

Exporting Entrepreneurship: MassChallenge's International expansion

In just five years, MassChallenge (MC) has grown from a dream to become one of the largest accelerator programs in the world. From their initial business plan presented to early supporters in January 2009, MC's founders had ambitions of growing a large global footprint. On June 3rd 2014, John Harthorne and Akhil Nigam, MC's co-founders, used their quarterly board meeting to pitch a new plan for rapid international expansion of their footprint. This expansion would be the first formal articulation of a broader more comprehensive strategy for international growth. After the presentation, many of the individual board members expressed interest and excitement at the prospect of a large global presence for MC, but the collective intelligence of the board at that meeting cautioned a more deliberative approach: John and Akhil had to better articulate why now, where to go, how, and who was going to pay.

While the board's reaction was somewhat unexpected, the request for more substantial planning and analytics behind their expansion plan actually fit quite well with other initiatives the executive team had undertaken to formalize their organizational processes as they moved out of "startup" phase and into a period of more structured growth. Indeed, MC had recently hired Mike LaRhette as Chief Development Officer to bring more structure to the organization. In that capacity, he was tasked with understanding how MC had already built a small number of global outreach activities and synthesize that understanding into a set of recommendations for more formal roles and organizational processes. Mike's existing task would feed a broader exercise to more clearly articulate where MC should attempt to expand and how they should get there.

MC had experienced enormous growth in its first five years through the careful bootstrapping of its resources, cultivation of its stakeholder's networks, and a flexible, improvised approach to exploiting opportunities that arose unexpectedly. To achieve the type of expansion they wanted in the time-frame they imagined – opening 10 new accelerators globally within 5 years – John, Akhil, and the MC team had proposed that they would need \$3-5 million, but the board had advised them initially to raise \$10

million, only to revise that estimate upward to \$20 million in the ensuing discussions. The board was clear that success in that time frame and with that level of resources required more than skillful improvisation; it required a detailed plan.

Given the description of their past activities and future plans described below, imagine that you are Mike LaRhette and consider what recommendations you would make for a five year expansion plan. In your response, please consider:

1. What do you believe makes a city, region or country a good target for MC's expansion plan? Your explanation should not only focus on regional characteristics, but how MC could provide specific value through founding there.
2. What are the trade-offs between having many MC locations in one region (e.g. Europe) versus an expansion plan that attempts to have locations across multiple regions? What are the benefits of developing heavy on one region? What are the costs?
3. What lessons can MC draw from their history to guide successful future expansion?

The Mass Challenge Program

Each year, MassChallenge runs a startup program that has three parts, shown in Figure 1. In the first part, MC receives applications from startups across the world interested in taking part in the MC program. MC is open to any early-stage startup, in any industry, from anywhere in the world. In round 1 of judging, these applicants are then winnowed down to the top 350 startups (semifinalists) by expert judges, including successful entrepreneurs, investors, lawyers and corporate executives. During round 2 of judging, the 350 semifinalists each deliver an in-person pitch for a more robust and detailed evaluation by a panel of expert judges, .

During round 2 deliberations, the highest-impact 128 startups are selected as finalists to take part in a four month accelerator program where they are given space within the MC offices and access to a network of over 350 mentors and expert advisors.

This accelerator program is the centerpiece of the MC program. During the four months, MC acts as an active catalyst, bringing a broad range of actors from Boston's innovation and entrepreneurship ecosystem together, often literally in the same room, in ways that they would not come together without the program. These connections across Boston's diverse economy not only help the startups engaged in the intensive four month program, but also the actors themselves, creating opportunities for new collaborations and the sharing of information. It is for this reason that MC considers itself a "catalyst". At the conclusion of the four-month accelerator program, each finalist is judged one last time and over \$1 million dollars is awarded to the top teams prizes with no-strings-attached.

MC is a nonprofit corporation, but its founders run it like a for-profit company, demanding significant growth and competitive strength, based on a deep culture of innovation and entrepreneurship. Between the prize money and the operational expenses, MC costs \$2-3 million dollars a year to run. In their first year, they received a pilot grant from the Commonwealth of Massachusetts, but the funding to operate the program today comes from three main sources: charitable donations, corporate sponsorships, and in-kind transfers. Individual donors, like Desh Deshpande and Robert Kraft, give donations to MC because they believe in the transformative power of entrepreneurship for both the regional economy and the individual lives of the stakeholders involved. In addition to their generosity, MC's major donors lend their social network and understanding of Boston's political and social networks to the program. Corporate sponsors donate money, as well as substantial employee time and energy. Corporates derive value not only from MC's social mission, but also from specific programs and opportunities that MC develops in exchange for donations to help their core business operations. MC refers to the donations and sponsorships it receives as revenue, and John and Akhil encourage their staff to think entrepreneurially about how they could craft opportunities to increase revenue for the MC program.

Figure 2 shows the different stakeholders that MC draws upon and across whom they foster connections. Many of these cross-connections were not part of the initial design of the MC accelerator, but emerged as John and Akhil responded to the needs of their supporters and their startups. To understand what might make a successful

expansion location, it is important to understand some of the value being created by the MC accelerator for not only the startups but also all participants.

For instance, corporate supporters have often become real partners in helping to build more successful startups beyond their financial support of the program. In this regard, UPS is a good example. UPS was an early supporter of the program financially, but has increasingly realized that giving preferential attention to the startups in the accelerator allows them to better understand the needs of new firms and design more successful services for this target audience. MC provides a neutral venue for them to foster deep relationships with startups that would otherwise be difficult to establish. For startups in MC, these extra services and attention make it easier for them to build their business by relieving one source of potential friction during their four-month residency. For the stakeholders, collaboration through MC increases the value of their current operations in ways that would be hard to replicate for each stakeholder.

Overall, MC has been successful at bringing together different stakeholders in Boston's startup ecosystem in new and useful ways. This success has allowed MC to expand its capabilities, its formal staff, and the diversity of its activities, including global outreach. As MC expands, it is important to identify how the organization will both continue its ability to maintain and deepen these ties, but it is equally critical that the organization identify whether and how the accumulation of deep ties with participants in other ecosystems beyond Boston will create value for MC's Boston supporters (and vice versa).

Building the MassChallenge Program

John Harthorne, a graduate of MIT Sloan's MBA program, and Akhil Nigam, who graduated from Harvard Business School, founded MassChallenge together in 2009. They met while working at Bain and Company. In their discussions, they found a shared dissatisfaction in their current work as well as an interest in entrepreneurship and regional

development.¹ Both had been heavily involved in influential clubs during their MBA training which deepened their commitment to entrepreneurship and helped them build broad contacts in Boston's entrepreneurial community. For instance John helped run the MIT Global Startup Workshop (GSW), a program that helps foster entrepreneurial support ecosystems around the world. As they created a vision of a new type of business accelerator on a whiteboard, John and Akhil realized that they had the necessary connections to actually launch this novel and audacious venture. From that moment, the two used every spare moment to build toward the establishment of MC.

Less than six months later, they had secured enough preliminary funding from the state of Massachusetts, local donors and investors to quit their jobs and announce the imminent launch of MC. From the beginning, John and Akhil's connections to two of the key universities - MIT and Harvard – helped them secure the necessary financial resources and other key resources, including applicants, mentors and judges. John cites connections to organizations like MIT's Venture Mentoring Service and the MIT \$100K business plan competition as a key channels to source entrants among high-potential entrepreneurs that were just getting started. In terms of recruiting judges and mentors, John noted the key role served by Desh Deshpande, a strong supporter of and active participant in MIT and Boston entrepreneurship. A successful entrepreneur, philanthropist, and angel investor, Desh Deshpande serves as a "super node" in the network underpinning Boston entrepreneurship. By recruiting him early to support their cause, John and Akhil were both able to access his direct connections and use his name to lend credibility to people that were adjacent to his direct social network.

John and Akhil had envisioned large-scale expansion from the beginning, and began exploring it seriously only 2 years into the life of the program. Two lessons from the construction of the original MC program stuck with them: the importance of gaining support from at least one senior government official and at least one highly-respected business champion in an ecosystem who could act as a super node to rally support for a MC program. As the Boston program has continually grown in prominence and success,

¹ While both cofounders chose to leave Bain, both cite their time at Bain as critical for the growth of their managerial and analytical capabilities. Indeed, both routinely draw heavily on Bain frameworks to structure their strategic thinking for MassChallenge

MC's founders have grown more confident that, "we have something really good here, so we want to scale it and go global with our program." In addition to a sense of mission that extends beyond the interests of just the Boston area, MC's founders believe that their Boston entrepreneurs would be better served by a global presence, noting that "our teams are increasingly international and our U.S.-based teams need global resources and supply chains". Akhil and John have consistently pushed for expansion for both the interests of their Boston program participants and their broader sense of mission.

Expansion: Early Attempts

From the first business plan, MassChallenge had global ambitions. Indeed, the stated goal of MC is to "catalyze a global startup renaissance". At the core of any expansion plan, however, was how the current program in Boston would relate to the broader whole as MC expands. The Boston program could be the center of a network of related programs or one of many "franchise" locations. In each of MC's attempts to expand, the role the central location would play in the broader program was a critical portion of the success or failure of the expansion experiment.

One of the earliest attempts at expansion was into North Carolina. At first blush, the location seemed ripe for "colonization" by MC. First, there was an existing entrepreneurial ecosystem which had produced some successful startups, such as Red Hat, but it was still underdeveloped enough to benefit from the help of MC's catalyst. Indeed, the North Carolina ecosystem seemed similar enough to Boston, that MC could move into the region and learn about expansion in a way that allowed them to "change one or two variables and keep the rest constant". By keeping to a region on the East Coast, they could easily monitor and maintain a presence in both Boston and NC.

As they made overtures to potential partners in the region, they were surprised by a few factors. First, the overall NC startup ecosystem was actually comprised of several, geographically dispersed regions of differing quality. While the variety and quality of firms around Duke seemed high, other parts of the Research Triangle were far less developed than they had expected. This was MC's first, but not last, lesson in not trusting

second-hand accounts or prior success of the region as sufficient metrics of a region's health.

The health of North Carolina's entrepreneurial ecosystem was not the only factor hindering southward expansion. While the region was not as advanced in terms of the depth and capacity for entrepreneurship, they already had multiple stakeholder organizations for promoting entrepreneurship. As John and Akhil made overtures to these existing organizations, they felt as if they had entered into a turf war between groups as the untrusted outsider. John recounts a meeting in which one of the people he approached for partnership questioned why "You Yankees, you northerners are coming down here and telling us how to run our ecosystem. You think we don't know how to do this?". While the Governor of North Carolina at the time was interested in having MC establish its second location there, the underlying resentment and mistrust created strong friction and delayed attempts to establish a new program. Without buy-in from the broader community, MC could not quickly build a Rolodex of interested supporters, mentors, and corporate partners. Facing resistance and running short on travel money, John and Akhil decided to redouble their focus on their Boston program and look for other avenues for expansion.

The second potential location that appeared on their planning list from the start was NYC. In contrast to NC, the founders of MC worried that NYC was too close to Boston and might lead to cannibalization of resources and attention across the two locations. As they began their attempts at expansion into NYC, they learned that there was another problem: it was a large, and surprisingly complex ecosystem. In Boston, the central actors in the entrepreneurial ecosystem were easily identified and accessed. While there were definitely a few clear names in NYC, such as (Mayor) Michael Bloomberg, reaching them was difficult for geographic outsiders, despite Harvard and MIT connections. After all, why would Bloomberg help a Boston-based foundation before an NYC-focused organization? Beyond Bloomberg, there were many different actors with a huge amount of resources, but choosing just one "champion" to rally behind seemed problematic. What would their choice imply for their ability to relate to the other central actors?

In addition to the scale problem and their outsider identity, MC executives faced one more difficulty: potential NYC champions were arrogant about the superiority of NYC's economy to their "provincial" cousin to the north. Time and time again, people approached for support in NYC suggested that it was obvious why MC would want to expand to NYC but, they asked, what could New York entrepreneurs really learn from Bostonians?

Expansion to Israel

Compared to the prior attempts at expansion described above, MassChallenge's expansion to Israel in 2011 and 2012 happened quite quickly and with little friction. Leveraging the connections that MassChallenge had developed in the local Boston Ecosystem, MC was able to find a critical mass of willing partners in Israel relatively quickly and without significant frustration.

John Harthorne had met numerous Israelis while studying at MIT Sloan and had learned that Israel is one of the most innovative and entrepreneurial countries in the world – so he had always envisioned incorporating Israel into MassChallenge eventually. The more formal beginnings of the Israel Expansion can be traced to John Harthorne's decision to join a trade mission to Israel that was being organized by Governor Deval Patrick. The inclusion of MC on the trade delegation's roster came from the close ties that MC had developed with the state government. Once John arrived in Israel, he was helped along by a second Boston connection: a colleague from Sloan was active in the Israeli startup scene and had strong connections to several of the most prominent angel investors in Israel. After a quick meeting with her and her contacts, he learned two things. First, entering the Israel market with a program similar in design to the MC program in Boston would be a waste of time: Israel already had "too many" accelerators and a new entrant would be perceived as just another "commodity supplier". Instead, a MC Israel program could best leverage their connection to Boston and thus the US market. By providing a fast lane for Israeli startups into the US market, MC would be able to attract the very best Israeli startups. Second, John met an Israeli entrepreneur living in Cambridge who would be able to serve as a bridge between the two worlds, Amir Eldad.

Returning to the US with a clear plan for the structure of the MC Israel program and some helpful connections to help build it, John began to reach out to his local supporters to gauge their interest in this potential expansion path. He was greeted with strong support from both individual supporters and corporate donors. Many of the strongest supporters of entrepreneurship in the Boston area were incidentally strong supporters of ties between Israel and the United States, so a potential merger of these interests was heartily supported and received financial backing relatively quickly.

From the corporate side, many Boston-based companies were already doing a significant amount of business with Israel or were looking to establish tighter ties to the Israeli startup community. As an example, EMC Corporation had successfully completed a number of acquisitions of Israeli startups. Backing MC's expansion into Israel allowed them to gain a deeper understanding of this critical market for potential acquisitions under the neutral banner of MC's program. By allowing MC to broker the terms and extent of EMC's interactions with startups, they could obtain access to firms that they could not achieve on their own.

After the development of the Israel program, John and Akhil learned how quickly expansion could be achieved when there was a good fit. At nearly every turn, John met people during the trade-mission that were encouraging expansion and helping to shape the program for future success. Moving forward, both they and their staff have been looking for other locations where such a complementary fit between MC's program and the region's needs could be fit.

Inbound Requests

Every Day, MC received requests from foreign missions, consulates, trade delegations, business travelers and the like to tour the MC program. To date, MC has not turned down a single request. The open door policy has provided MC with a number of opportunities for partnerships that they would not have appeared in their initial business plan. As MC looks to solidify a five-year plan of expansion, they are faced with the difficulty of responding to the perceived market demand of inbound requests with a more prospective allocation of effort toward building relationships in geographies that have

more overall market potential. Looking at Figure 5, we have the various locations that MC has in their overall consideration set for expansion in the near future ordered by strength of partnership, speed to revenue, and overall size of the market. While the vertical axis, strength of partnership, is presented as a static characteristic of each region, it is the result of a series of activities and capability building on the part of MC and the region.

Mexico:

The connection between MC and Guadalajara, Mexico began through a mutual connection to Northeastern University's World Class Cities Partnership.² Through MC's connection to this partnership, they received many inbound requests for tours and information sessions about their program. After an official tour, the Guadalajara team met and asked MC whether there was any way for them to get involved with MC.

MC assessed Guadalajara's needs and determined that MC staff could help create a startup competition and use that competition as a potential bridge to MC. The government of Guadalajara and corporate partners paid MC to design the competition, improve outreach to the nascent entrepreneurial community in the city, and give the winners of the competition a free trip to Boston where they would receive free training in the MC facilities.

The design of this intervention was two-fold. First, MC and the city of Guadalajara wanted to create a clear "win" for the entrepreneurial community that would excite them and rally them around the competition. Second, MC hoped that they could help create better teams and better business ideas that could eventually enter the main MC accelerator program. Just years into MC's engagement with the competition, applications have reached a few thousand per year. MC has also reinvigorated workers in the development authority by teaching them how to effectively build new programs and develop corporate support for them. While Guadalajara startups were initially fast-tracked to the second round of evaluation before the annual MC accelerator as a courtesy

² For more information on the partnership, see:

<http://www.northeastern.edu/news/stories/2009/06/wccp.html>

(so they could receive more robust feedback, see Figure 1 for references to the steps of the program), after the first year of partnership, they produced 6 finalists in the main MC program including 2 startups that made it into the Top 26.

As MC has expanded their engagement with other regions like Guadalajara, they have developed a working model for these types of interventions. When regions and cities express interest in having MC building their entrepreneurial capabilities, MC will evaluate whether there are programs, partnerships, and agencies on the ground upon which they can build. If the existing institutional substrate exists, they will look for a quick win, like the business plan competition, where MC's existing capabilities can give an immediate measurable impact. Then, MC asks for a more substantial matching grant (around \$300,000) to develop a more stable "bridge program". With this money, MC can detail one of their development staff to do the necessary planning, outreach, and due diligence to establish a more long-term connection between MC and the region.

Overall, MC Executives estimate that they could sustain as many as 5-6 additional outreach programs at their current staffing levels. Currently, the development of these programs has been ad hoc, but they have provided great value in terms of developing a detailed understanding of the entrepreneurial capacity of disparate regions. While outreach programs like the one developed in Mexico are important ways for MC to understand the broader global entrepreneurship landscape, many of the regions requesting outreach from MC are likely to be able to sustain a full-scale accelerator program in the near to medium term.

United Kingdom:

MC's experience with the United Kingdom, however, is an example of a partnership that grew out of a region's outreach but bore fruit quickly. Under the leadership of David Cameron, the British government had increasingly paid attention to policy initiatives that could increase entrepreneurship in England. Cameron's government pushed consular officials in entrepreneurially vibrant regions like Boston and San Francisco to both understand the people, institutions, and programs driving growth in those regions and building connections to England. In Boston, this task fell largely to Phil

Budden, the Consul General, who also had a long-time interest in how science and technology drive economic growth.

In the course of his broad exploration of Boston's innovation ecosystem, Phil met the co-founders of MC and was able to help them build ties to England. Similar to the case of Mexico, he and other consular officials scheduled tours of MC during their "innovation tours" of Boston for important officials. These tours helped the MC co-founders develop in-depth relationships with several representatives from UK Trade and Investment (UKTI). Phil and other government officials were able to facilitate greater access to government officials and industry executives for MC's co-founders following Governor Patrick's trade mission to England in 2011. These ties ultimately led to a critical meeting between the MC founders and David Cameron's closest advisors where they were able to get direct support from the Prime Minister for the establishment of a new UK accelerator program based in London.

While the details of the UK program in terms of scope and support are still not finalized, Cameron's support for MC made the development of an accelerator program in London a near certainty. Having support at the highest level of government has made fundraising for the proposed accelerator far easier for John and Akhil. For instance, they were able to raise a substantial portion of the required funding from the Royal Bank of Scotland. The UK program emerged from a correspondence between the interests of MC and a key initiative of the Cameron Government.

Potential Expansion Paths

As MC looks to deepen and expand its global presence, it has a number of approaches that have already born fruit and many tantalizing signals of future growth. The organic growth of relationships across South America, Europe and the Middle East has already given MC roots in half the populated continents on earth. With UK, MC will create its first accelerator program outside of Boston. As the executive team at MC look to the future, they see at least two distinct growth plans: 1) A Euro-centric expansion and 2) A diversified approach to growth.

To date, all of MC's expansion has come from organic relationships developed from deep connections in Boston: with city and state government officials, corporate partners with active stakes in Boston or active philanthropists. These ties emerge from each stakeholder's participation in the program and then radiate out into new regions and countries based on each stakeholder's existing economic, social and political interests. Indeed, MC's expansion into Israel took far less time and effort than that expended on the attempted expansions into North Carolina and New York.

Given the importance of these existing ties for MC's growth, the new London program might serve as a stepping-stone into many different regions, given London's position as a global hub of trade, media and finance. With this British beachhead, MC can pursue a growth strategy in Europe, but it could also use London as a first-step into a number of locations. Indeed, Figure 6 shows cities with significant inflows of London Investment Bankers, revealing that London-trained executives have a truly global reach.

Ultimately, MC has to decide what the benefit of having a close cluster of programs will be. Clearly, having too many locations too close to one another can introduce potential problems. John noted that:

You want to avoid too much cannibalization. Since we are going to be in London, we are not going to establish the next accelerator in Liverpool because it is too close. I am not even sure whether we would establish the next accelerator in Paris because it might be too close and there is a lot of overlap in terms of people. I would rather go somewhere where you get access to a new sphere of people. For instance, if you go to Berlin, you get access to Eastern Europe or Spain gives you access to Spanish speaking countries.

Locations that are too close do not provide new opportunities and resources for MC, but John and Akhil believe that seeking markets that are too distant (and different) presents a different problem because you might not have the internal capabilities to understand the social, cultural and political subtleties in that region.

If MC pursues a European-focused strategy, it could build upon both the close ties between London and other European cities, like Berlin or Zurich. In one scenario, MC would have a series of parallel accelerator programs in these cities. Alternatively, they could build bridge programs in major cities like Berlin and minor cities, like Liverpool,

that served to collect early-stage teams that were looking to expand their geographic scope by developing ties (and potentially roots) in London's startup ecosystem.

These two Eurocentric strategies would produce very different relationships with London's core government and business constituencies. In the first case, London would be merely one of many locations in Europe where MC was simultaneously putting down roots. It is not unreasonable to expect that a certain level of competition would emerge between the different accelerator programs. This competition could be friendly, helping to ensure consummate effort from the management of each location and the various stakeholders. Alternatively, the competition of a number of accelerators so close together could engender suspicion and ill-will across the different locations. When MC's interests were so heavily aligned with one set of stakeholders, centered in Boston, it was easy for them to quickly utilize stakeholder resources. Will the same be true with a more diversified European portfolio? On the other hand, expanded accelerator programs focused in Europe could help each program draw from a deeper pool of inputs. As each program gets going, it would not be too unreasonable to imagine a European pool of mentors allocated more broadly across startups in each program. The close geographic and cultural proximity could allow easier mixing.

Alternatively, MC could eschew a regionally focused approach all-together and begin to seed different regions with MC accelerator programs using their existing Boston network and the connections they will gain from the London program. In this sense, London is a great second location since it has such deep and diverse ties across the globe. To date, MC has been extremely successful at using the social and academic background of both its founders and staff to network effectively. In London, they have already learned the importance of staffing each office with people most likely to activate the underlying social and economic networks. Could MC use their hiring to focus on developing specific networks?

Putting the Pieces Together

John, Akhil and Mike have a good number of decisions to make over the next few months and years. How do you think they should think about their expansion? What

rationale would you choose to prioritize different potential locations? What do you think the costs and benefits are of focusing on one region for expansion?

Tables and Figures

Figure 1: MassChallenge Program with 2013 Dates

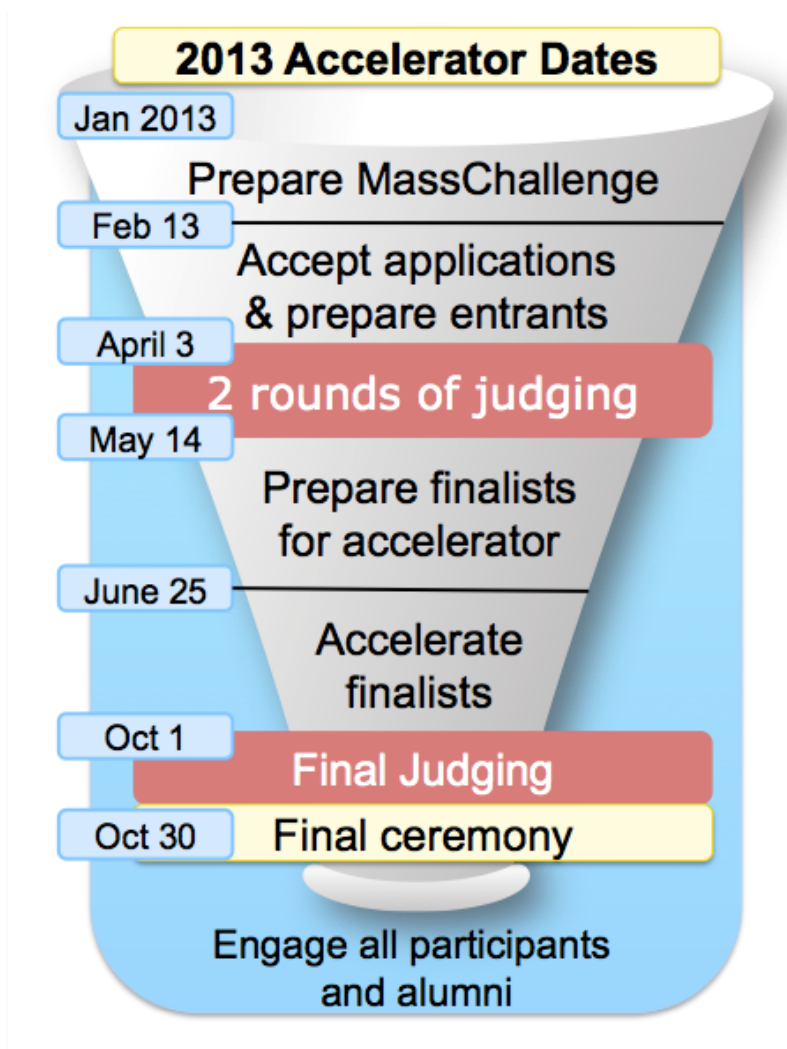


Figure 2: Underlying conception of MassChallenge's Place in Economic Ecosystem



Figure 3: Structure of MC Israel Program

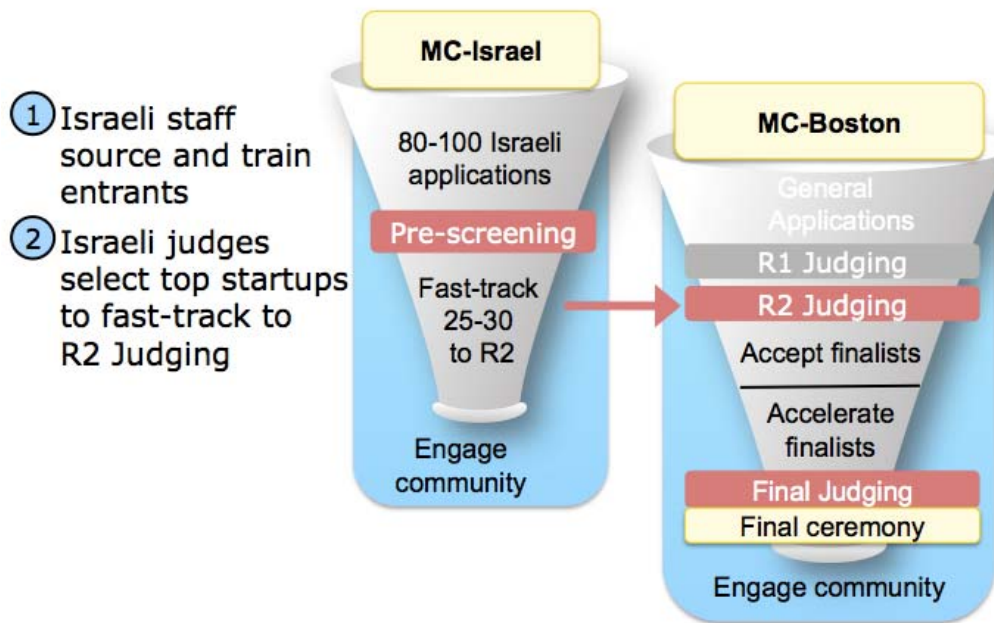


Figure 4: Percentage of Applicants across categories, 2012 Numbers

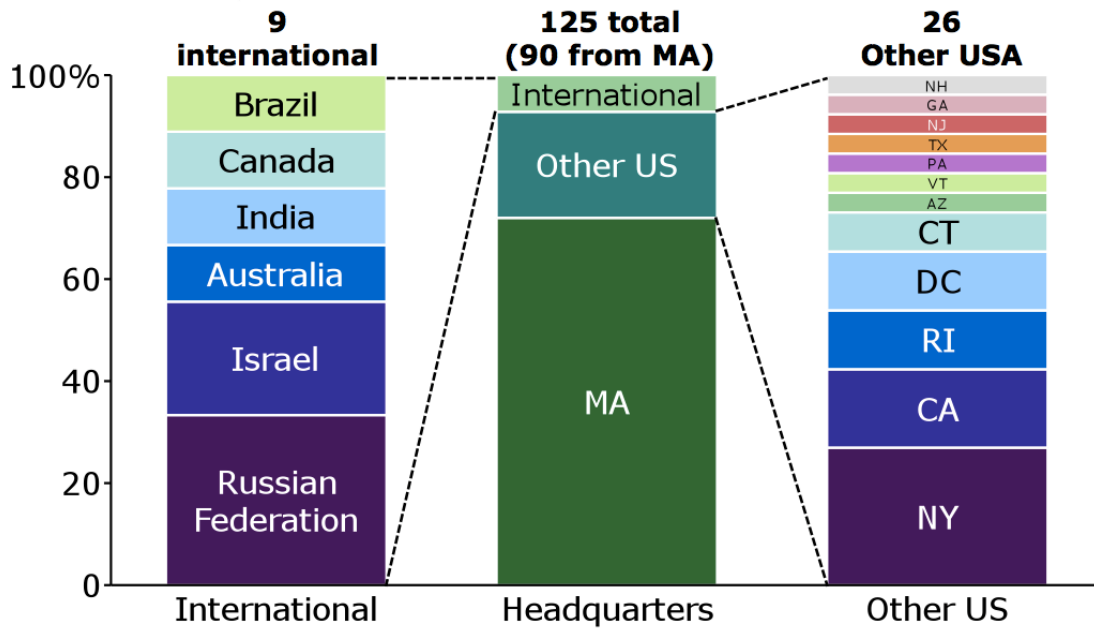


Figure 5:

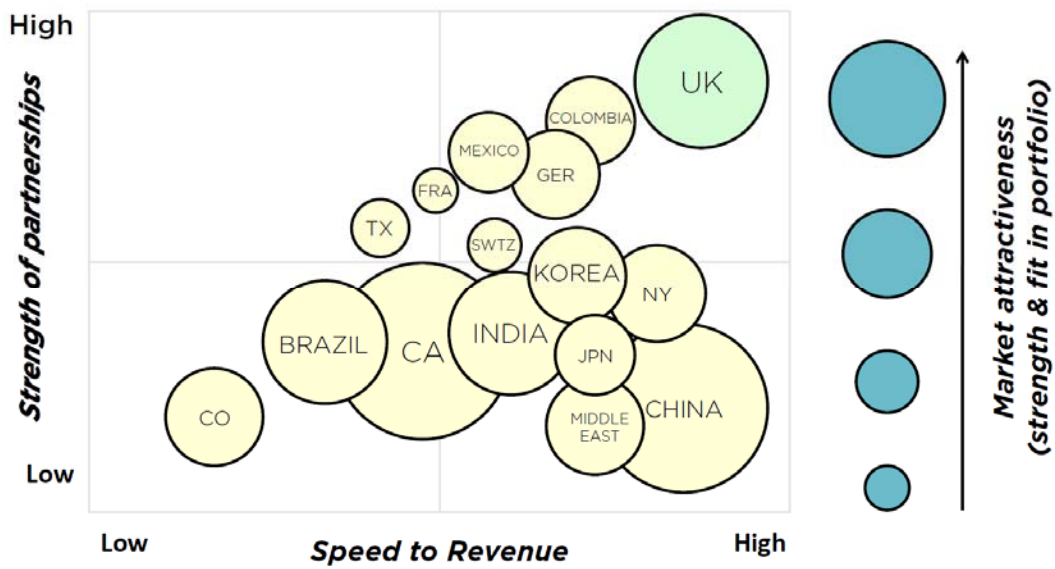


Figure 6: Flow of Investment Bankers from London

