposed to bringing people in, reiterating an original hypothesis that some of the best ideas are already thriving in cities that are overlooked by many investors.

Startup accelerators have a history of contributing to stronger city development. As researchers from MIT found, accelerators stimulate financing activity, ensuring local entrepreneurs more engagement from investors, which subsequently drives economic growth to the region through supporting local entrepreneurs.[14]

In a 2014 report, the Small Business Administration concluded that accelerators stimulate economic growth by bringing jobs, financing opportunities, and in general more people to a city.[15] ESOs that focus on recruiting nationally or even internationally drive economic development through bringing in new businesses, fresh ideas, and a whole new worker base.

Given these two potential paths for stimulating economic activity, ESOs should figure out what kind of growth they are looking for: stimulate the companies already located in their city or region, or bring in new jobs by recruiting from outside the region? We found our VilCap Communities benefited from both methods.

How do entrepreneur support organizations FACILITATE their programs?

Program design, from number of sessions per week to what is being taught day-to-day, is the lynchpin of any accelerator program. And to design an effective program, ESOs should know the problem they are trying to solve.

Too many ESOs promise everything to everyone. For instance, there's a distinct difference between 'business model development' and 'investment readiness', but most entrepreneur support programs spend their time teaching the former, with the goal being to help companies validate their business model (think: "Lean Startup", or "Business Model Canvas").

Not every accelerator or entrepreneur support program should focus on investment-readiness. Some specialize in offering product validation; others help founders develop strategic partnerships with big institutions. And not every program has different desired outcomes, either. Some focus on creating quality jobs, others focus on solving a problem in a sector. A third group focuses on making as much money as possible as quickly as possible. We'd argue these are very different program designs.

But if your promise is to help entrepreneurs raise capital, make sure your pedagogy and learning outcomes are targeted to measurable increases in investment-readiness.

All Communities that ran programs used peer selection and subsequently used the framework to inform the rank as well as the platform to rank each other. One of the goals was to continue testing the hypothesis that implicit bias can be mitigated or altogether eliminated through peer review. More importantly, we wanted to test the factors that make peer rank successful (transparency, collaboration and communication, and peer feedback) and how those factors can be applied to ESOs regardless of if they use peer rank.

For every Community that used our curriculum successfully, peer selection was rated the top reason why that Community wanted to participate in the first place. Entrepreneurs in VilCap Communities rated the peer ranking process overwhelming positively: **93% of entrepreneurs say they felt more prepared for a due diligence process. 85% of participating entrepreneurs thought the rank was helpful to their businesses or felt neutral about the process.**

VIRAL - or "Venture Investment-Readiness and Awareness Level" - is the crux of this curriculum, and drives insights that lead to the final rank. As will be discussed later, founder awareness is one of the most important components to venture success. Keeping this in mind, ESOs should emphasize self-assessment, actionable feedback, and realistic milestone planning while creating curriculum.

Assessing how valuable and easy to use peer rank is was one of the most important parts of VilCap Communities. What we found was peer rank and VIRAL were easy to either replicate or integrate, and by allowing Communities the autonomy to adapt the way they saw fit, the Communities could tap into their own strengths and bring in the right partners to make their programs successful. 100% of entrepreneurs surveyed said the curriculum was easy to follow, and 75% of entrepreneurs said they left with reusable diligence-related materials from the program.

Lesson: Peer selection helps entrepreneurs address their venture's risks through a transparent process, helping companies succeed in the long-run

Jeff Lynch, President and Founder of Idle Smart, puts it this way: "The Village Capital model is unique in that it asks participants to make peer-selected investments in other companies in the cohort. As a result, we spent a lot of time getting to know each other's businesses and giving near-constant feedback on every aspect of their business model, assumptions, and investment readiness. These are smart people who run their own businesses in our industry and so, however painful it was to hear, we benefitted from their feedback, particularly since we may not get specific and actionable feedback from potential investors."

Through VilCap Communities, 85% of participating entrepreneurs thought the rank was helpful to their businesses or felt neutral about the process. The more interesting aspect of this entrepreneur feedback was which programs they attended: programs that utilized more than 50% of curriculum had a higher rate of positive impression from entrepreneurs than programs that utilized less than 50%.

Using the peer ranking method works for entrepreneurs. But even if an ESO chooses not to use peer rank specifically, the main components of its framework — transparency, collaboration, and constant real-time, actionable feedback — is key for accelerator success. Companies will be able to more directly address their risks and create a path to mitigating those risks quicker through this type of program.

What sector or industry should entrepreneur support organizations FOCUS on?

Our VilCap Communities hypothesis from the beginning was that cities shouldn't try and recreate Silicon Valley; they should be the best version of themselves. Many of our programs embraced a sector focus that resonated with the city. For example, Philadelphia launched a financial technology program, building on Philadelphia's institutional history of financial services R&D since Benjamin Franklin designed the coins for the first U.S. Mint. Cincinnati's program focused on water innovation, building on their history as a brew town and their private sector leadership in the water sector.

Over the course of the year, our Communities engaged with more partners than previous iterations of their programs. 12 programs secured some kind of programmatic or investment funding from new partners, helping to build out their ecosystem even more. Some of the most interesting collaborations came from programs that used their participation to connect directly with industry leaders in their city.

Lesson: Sector specificity brings more targeted and useful mentors and partners to the program

Hamilton Mills in Cincinnati chose to focus their program on water. While that might seem like a narrow field, Antony Seppi says it was easier to bring in very strategic mentors and partners to better support their entrepreneurs. "We had a pretty good relationship with the EPA that has a research lab, they played a big role as mentors and being a resource for our startups. Going forward, they're going to be able to reach out to the EPA whenever they want for partners and research connections."

Lesson: Sector and geography are deeply intertwined, and choosing what to focus on can have a much larger impact beyond an ESO

Pomona Impact, located in Guatemala, decided to run an agriculture program to address the country-wide problems related to Guatemala's agriculture-based economy. "40% of the GDP depends on agriculture," say Director of Acceleration Julio Martinez. "We need to generate a strong pipeline and we need to have technology in place to tackle the outcome challenges to the country."

The results for these sector-specific programs were strongly positive: entrepreneurs that participated in a sector-specific program reported 24% higher overall satisfaction with their programs. The cities that embraced a sector-meets-city thesis raised money more quickly, attracted better entrepreneurs, and were more likely to run and succeed.

Lean Labs in Kansas City

VilCap Communities 2.0: What's Next?

Building off of our learnings from the past year and beyond, we have developed new products to take entrepreneur support to the next level. We are constantly working with our partners to release better and more comprehensive products for ESOs, foundations, universities, and anyone else wanting to make a bigger impact on their startup ecosystem: starting with our Toolkit.

The Toolkit: An all-inclusive solution for program design, management, and implementation

What if you could open a website that gave you personalized, step-by-step guides, trainings, and modules on how to run an effective investment readiness program? Everything from how to write recruit entrepreneurs to apply to your program to slide decks of curriculum to a full peer review ranking platform is included in our newly revamped Toolkit.

As a 2.0 Community, not only will you have access to the materials to run a great program, but the Village Capital resources to train your facilitators, connect you to the right networks, and give sector-specific insights on your program focus. Be the go-to ecosystem builder in your city with our on-stop shop.

For more information on the Toolkit, email Emily Edwards at emily.edwards@vilcap.com.

FIND: A tool to recruit the best entrepreneurs, regardless of background

While pattern recognition helps investors make quick decisions, it's also a real problem because it leads investors to lose out of great deals; and, it's a problem for entrepreneurs, who aren't getting a fair shot at investment. How do we do a better job of finding great entrepreneurs from around the world? How can we "cut to the chase" and stop waiting for other investors to signal to use that an entrepreneur is ready for investment?

VilCap Communities confirmed what we already knew: there are great entrepreneurs everywhere, and investors need to do a better job at finding them.

Jim Clifton, Gallup CEO, often comments that if you're a world-class athlete, then wherever you live, you've got a path to success. Our society spends billions of dollars recruiting athletes each year—why can't we do that for people who build businesses? The single most common resource that our Communities requested was a tool to better recruit and evaluate companies better.

We have a similar vision to break the normal patterns of recruitment, but with entrepreneurs.

Several months ago, we began collecting data from over 500 alumni companies to create a new tool to identify personality traits of successful entrepreneurs. Through this partnership with Waypoint People Solutions, we examined eight common character traits of founding team members to correlate to company performance.

Founder Trait	DESCRIPTION
Acumen	Knowledge of business and market
Adjustment	Emotional and psychological adjustment / self-control
Ambition	Need for achievement; drive to accomplish
Originator	Individualistic; spontaneous decision-making style
People-Focus	Perceived level of concern for people
GRIT	Confidence, resilience, and perseverance
Persuasion	Perceived ability to get things done through others
Team Build	Perceived ability to energize/motivate & inspire team members

We have already discovered some fascinating insights in our early findings:

- Spontaneity has a negative correlation to succession
- Self-awareness has a high correlation
- Female founders out-perform their male counterparts

As we build out this dataset, we are able to hone in on a better assessment tool for companies applying to our programs and for investors considering diligence. This tool will be a way to easily, accurately, and wholly assess entrepreneur potential beyond the typical, unspecific jargon investors use to describe founding teams. We want to cut through the noise and, using our proprietary data, find a better solution.

TRAIN: Curriculum that works for everyone, with room for customization

With an 80% positivity rating from the VilCap Community entrepreneurs, combined with our own portfolio's 90% survival rate and overwhelming anecdotal evidence that peer selection works, we know that this method of company training and diligence is highly effective. It's a method we hope to continue to replicate, and encourage other ESOs to embrace our insights that transparency, collaboration, and constant feedback are crucial for accelerator success.

Over the past several years, our team at Village Capital has worked with hundreds of entrepreneurs and investors to solve the "Color Blue" problem. What does an investor mean when they say "product-market fit," "value proposition," or "scale?"

VILLAGE CAPITAL VIRAL PATHWAY

VIRAL is a tool to describe company maturity for venture-backed businesses. While all companies are different, this is designed to allow companies to articulate their current stage to investors, articulate milestones they need to hit to close their current raise (if they are raising a round now), and what they need to do before their next raise.

Level	Name	Team	Problem and Vision	Value Prop	Product	Market	Business Model	Scale	Exit	Type of funding typically closed at this level
9	Exit in sight	Team positioned to navigate M&A, IPO	Global leader in stated vision	Cited as the top solution in the industry solving this problem.	Product recognized as top in industry	Clear line-of-sight to industry dominance	Minimum 2x revenue growth for multiple years	Strong unit economics for multiple customer segments.	Growth with Exit	Acquirers
8	Scaling up	Team is recognized as market leaders in the industry.	Systems-Level Change validated.	Multiple renewals with low sales effort. Customers in multiple markets love the product.	Strong customer product feedback in multiple markets	Brand established. Hard-to-beat partnerships for distribution, marketing, and growth.	MOM revenue meets industry standard.	Growth of customer base accelerates month on month.	Team has turned down acquisition offer.	Close Institutional VC for Recurring Revenue + Growth
7	Hitting Product Market Fit	C suite as good or better than founding CEO and can stay with company through its growth and exit phases.	Impact is successfully validated.	Majority of first sales in target market are inbound.	Product is built for scale and additional offerings in progress.	Sales cycles meet or exceed industry standard.	Business model validated - Validation of strong unit economics.	Evidence of strong unit economics across multiple markets.	Team has strong relationships w/multiple acquirers.	
6	Moving Beyond Early Adopters	Team has proven sales and product dev skills and management ability to support a growing team for scale.	Sales validates impact tied to solution and grows as solution scales.	Sales beyond initial target customers. Customers love it and are referring the product to others.	Complete product with strong user experience feedback	Supply/distribution partners see their success aligned with the company's success	Sales begin to map to projections. Evidence of decreasing CAC with growing customer base buying at target price.	Company has cleared regulatory challenges and (if applicable) is implementing a strong IP strategy.	Team has identified specific acquirer(s) or other exit environment	Close Institutional VC for 1st Sales, Market Expansion
5	Proving a profitable business model	Team has clear sales/ops understanding and strategy.	Evidence of impact tied to solution-the company has evidence that by growing the business, company solves the problem.	Target customers love the product and want to keep using it.	Fully functional prototype with completion of product for wide commercial distribution in sight.	Team is having conversations with strategic partners to capture their market faster/cheaper than the competition.	Financial model with evidence of valid projections to reach positive unit economics	Vision and initial evidence of positive unit economics in two markets	Inbound interest from large strategics	Close Round with Angel and Early VC
4	Validating an Investable Market	Team has clear understanding of how their target market operates and has strong industry contacts in this market.	The company can articulate system-level change - how this solution would transform the industry.	Evidence of differentiation through initial target customer feedback that the solution solves their problem significantly better than others in the market.	Team has clear understanding of product development costs and how to build the initial product cost-effectively.	Evidence of $1B+ total addressable market	Team has financial model with cost and revenue projections articulated and a strategy for hitting these projections.	Initial evidence that multiple types of customers find value in the solution or in an extension of the product that the company is well-positioned to develop.	Evidence of growth trajectory that could lead to IPO, acquisition or self liquidating exit.	Friends and Family, BootStrap; Angel/Seed Funding Starts
3	Solidifying the Value Proposition	Team has technical ability to build fully functional product and has a clear understanding the value chain and cost structures in their industry.	The company can articulate why they're the best ones to solve this problem.	Evidence that customers will pay the target price. For B2C - 100 customers, for B2B - 5 customers and conversations with multiple stakeholders in each.	Team has built a working prototype and a product roadmap.	Initial evidence through sales that team can capture inital target market.	Team can articulate projected costs along the value chain and target cost points to reach positive unit economics.	Clear strategy to move to multiple markets.	Initial evidence that the solution already solves the problem better than any incumbents.	Grants for R&D (Hardware)
2	Setting the Vision	Team has senior members with lived experience of the problem and/or deep understanding of their target customer's problem.	The team can solve the problem and can articulate its vision at scale - what does the world look like if they succeed?	The team has potential customers who provide evidence that solution solves key pain point - product is a painkiller, not vitamin.	Team has a basic low-fidelity prototype that solves the problem.	Team understands any regulatory hurdles to entering the market and has a strategy to overcome them.	Company can point to pricing and business models of simlar products in the industry as further evidence that their revenue assumptions hold.	Initial evidence that multiple markets experience this problem.	Vision for growth has company solving a large piece of the global problem in 10 years.	
1	Establishing the Founding Team	Strong founding team - at least 2 people with differentiated skillsets.	Team has identified a specific, important, large problem.	Team has identified their hypothesis of their target customer - the specific type of person whose problem they are solving.	Team has ability to develop low-fidelity prototype and has freedom to operate - not blocked by other patents.	Team can clearly articulate total addressable market, the percentalge they will capture, and initial target market.	Team has identified an outline of revenue model.	Team has identified multiple possible markets or customer segments and has aspiration to scale.	Team understands what an exit is and has a vision for how they will ultimately provide a return for their investors.	
		Team	Problem and Vision	Value Prop	Product	Market	Business Model	Scale	Exit	Type of funding closed at this level

The framework, which we call the **VIRAL** (Venture Investment-Readiness and Awareness Levels) Pathway, helps entrepreneurs and investors use the same language at the top of the funnel. VIRAL helps entrepreneurs become self aware and articulate just how ready they are for investment. It allows investors to communicate the point at which they want to invest. We've found it a helpful lingua franca to kick off—and sustain—entrepreneur-investor conversations.

INVEST: The Moonshot

How could a group of investors take a trillion dollars and invest it into creating a more equitable, sustainable world? In the Spring of 2016, Kauffman Foundation brought together investors, foundations, and entrepreneurs together to ask how to lower (or even eliminate) the barriers to entry for entrepreneurship. At Village Capital, we see two questions and possible solutions for this very daunting question:

1. How do we get more potential entrepreneurs into the game?

• Curating the right entrepreneur to the right resource. Not all entrepreneurs are running similar businesses—from growth trajectories to capital requirements, businesses vary. A working group from the gathering is now exploring alternative ways to assess entrepreneurial ability, whether it is a "Myers-Briggs"-like classification for business type, or a psychometric test for entrepreneurial potential.

• Recognizing, and changing, the notion that "entrepreneurship is a rich person's game," as one attendee said. The Kauffman Foundation estimates that it costs $30,000 to start a business. Entrepreneurs are often told to "bootstrap," or raise money from friends and family—but what if your friends and family don't have money? A substantial opportunity to find better companies is to develop creative ways to support entrepreneurs who don't come from money.

2. How do we get past a "one size fits all" investment structure?

TV shows, pitch competitions, and the promotion of entrepreneurship often focuses on high-growth venture capital, but fewer than 1 percent of businesses across the country raise venture funding. Most economic development policy focuses on Community Development Finance Institutions and micro-loans. While venture capital and micro-lending are critical tools to growing businesses, most businesses in the middle fit neither profile. A working group is following up on several ideas:

• Ensuring more effective economic development subsidy for small businesses and entrepreneurs. Economic development dollars often don't have a job creation ROI and very often focus on big businesses rather than entrepreneurs. One idea that emerged was a "job bond" where private capital would provide upfront financing to businesses, and the public sector provides liquidity to investors based on jobs created or other increases in tax revenue.
• Creative investment beyond "one size fits all" structures. Microfinance debt and venture capital equity get the most attention but aren't the right fit for most entrepreneurs. We discussed a potential capital pool that would fund innovation in new capitalization structures (e.g. revenue-share, dividend, royalty-based financing), or make a market by providing liquidity to investors.
• Aggregating existing efforts to reach more scale. As one attendee noted, when President Kennedy called for the moonshot, we got there using many existing technologies. We noticed a real asset allocation mismatch between large capital providers and valuable ecosystem organizations that are working.
• Whether it is a "super-regional" community bank (six across the country) that can better bridge the gap to financing, a "mega-fund" (a $1B fund of funds collecting 30 regional funds of $30M each), or a scaling up of successful in-city organizations such as Venture for America, Kiva, or Village Capital.

The goal is to invest in more companies that are solving the world's biggest problems. To get there, we need to innovate to find more companies and help them grow in more useful and creative ways. Instead of focusing on one way of investing — which only truly works for a small number of companies — Village Capital is expanding its thinking and meeting companies where they are with the unique capital they need.

It's been an incredible year of working with a diverse and unique group of entrepreneurial support organizations all around the world. We've met entrepreneurs starting companies from organic hydroponic technology in Nigeria to regulation technology in St. Louis. Our support and partnership with these organizations will continue to develop and strengthen, and we can't wait to see how these programs grow over the next few years!

Appendix

1. PricewaterhouseCoopers. “PwC MoneyTree Report.” PwC. Accessed May 20, 2017. https://www.pwc.com/us/en/tech nology/moneytree.html.
2. Hathaway, Ian. “Accelerating growth: Startup accelerator programs in the United States | Brookings Institution.” Brook ings. September 01, 2016. Accessed May 25, 2017. https://www.brookings.edu/research/accelera ing-growth-startup-accelerator-programs-in-the-united-states/.
3. “A Data-Driven Look at Diversity in Venture Capital and Startups.” CB Insights - Blog. June 18, 2015. Accessed May 15, 2017. https://www.cbinsights.com/blog/venture-capital-diversity-data/.
4. In parallel with the growth of accelerator programs, we have also seen an increase in the number of seed stage funding organizations. According to CB Insights, there are 3,507 seed stage venture capital firms in the world as of 2017, though seed stage funding seems to be slowing down: according to CB Insights, “despite more micro VCs and mu tistage funds investing at the seed-stage, seed investments fell to a 29% share of deals to VC-backed companies in Q4’15, a five-quarter low.”
5. Hathaway, Ian. “Accelerating growth: Startup accelerator programs in the United States | Brookings Institution.” Broo ings. September 01, 2016. Accessed May 25, 2017. https://www.brookings.edu/research/accelerat ing-growth-startup-accelerator-programs-in-the-united-states/.
6.Hathaway, Ian. “Accelerating growth: Startup accelerator programs in the United States | Brookings Institution.” Brookings September 01, 2016. Accessed May 25, 2017. https://www.brookings.edu/research/accelerating-growth-start-up-accelerator-programs-in-the-united-states/.
7. Hallen, Benjamin L., Christopher B. Bingham, and Susan Cohen. “Do Accelerators Accelerate? A Study of Venture Acce erators as a Path to Success?” Academy of Management Proceedings. January 01, 2014. Accessed June 02, 2017. http://proceedings.aom.org/content/2014/1/12955.abstract.
8. Aspen Network of Development Entrepreneurs (ANDE). Accessed May 07, 2017. http://www.andeglobal.org/blog post/737893/242298/What-s-Working-in-Startup-Acceleration-Insights-from-Fifteen-Village-Capital-Programs.
9. There are two main factors behind why this experiment was limited. (1) Timing: We learned a lot in only a year. But to see year-over-year ecosystem growth, to track company investment post-program, and to test if other cities would be a better fit as a VilCap Community all takes time. (2) Funding: Related to timing, many cities were unable to align their budgets in the time allotted (March to March). Having a more sustainable pool of resources for our Communities would ensure longer-term engagement and better results.
10. Aspen Network of Development Entrepreneurs (ANDE). Accessed May 05, 2017. http://www.andeglobal.org/blog post/737893/242298/What-s-Working-in-Startup-Acceleration-Insights-from-Fifteen-Village-Capital-Programs.
11. Aspen Network of Development Entrepreneurs (ANDE). Accessed May 10, 2017. http://www.andeglobal.org/blog post/737893/242298/What-s-Working-in-Startup-Acceleration-Insights-from-Fifteen-Village-Capital-Programs.
12. Fehder, Daniel C., and Yael V. Hochberg. “Accelerators and the Regional Supply of Venture Capital Investment.” SSRN Electronic Journal. doi:10.2139/ssrn.2518668.
13. Aspen Network of Development Entrepreneurs (ANDE). Accessed May 05, 2017. http://www.andeglobal.org/blog post/737893/242298/What-s-Working-in-Startup-Acceleration-Insights-from-Fifteen-Village-Capital-Programs.
14.Fehder, Daniel C., and Yael V. Hochberg. “Accelerators and the Regional Supply of Venture Capital Investment.” SSRN Electronic Journal. doi:10.2139/ssrn.2518668.
15. Dempwolf, Scott, Jennifer Auer, and Michelle D’Ippolito. “Innovation Accelerators: Defining Characteristics Among Startup Assistance Organizations.” SBA Office of Advocacy, October 2014. Accessed April 19, 2017. https://www.sba.gov/sites/default/files/rs425-Innovation-Accelerators-Report-FINAL.pdf.