

Hi Everyone,

You know, at Techstars Boston we are in the middle of startup selection for our next investment cycle that starts in June. We have received over 1000 applications and need to select only 12 lucky ones to invite to our program. It's a very busy week for us, as you can imagine, but I could not pass on the opportunity to be in the Brown Forum. Thank you to the organizers for having me here.

So I plan to talk about building startup ecosystems, or startup communities from ground zero. And why Kiev is not Boston.

Here is me: my name is Eveline Buchatskiy. I am with Techstars Boston, the golden standard for tech start-up acceleration. Prior to that, I founded and ran an accelerator and investment fund in Kiev, Ukraine for 3 years. I managed a very influential media holding with print and online brands. But deep in my heart I am still the chemical engineer from UC Berkeley, having worked for industrial chemical companies for many years before getting my MBA. I am a runner, brought my running gear and plan to run every day here in Croatia. I am Brazilian, but lived in Europe for the past 10 years before moving to the US.

So Techstars, we have 17 programs in 12 locations. Most are city programs that are broad in scope, but some are in partnership with some vertical partners like Disney for entertainment and media, and Barclays for fintech. Combined, Techstars has invested in over 500 companies by over 1000 founders, with the help of over 1000 mentors. That, in itself, is an incredible community! It comes close to being an ecosystem, but it's not.

What is an ecosystem? We are used to thinking of an ecosystem as a bunch of different players, interconnected, working with the overall goal of increasing the size of the pie such that everyone in this ecosystem can reap the benefits. Ecosystems exist in different stages, and they are typically characterized by four main indicators: density, fluidity, connectivity, and diversity. A good ecosystem has a lot of density (many companies), fluidity (mobility of these players coming and going, changing roles), connectivity (how well these players are connected, the startups with accelerators, investors, mentors), and diversity (nationalities, economic interests).

It's mind blowing when you actually get to this point, but you don't start with any of that. How do you start?

The best way is to view it not in a holistic approach, but rather be pragmatic and look at it as a value chain. You focus on building the first few blocks of this value chain until they generate self-feeding cycles and only then you start reaping the fruits of a real ecosystem.

More precisely, you need to work on 3 blocks: talent, support, and the capital and market available to these startups.

The points I will make today apply mostly to tech startups because that's the core of my experience and also because that is what is leading most of the entrepreneurial activity today. And for these, the talent is basically technical and business. In the startup world, we call them the hacker and the hustler. Double down on engineers, that's the message. The most obvious source for this talent is the university system. So, cities with good engineering schools are well positioned to become vibrant start-up hubs. But entrepreneurship must be part of the curriculum to give the initial spark that makes tech talent consider a start-up as a perfect valid alternative to the corporate life.

You grew the talent, now what? Get this talent together for them to form teams. From my experience, hackathons or biz plan competitions are the most effective way for people to form teams and start working on their own ideas. Once they form a team, they need a co-working space or an accelerator to take their hackathon idea to the next level. Above all, they need to focus and move really fast or risk being completely overrun by competition. Next on the chain, angel investment will allow them to recruit, invest in marketing and product development, and execute faster than competition. Having a sizeable addressable domestic market helps pilot the idea before scaling. I know Croatia is a relatively small country and that is probably an issue, but Israel and Estonia also have the same issue and they are on the top of the world when it comes to start-up activity. You just need to think globally from the start. Having a density of headquarters locally is a tremendous push for start-ups to strike distribution partnerships. Croatia may not have as many headquarters, but the rest of the EU does, and that may be enough.

If you put these first three steps into place, eventually, I would say in less than 5 years, the first success stories appear. And only then you actually start feeling the effects of an ecosystem. How?

This is how. Your success stories will feed more talent that will go on to create other success stories in a much faster cycle. They have the experience. They will have more capital as a result of a more upbeat capital market that enjoyed some multiples during the first time around. More and faster successes originate from this positive feedback cycle. Relations happen no longer in a sequential way, but are rather multidimensional. Successful entrepreneurs become mentors in accelerators, and angel investors. It's an ecosystem, with ever-greater density, fluidity, connections, and diversity as we spoke before. If there is one thing I want you to remember from this talk is that ecosystems take time! If you are serious about creating one, you must be in for the long run.

I haven't said anything you didn't already know. Let's take a look at two ecosystems at the opposite side of the spectrum: Boston and Kiev. What do they have in common? I am an insider to both of them.

Using our three-step framework (talent, support, capital), how do they look?

In terms of talent, Boston is probably unbeatable. You have the top engineering and business schools in the world, MIT and Harvard! Together with some startup success stories like Hubspot, there is plenty of talent to form a dream team. Kiev has its Soviet legacy for strong tech talent. And it is a top destination for IT outsourcing. Certainly it can feed hackers into the ecosystem. But what about hustlers? Not really. MBA schools in Kiev focus exclusively on forming traditional managers. None have an entrepreneurial focus. Is this a showstopper? It's not ideal, but also not a showstopper. In this age of big data, I can turn a hacker into a hustler, the ones doing biz dev should be very analytical.

Pre-seed support. In Boston of course we have Techstars as a key ecosystem player for sourcing this talent and investing in their growth. Along with Techstars, there are dozens of initiatives at the university level and done by the investment community. Three in particular are very effective: MIT Media Lab, and Harvard I Lab, and Mass Challenge. They all provide a co-working space, mentorship, and take no equity from the teams. Techstars accelerator is an investment fund, with 25 LPs, all angel investors from the tech world and some institutional money.

In Kiev, there is not much happening at the university level. Eastlabs and Happy Farm are accelerators. However, these accelerators are no longer active. Why, because they were not originated as part of a developed ecosystem. These are projects by two separate investors who made their fortunes in mature segments of the economy. The war started, their mature businesses needed their entire attention, the accelerators were put on hold. Also, typically such investors come into this business with completely unrealistic expectations in terms of time to exit. During the first investment round, it may take up to 9 years for these accelerators to generate an exit.

Capital. In Boston we have X angel clubs and Y seed VCs. In Kiev, there is 1 angel club, which I actually founded, and 5 seed VCs. I can tell you in Boston, every startup worth investing receives plenty of funding. Despite having much less seed capital, the problem in Kiev is actually deal flow to these seed VCs. Without the proper support during the pre-seed stage, the value chain is broken and there is nothing feeding these VCs.

Market. Of course Boston means access to the US market. And the city has substantial concentration of headquarters, especially in health, finance, travel, and online marketing. The few headquarters are in industries that are not associated with innovation such as steel manufacturing Kiev gives access to the Russian speaking market, but that has shrank by quite a bit with geopolitical situation. The typical strategy was to launch in Ukraine and expand into Russia. Obviously this is no longer a valid strategy..

So much for Boston .vs. Kiev, how can you jumpstart your ecosystem? I am going to focus on some recommendations that are relatively short term, things you can start implementing tomorrow.

What can you do to boost talent? And this goes specially to the university community.

First, have some metrics. Set a goal that you will double the number of computer science graduates in the next 5 years, as a minimum. And continuously benchmark your developers against the rest of the world. There is the Gartner ranking. Use it and adjust your curriculum to reach the top of that ranking. Implement entrepreneurship courses in every technical school. These courses need to address the 5 phases of early stage entrepreneurship: ideation, team building, prototyping, validation, and sales. The Brain Basket Foundation in Kiev has been created with the goal to quadruple the number of CS graduates in the next 5 years by introducing programming from elementary school all the way to full blown professionals in search of a career change into the It world.

Pre-seed support. This one goes to the State representatives. Until the ecosystem is fully formed, pre-seed support will need public funding. It cannot count on the enthusiasm of single individual investors from outside the IT world. They don't have the passion, the understanding, and the patience for that. The EU has several call for proposal opportunities for such pre-seed organizations. The State can make available idle buildings to host co-working spaces. Rent typically accounts for about a quarter of the overall operating expenses in an accelerator.

StartupWise guys in Estonia gets almost all its operating expenses covered by the EU call for proposals. Their investors get a free ride on their money that goes straight into creating value for the companies they invest, instead of covering the accelerator overhead. Investors are that much more excited to jump in.

Libraries converted into co-working spaces.

In terms of capital, the State can provide a grant for supporting the first years of operations of the angel club. I searched and found an angel club in Croatia. That's good news. I hope they are doing well, but without talking to them, my guess is that until they get a critical mass of about 40 angels, it's hard to cover the salary for someone to run the angel club efficiently.

Fund of funds can and should be created. The State can invest with general partners from business to create VCs.

For the accelerators out there, you need to provide a longer runway to the startups. The typical \$20K is simply not enough to get traction that will catch the attention of angel investors.

Here is the Techstars Boston team. We love working with entrepreneurs. It's the most gratifying work. And I am sure you agree with me. Thank you. I will be happy to take questions offline.