‘We’re looking at industries ripe for disruption’

DREAMIT CEO TAPS INTO FUNDING SHIFT FROM VCS TO ACCELERATORS

Dreamit Ventures LLC CEO Asl Savaar was in Austin for the South By Southwest Interactive Festival sat down to speak with me about the state of funding for startups. Philadelphia-based Dreamit, which was founded in 2008, began its first Austin program in 2013, and now has four U.S. offices: New York, Philadelphia, Baltimore, and Austin.


Are you surprised at how quickly incubators and accelerators have become popular funding sources for startups? It’s remarkable. I think it’s also representative quite frankly of the pace of innovation during the last five or eight years. You can kind of look back at the moment to see when the cost of infrastructure moved up to the cloud. It’s become a lot easier to develop applications rapidly and become a lot easier to get companies started. It’s very hard to get companies funded and very hard to find successful companies in very big markets, but with the proliferation of the number of startups there’s the law of supply and demand, right?

When Dreamit was founded in 2006 we were probably one of only three or five accelerators in the country. I think if you look now there are 3,000 or 5,000. I think you’re seeing patterns and trends emerge around what kind of value accelerators can provide and the reason entrepreneurs select them.

Dreamit Ventures’ Asl Savaar, “We’re looking next at e-commerce and fintech as two additional verticals to focus on.”

How do Dreamit’s Austin companies compare with others nationally? I think the talent here is great. The big challenge with Austin is there’s not a lot of capital. I think that makes it hard to some degree but it’s an incredible ecosystem. If you have companies that are actually graduating, if you have companies that are actually graduating. That’s where we’re focusing on educating our accelerators and being very creative about getting our accelerators and being very creative about getting their funding and their growth on the right path.

Are Austin startups different than in other areas of the country? It feels pretty typical. There are some interesting pockets of companies focusing on education, some interesting things happening in the world of tech. There are some good consumer-facing companies coming out of Austin. But I think it’s pretty much across the board. It’s not like there’s one particular vertical or one particular kind of company coming out of here that I would point to and say ‘Yeah, Austin is known for this.

Are incubators and accelerators replacing venture capital for startups? If you look at what happened over the last eight to 10 years... there’s 20 percent more institutional capital available at the VCs. But only 4 percent more deals. The number of deals getting done by VC institutional venture capital are roughly the same; they’re just putting more capital to work. So they’re writing bigger checks. What that means now is a Series A, which is like your first institutional round, the size of those checks are so much larger and the evaluations are so much larger. So what was a Series A in 2008 or 2009 is basically what is considered now as a Series Seed. I think you’re seeing a lot of accelerators playing at that level. They’re becoming almost micro VCs. They’re getting involved at the seed stage and the institutional investors are still getting involved at the Series A level and those checks are much larger. A typical Series A now is about $7 million to $10 million and where it used to be about $1.5 million. Now the series seed round is about $1.5 million. So that’s why you’re seeing a need for accelerators and a need for even crowdfunding platforms.

So VCs have gone upstream? Yes, they’ve gone upstream and the checks are much bigger, which means they’re deploying more capital. That means you need to get involved at a later stage, which means the equity that they have to be there. The revenue has to be there. The growth has to be there in order for them to justify writing a $5 million check.

Does Dreamit target any particular type of startup? Absolutely. We like to create what I like to call velocity inside an industry. So what I’ve done over the last year or so since I came on board is focus on industry verticals and start to build velocity inside a vertical. Right now our focus is on health care and education. We look at those industries as highly complex, where we can start to add value. And you add value by bringing in customer partners, corporate partners, industry expertise and advice within that vertical. We’re looking next at e-commerce and fintech as two additional verticals to focus on. But for us, we don’t get into a vertical unless we think we can create a lot of value.

By creating value, we need to really look into the community and the network to bring that value and make the connections. Dreamit is like the connective tissue. We sit at the center and bring in the entrepreneurs, we bring in the investors, we bring in the customers, the advisors and the mentors and be able to create velocity within an industry. Now with our focus being on later stage, we’re getting involved more now in the pre-series A level versus the pre-seed level. Most accelerators focus on the seed stage to help a company get their first money, their seed money. We don’t really play in that area anymore. We’re really very focused on helping companies scale once they’ve gotten their first injection of capital.

What do you expect will happen to startup funding in the next couple of years? I wish I had a crystal ball that worked. What we’re banking on quite honestly is industries that are getting disrupted. That’s why these corporate partners become so incredibly important to us. For the first time the idea of corporate innovation is top of mind. It’s a very big deal because industries are getting disrupted almost at a pace they’ve never had to deal with in the past. What used to take 10 years now takes four months. If I’m a bank, if I’m a hospital system, if I’m a school system, a university, I have to be looking around thinking about all the change that’s happening. I think that’s a very exciting opportunity.

So when we start to think about our investment horizon, we start looking at what the future holds we’re looking at industries that are ripe for disruption and we’re looking at bringing in the partners who see that and understand that in order for them to stay relevant, in order for their businesses to continue to grow and for their industries to survive, they need to innovate. That means embracing change, embracing startups, embracing new technologies and embracing what their consumers and customers are demanding.