

CONFIDENTIAL: Narrative/Key Messages, FAQ: RetailXelerator
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The Solution: RetailXelerator (RX)

- RetailXelerator (RX) is the first accelerator that bridges the gap between startups and major retailers, by providing what other accelerators don't: curation, coaching, and direct retail connections for startups ready to become *scaleups*.
- RX is an intensive, 12-week course that helps a scale up gain the knowledge and skills required to produce, market and distribute a product through major retail channels.
- RX features *startup mentors* with specific expertise and retail experience in product design, packaging, inventory management, finance, merchandising and marketing.
- At the end of RX, startups meet directly with buyers from *major retailers*, including Walmart, Sears, Staples, and others, to pitch their products.
- RX puts the next generation of great product companies on the fast track to sales, at scale.

The Situation

For startups

- Over the past decade, it's become so easy to launch (and hype) a startup: Crowd funding, cloud services, startup mentors, incubators, accessible manufacturing, "Shark Tank."
- But the lack of "retail readiness" or ability to scale is a very real skills gap among startups, and it contributes to the 75% startup failure rate.
- Retail is an incredibly strong growth channel: 93% of sales today still come through brick and mortar retailers (and their own online channels).
- Many "stage 2" startups – with a viable product and initial sales – aren't prepared for the rigor required to produce, market and distribute a product through major retail channels.
- "First to market" is no longer a reliable predictor of startup success. Rather, it's "first to scale." A startup must become a *scale up* to sustain growth.

For retail

- The tidal wave of startups has made a retail buyer's job more difficult than ever.
- The "next big thing" no longer comes solely from a giant multinational hardware brand (like Samsung or HP). It comes from virtually anywhere.
- It's the overwhelming task of a retail buyer to find the needle in this haystack: the perfect product from a startup that can keep pace with retail demands.

Background: Our Test with Staples

- We worked with Staples and Startups.co to test drive an "on the shelf campaign," connecting startups with Staples' buyers and private label teams.
- More than 1,000 startups answered the casting call; crowdsourced voting brought the pool down to 50 startups. A panel of judges from Staples, Startups.co and Sprosty Network selected finalists and winners.

- A lighting solution from EVA won the competition. Staples also established relationships with five other finalists, and those startups are scaling today.
- ***We discovered a very real skills gap in this test:*** finding the right startup is key for retailers, but the startups need to be *ready* to engage with retail – to *scale*.

Background: Why Sprosty Network?

- We bring something tangible and meaningful to the startup culture: Experience, direct retail connections, and the trust of major retailers.
- We have decades of combined experience in executive management and leadership roles that connect consumer technology with major retail.
- We've worked inside retailers, from Best Buy to Walmart to Staples and others:
 - We've built private label businesses that, like a startup, manage everything from product concept to retail execution.
 - We've led the retail merchandising teams, tasked with finding the latest and greatest for their customers.
 - We've led forward-thinking retail experiments focused on the latest technology and retail's ability to help customers adopt the next "new thing."
- We're experienced, qualified, and literally make the direct retail connections.

For more information:

www.retailxelerator.com

www.sprosty.net/retail-xelerator/

Twitter: @retailxelerator

Frequently Asked Questions – RetailXelerator (RX)

How relevant are traditional retailers to scaleup plans?

Data from the U.S. Department of Commerce indicates that 93% of consumer products are sold through physical retail, versus 7% sold online. Sales for consumer electronics through physical retail reach 77% - plus, nearly half of the remaining 23% of sales online go through Amazon. So in CE, traditional retailers still represent 85-90% of all product sales.

Why is there a market need for a startup accelerator like RX?

While there are innumerable accelerators, there are very few that are structurally focused on the “scaleup stage” of a startup company’s growth. The RX program fills this need, preparing a startup for the retail scaleup stage of their journey, and connecting them directly with major retailers that have expressed interest in the startup’s product category.

Is RX like Y Combinator, or HAX? How does it compare?

Y Combinator and many other “founder accelerators” support the earliest stages of startup growth. A typical stage-1 accelerator will provide between \$50K-100K of funding in exchange for 5-10% equity. It also provides physical space, mentors, and resources to help founders get their company built and in motion. RX is a stage-2 scaleup accelerator; we help startups go from first product and incremental sales, to successful reach at scale – national and beyond, and winning in their respective product categories.

What does RX provide that a startup can’t find anywhere else?

First, we provide the direct retail connections. RX works with major retailers to bring the products and startups in RX to market. First, we provide a virtual 12-week scaleup course that prepares a company for the demands of working with national retail, at national scale. Third, the startups in each RX are carefully selected to participate; these are the best in their categories, because retailers have asked us to find them the startups that are ready for scale. RX provides the fast track to retail scale – which is also the fast track to market leadership.

What kind of startups can participate in RX?

Each RX class will have a different focus, as suggested by our retail partners. Our first class is focused on Smart Home products.

What makes a startup a scaleup?

A scaleup is officially defined as a company with more than 10 employees, and growing greater than 20% per year in revenue or employee count over three years. In short, it’s a business that is experiencing compound, if not exponential, growth.

Do startups in RX need to be technology product companies?

No. That said, our first class is focused on Smart Home startups, which tend to be technology companies.

What about specialty retail – are there plans to expand RX and provide regional stores, boutique retail, specialty retail, etc.?

We are starting RX with national retailers, as they are the fastest path to scale growth. We expect to continue adding retailers to the program as it makes sense.

What is the cost for a startup to participate in RX?

The startup commitment for RX is \$15,000 cash, \$100,000 in warrants, and a commitment to use RX program services as they scale up with the retailers they connect with in RX. We do not provide funding, as companies in the scaleup stage commonly have funding in place. We also do not provide housing, as scaleups are usually well established and “too big to move” – which is why the 12-week program is virtual.

What are the requirements for a startup to participate in RX?

They should be a leader in the class category we’re building, with viable product, incremental sales, and good with the terms of RX engagement. They must be ready for the scaleup stage.

How rigorous the vetting process to participate in RX?

The RX team rigorously evaluates all startups that apply to the program to ensure they meet the requirements stated above.

What do retailers contribute to participate in RX?

Our retail partners contribute time and resources to drive the RX program. This means they will engage with the RX startups on Portfolio Day, and ensure that each startup is given the best internal audience. If selected, the retailer will support the scaleup through its broad channel assets. Behind the scenes, each retailer is also working to become more “startup friendly,” so they benefit from applying RX principles to their own internal processes and approaches, making it easier to onboard and scale a startup, via RX or otherwise.

Are retailers required to work with any of the scaleups in RX?

Having been merchant officers, the RX team knows that a retailer/buyer can never commit to work with a startup company “yet to be named.” More practically, each retailer has committed to consider each startup coming through the RX program for assortment; in other words, they start with a bias to support each startup in RX. A final relationship still must be earned by the startup with each company.

Is there a promise for startups who participate in RX that they will have retail contracts?

Yes. We promise to put each startup in front of our named retailer partners on Portfolio Day. Afterward, we also commit to introducing RX startups to other retailers not currently active in the RX program, as they match with that startup’s channel strategy. We have direct relationships with decision makers at all major/regional U.S. retailers.

What does success look like for the RX team?

The startups in the program provide only a relatively small amount of cash to help fund RX operations. As such, the RX team is deeply vested in the success of the startups in the program. If they don't succeed, we don't, either. We are motivated to find the right scaleups that, after participating in the 12-week RX course, can be market makers in their category.

Why would a startup choose to apply for RX over a different accelerator program?

There is no other equivalent among scaleup accelerators, let alone one that is anchored by the very major retailers than can "make a market" for a scaleup. In talking with many startups, we are confident the RX program will be a follow-on accelerator for startups after they've graduated from stage 1 programs like Techstars and Y Combinator.

How many startups have gone to scale working with RX?

We are sourcing our first class to start in May 2016. That said, we tested the RX concept in 2015, through a test campaign with Staples - and rather than finding one startup to work with, they are currently bringing five startups to scale.

How many RX classes run at the same time?

We'll see what demand looks like before determining class frequency.

How are the coaching mentor companies selected?

We've selected strong capability/mentor companies with decades of experience working with startups and later stage product companies. From supply chain and distribution partners, to finance, to marketing insights, we have assembled a wonderful collection of complementary companies to help teach, educate, and assist startups through our 12-week program.

Are startups in RX required to work with any of the retailers?

No. But if they are not interested in working with any of our national retail partners, then RX is not the program for them.

Are startups in RX required to work with any of the coaching mentors following the course?

No, they are not, but we do expect commercial relationships to form based on the specific needs of each startup. We're simplifying and facilitating the connection.

What happens at the end of the RX course to the startups?

We expect that each startup will begin to work with one or more retailers in the program. We commit to continuing to work with the startups to make these retail relationships work as smoothly as possible. The startups move to scaleup, and do so while minimizing the risk of said growth. We also expect a number of the capabilities involved in the 12-week program will develop relationships with each startup, as each startup needs.

The first class features smart home startups. Why?

Our retail partners asked for smart home products as the focus for the first RX class. They are seeing tangible demand from their own customers for these products.

Are startups considered official “scaleups” at the end of RX?

We think the companies entering the RX program are ready for the scaleup stage, or just about there already: growing and ready, with the right support, to leap ahead of competition and become national category leaders.

What are future RX classes – how will you decide on focus areas?

While we’re early in the formative thinking for the RX program over time, we believe the classes will be focused on specific topics, determined by retailer interest.

What is Sprosty Network?

Sprosty Network is a global business strategy and innovation firm with unmatched experience in both bringing technology products to scale with major consumer retailers, and in bringing new retail concept to market. We are focused on turning strategic growth planning into tangible initiatives and results for retail, and the companies that are driving the retail transformation – both in terms of product and consumer experience.

Why is Sprosty Network qualified to launch RX?

Members of the Sprosty Network have deep experience leading innovation practices within major retail, at a national and global scale. We understand, and have addressed, the challenges that both retailers and startups have in working together. We’ve added to that experience the day to day requests from our retail partners to help them more effectively reach out to the startup community. The RX program was borne from this experience.

Did Sprosty have to pay retailers to participate in RX?

The Sprosty Network, and the RX program, do not pay retailers to participate.

What are the goals for RX in the first year?

To have many companies in our initial class(es) gain traction at retail and scale up successfully.

Where does RX go over the next five years?

Ask us after year 1.

Comparison: RX vs. other startup growth channels

	Incubators	Angel investors	Accelerators	Hybrid	RX
Duration	1 to 5 years	Ongoing	3 to 6 months	3 months to 2 years	12 weeks
Cohorts	No	No	Yes	No	Yes
Category Focus	No Focus	Situational	Seldom	Seldom	Yes
Business model	Rent; nonprofit	Investment	Investment; can also be nonprofit	Investment; can also be nonprofit	Scaleup, warrant & cash
Selection	Non-competitive	Competitive, ongoing	Competitive, cyclical	Competitive, ongoing	Competitive by class
Venture stage	Early or late	Early	Early	Early	Late/scaleup
Education	Ad hoc, human resources, legal	None	Seminars	Various incubator and accelerator practices	12-week retail graduate school
Mentorship	Minimal, tactical	As needed by investor	Intense, by self and others	Staff expert support, some mentoring	
Venture location	On-site	Off-site	On-site	On-site	Virtual, plus on-site Portfolio Day
Direct retail Participation	Unknown	Unknown	Unknown	Unknown	Yes
Scaleup Capabilities	No	No	Few	Few	Yes