

# What does the Toronto startup ecosystem look like? (V6)

## What is the purpose of this article?

- 1) Help participants of the Toronto Startup Ecosystem understand the broad scope and many components.
- 2) This document focuses on the high-tech and software startup ecosystem, and outlines the different types of members comprising the ecosystem.

## What are the critical learnings in this article?

The Toronto Startup Ecosystem is global, with hundreds or even thousands of interreacting members.

## What is a business ecosystem?

“A business ecosystem is the network of organizations—including suppliers, distributors, customers, competitors, government agencies, board of directors, C-Suite, employees, society, and so on—involved in the delivery of a specific product or service through both competition and cooperation. The idea is that each entity in the ecosystem affects and is affected by the others, creating a constantly evolving relationship in which each entity must be flexible and adaptable in order to survive as in a biological ecosystem.”<sup>1</sup>

What is the value of taking an ecosystem perspective?

- 1) Members who have no direct involvement with your company may have a massive impact on your company. e.g. social license to operate.

## How do you picture an ecosystem?

- 1) Each ecosystem member is in a circle.
- 2) Each member has a line to every other member.
- 3) You're right – this is a complex diagram.
- 4) It is reality today e.g. a local community around a proposed mine in a third world country has the potential to stop the development of the mine, thus impacting your company's profits.

## The Toronto ecosystem is global in scope

- 1) Startups based in Toronto may have global customers, investors, employees, etc. Toronto funds may invest globally.

## The following is a list of the 26 components of the Toronto startup ecosystem,

The is not intended to be 100% complete. It's my current understanding.

### #1 Founders

May be in Toronto, or anywhere in the world.

### #2 Cash paying customers and users

May be in Toronto, or anywhere in the world.

### #3 Employees

May be in Toronto, or anywhere in the world

### #4 Accelerators and incubators

There are a broad range of incubators and accelerators and almost every one is different. As a startup evolves, it may move among several different types of incubators and accelerators. Incubators and accelerators focus on startups where they can have maximum impact by utilizing admittance criteria and processes. Common characteristics of incubators and startups are:

- 1) Links to investors.
- 2) Access to lawyers.
- 3) Access to mentors and advisors
- 4) Networking with other startups.
- 5) Financing is sometimes provided.

### Incubators

The goal of an incubator is to help take a start-up to the point where there is a MVP (Minimum Viable Product). The process takes 12 to 24 months. The founders decide what incubator resources to draw upon and at what time.

The key characteristic of an incubator is co-located office space with other start-ups.

## Accelerator

The goal of an accelerator is to quickly grow the size and value of the startup to enable future funding. The key characteristic of an accelerator is taking a start-up company (which already has a Minimum Viable Product) through a very structured 3-4 month process. Actions and outcomes are required every 1-2 weeks.

As of November 21, 2022, Toronto has more than 97 incubators and accelerators<sup>2</sup>

- 1) Toronto startups also join incubators and accelerators elsewhere in Ontario, and around the world.

## **#5 Venture studios**

A venture studio comes up with an idea, assembles a team of founders, and provides capital for the Startup. A venture studio has some combination the of the following 6 characteristics:<sup>3</sup>

- 1) The Guild: The internal resources of a venture studio. Includes a strong core team of startup operators, financial capital, space, connections, and infrastructure.
- 2) The Idea: venture studio either generates ideas internally or sources them externally.
- 3) The Structure: venture studio either operates as a holding company or has a holding company and VC fund.
- 4) The Funding: venture studio provides the financial capital to source, test, and validate the idea but then have the option to continue funding in-house or seek outside investment.
- 5) The Volume: The number of startups to work on at any one time is a differentiating factor among venture studios.
- 6) The Focus: venture studios either operate as generalists or specialists within an industry, technology, or region

As of Nov 21. 2022, Toronto has more than 43 funding organizations. Countless more from around the world invest in Toronto based startups.<sup>2</sup>

## **#6 Angel investors**

There are individual angel investors as well as angel investor groups. Angel investor groups have government supported infrastructure (e.g. staff, office space), but the government does not provide capital to startups applying to the angel investor groups. The capital comes from the angel investors.

## **#7 Funding platforms**

- 1) Non-equity. This may only be a donation, the investor may receive some type of tangible award, or the investor receives a future product once it is available. e.g. Kickstarter
- 2) Equity and debt. The investor does get equity or debt. The OSC (Ontario Securities Commission) has several prospectus exemptions which a crowding platform may utilize. Depending upon the legal structure of the platform, and investor characteristics, an investor may be able to invest any amount. e.g. AngelList, Gust.
- 3) Private placement e.g. DealSquare.

## **#8 Equity Investment Funds**

- 1) There are a large number based in Toronto. There are many funds outside of Toronto and outside of Canada that also invest in Toronto startups.
- 2) Most have specific investment criteria e.g. where is company headquarters, type of customers or market, type of technology, whether or not the startup has a specific social purpose.

## **#9 Corporate Venture Capital**

A large established company (not an investment fund) takes an equity stake in a small but innovative or specialist firm, to which it may also provide management and marketing expertise; the objective is to gain a specific competitive advantage.

## **#10 Debt Investment Funds**

- 1) Traditional bank loans, line of credit, etc.
- 2) Venture debt for startups and companies that don't have significant assets or positive cash flows and therefore often don't have access to traditional bank loans or material amounts of bank financing.

## **#11 Income revenue sharing funds**

The capital is repaid from a percentage of the startups cash flow. E.g. Clearbanc.

## **#12 Investment dealers/underwriters**

Startups can raise equity by listing on the CSE (Canadian Securities Exchange), or on the TSX Venture Exchange.

### **#13 Organizations to buy or sell your company**

These organizations will help you sell your startup, once it's achieved some success. They can also help you buy other companies.

### **#14 Organizations to meet your talent requirements**

- 1) Outsourced or offshore talent providers. These provide contract resources.
- 2) Talent acquisition. There may acquire employees for the startup, from around the world.
- 3) Talent development. These aim to improve the capabilities of your existing talent.

### **#15 Associations**

There are associations focused on specific types of ecosystem members e.g.

- 1) Angel investor groups e.g. AIO (Angel Investors Ontario), NACO (National Angel Capital Association – Canada), ACA (Angel Capital Association – United States)
- 2) Founders e.g. BFN (Black Founders Network)
- 3) Etc.

### **#16 Advisors – legal, financial, functional**

Every startup requires a range of advisors. For example, financial software can collect and report on a broad range of information. An accountant can advise on how to set the software up. Lawyers are key to providing advice on the range of legal and regulatory requirements, and how best to meet them.

### **#17 Tools and services for startups**

These address a range of issues including:

- 1) Understanding customers and users
- 2) Creating prototypes
- 3) Building and maintaining the solution
- 4) Marketing and sales
- 5) Customer onboard and ongoing
- 6) Billing, payment processing, payroll, financial reporting, etc.

### **#18 Reviews of startup companies**

Some companies are focused on reviewing startup solutions. Other companies enable reviews of startups as a sideline to their main business (e.g. job boards enable employee reviews of the CEO).

### **#19 Conferences**

Conference organizers manage Toronto conferences focused on startups. Many of the organizations in the Toronto ecosystem also host events.

### **#20 Regulators**

Every startup needs to be aware of regulatory requirements as soon as they start raising capital. Financial Services startups must be compliant with many more regulatory requirements.

### **#21 Federal government programs**

Startups can benefit from tax credits, financing, and advisory support. When going global, Canadian trade commissioners are based in 160 global cities. The startup Visa program enables a foreign employee with a job offer to quickly obtain a visa to work in Canada.

### **#22 Ontario government programs**

The Ontario government has numerous programs.

### **#23 Municipal programs**

Toronto has the Startup Here program and other programs.

### **#24 Ecosystem researchers**

- 1) Some individuals and organizations analyze and publish research regarding the ecosystem e.g. Charles Plant
- 2) A variety of databases have collected different types of information regarding the ecosystem e.g. Crunchbase, HockeyStick, etc.

## #25 Startup charities

The Upside Foundation focuses on startup companies donating stock options.

## #26 Coworking space companies

Once the startup leaves the founders' homes (or accelerator) they may move to a coworking space. Coworking spaces also enable a startup to quickly establish a global physical presence.

### Footnotes

<sup>1</sup> Adapted from Investopedia 2021 Jan 20

<sup>2</sup> Startup HereToronto <https://startupheretoronto.com/startup-support/>

<sup>3</sup> <https://medium.com/datadriveninvestor/how-to-differentiate-startup-studios-d3cb394e3ecf>

### What further reading should you do?

What does the startup journey look like?

<http://koorandassociates.org/the-startup-journey/what-does-the-startup-journey-look-like/>

Is your startup planning to fail?

<http://koorandassociates.org/the-startup-journey/is-your-startup-planning-to-fail/>