

## FINANCING START-UPS: WHO ARE THE BEST PROVIDERS OF START-UP AND EARLY STAGE CAPITAL?

*Chair: Alice Fulwood, Finance Correspondent, The Economist*

*Panelists:*

- *Bill Aulet, Managing Director, Martin Trust Center; Clinical Professor, MIT*
- *Peter Cornelius, Managing Director, AlpInvest*
- *Patrick Gouhin, CEO, Angel Capital Association*
- *Ben Hallen, Longbrake Endowed Professor in Innovation and Associate Professor of Strategy and Entrepreneurship, University of Washington Foster School of Business*

From angel investors to accelerators, the profile of startup investors has changed dramatically over the past 15 years. Startups face a variety of funding sources, each with different incentives and varying levels of mentorship and inputs provided to the portfolio ventures. How should entrepreneurs strategically choose the best funding option for their ventures? How can each type of investor contribute to the entrepreneurship ecosystem?

Ben Hallen kicked off the session by sharing insights from his recent research on accelerators, now a prominent resource provider for early-stage startups. Hallen found that accelerator programs do improve a number of venture outcomes and that the positive effect is driven by the learning opportunities and key practices accelerators can provide. In terms of new research opportunities related to this topic, Hallen noted many interesting insights can be gained from looking into startups in the “mighty middle” stage, those in between the lifecycle-stage businesses and venture capital scale ventures. “We talk a lot about lifecycle-stage businesses and venture capital-backed companies, but most startups end up in the mighty middle,” said Hallen.

Peter Cornelius touched on the interesting trends in the startup financing landscape from the perspective of an institutional investor. Cornelius noted that there has been a significant increase in the supply of capital for startups, with institutional investors taking over the growth capital market. “There has been an explosion of investment activities with nontraditional institutional investors entering the space,” he said. “A huge supply of investment capital has prolonged exit activities among startups. Entrepreneurs do not feel the need to go public or seek out strategic investors.” Another important trend, said Cornelius, is that “with venture capitalists focusing on later-stage deals, angel investors have filled in the vacuum, investing in early-stage startups.”

Pat Gouhin expanded on the growing role of angel investors. “The majority of angel investors have experienced successful entrepreneurship experience,” said Gouhin. “Entrepreneur angels want to actively engage with their portfolio companies.” Since angels often co-invest with other angel groups or venture capitalists (VCs), the syndication helps startups meet their funding needs as well as brings additional social capital to entrepreneurs. “Angels play both sides, balancing psychological support and financial support,” he added.

Bill Aulet challenged the notion of who should be the best provider of early-stage capital. Rather than focusing on raising capital from different investors, he says entrepreneurs should look out for customers. “Financing strategy should not be the core strategy of the business,” he said. “Financing supports business strategy. VCs will be knocking on your door if you get enough customers.” While not against VCs, Aulet thinks entrepreneurs should seek more support and mentorship from other entrepreneurs than from investors, adding that “the interests of VCs and entrepreneurs are not always aligned.”

Synthesizing the insights from the panelists, Hallen commented that to the extent that entrepreneurs can take advantage of acquiring customers and leveraging connections, they can think about the financing landscape and balance tradeoffs by considering what type of resources they would find the most valuable.

While there has been an oversupply of growth capital, the audience addressed gender and racial gaps in access to capital. Minority entrepreneurs still lack financial and social capital for entry and growth. Aulet mentioned that entrepreneurship education is pivotal in providing opportunities to a diverse group of individuals. Together, the panelists called for more research on devising policy interventions that can reduce bias towards underrepresented groups in entrepreneurship.