Crowdfunding 101

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Crowdfunding 101 overviews the various structures, benefits and pitfalls to using this type of public fundraising. In 8 steps, it will cover how to creating a campaign and provide a list of popular platforms categorized by type and industry. Crowdfunding 101 will also give you a sense for how this method of capital raising affects and fits in with traditional strategies.
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About the Author

“Starting a business is a very personal experience. I’m a serial entrepreneur and have started and helped start over one hundred businesses. I have a special interest in high-growth startups and have made it my objective to understand what it is investors look for when evaluating the potential of a business. My goal is to coach entrepreneurs in scaling their startups while maintaining the work/life balance and achieving personal goals. In this book, I share my business plan writing process to start you off in the right direction.”

-Tyler Jensen

TYLER JENSEN

In 2008, Tyler founded The Startup Garage to help entrepreneurs and business owners achieve success in their business ventures, as well as their lives. Tyler is a serial entrepreneur, having launched or help launch over 100 companies, including non-profits and social enterprises. He has developed an extensive network of business relationships focused on achieving the milestones investors care about.

Tyler heads up The Startup Garage team, which has helped raise over $200 million for startup businesses.
Introduction to Crowdfunding

Crowdfunding is a fundraising technique in which startups solicit the general public to fund their new ventures. As a result, entrepreneurs bypass angel and venture capital investors and pitching their ideas directly to the end consumer.

STRUCTURE TYPES

Capital raised from the general public via crowdfunding campaigns typically come in one of four categories:

- **Reward-Based** — Funders provide money in exchange for rewards based on how much they give.
- **Donation-Based** — Funders donate money to support a cause they’re passionate about.
- **Lending-Based** — Funders provide money in exchange for a fixed income until the loan has been repaid.
- **Equity-Based** — Funders provide money in exchange for ownership.

Traditionally, only accredited investors could participate in equity-based crowdfunding. However, with the passing of the JOBS Act in 2013, the SEC has made it legal for entrepreneurs to offer an equity stake to both accredited and non-accredited investors in exchange for their capital investment.

PROS OF CROWDFUNDING

- Crowdfunding offers a gauge on public interest before launching new products and spending large amounts of money on development.
- You may receive more than you intended or asked for. Many successful crowdfunding campaigns have raised as much as 8X their original funding goals.
- You don’t have to be an established company. An individual can launch a crowdfunding campaign with little to no upfront cost. A polished pitch or presentation can be enough to begin raising capital.
- If you fail to reach your goal, you can make adjustments and try again.
- It allows you to test aspects of your company’s marketing approach to see how it resonates with the target market.
With non-equity based crowdfunding, you keep your equity and maintain 100% ownership of the business.

You generate interest in projects and may receive pre-orders prior to launch.

Receive useful advice from financial backers.

Your backers are enrolled in the business and will help you market and promote the brand.

Crowdfunding can be used in many industries - from a nonprofit to technology to education.

**CONS TO CROWDFUNDING**

Although there are many benefits associated with crowdfunding, this form of raising capital does not come without its cons:

- Crowdfunding campaigns are public — not only are you opening up your ideas to criticism but your competitors can capitalize on the information put out there.

- A successful crowdfunding campaign involves reaching out to the end consumer and therefore the approach is much different than approaching professional investors, often requiring knowledge of consumer marketing, social networks and social media.

- Some crowdfunding sites require that 100% of your funding goals are met or no funds are collected.

- Crowdfunding is not for all businesses in all industries. It works best for simple consumer products and services and is not as effective for complex business to business ideas or products with lengthy R&D stages. Backers want to see results quickly. The most successful categories include:
  - Social causes
  - Film, music, and arts
  - Hardware
  - Software
  - Physical products

- You are responsible for managing a much larger and more diverse set of backers as compared with traditional investment opportunities.

- You are competing against thousands of other crowdfunding campaigns.
Steps to Creating a Successful Campaign

Below are 8 steps to creating your crowdfunding campaign:

1. SELECT THE SITE

Choose the right one for you. Although there are plenty of similarities between the various crowdfunding sites, most of them have some sort of unique positioning that could be more or less helpful to you and your campaign.

2. KNOW YOUR AUDIENCE

Really understand who they are and what will motivate them about your startup. Like with any business endeavor you need to know your industry and market like the back of your hand. Keep in mind, you also need to know your crowdfunding audience. Depending on whether your campaign is equity, donation, reward, or lending based, your crowdfunding audience will have a unique set of needs and desires.

3. CREATE THE PITCH

You’ll need a creative but concise pitch, usually in the format of a video. With the amount of content circulating the internet, it is critical that your video is compelling and immediately grabs the attention of your audience. While keeping it engaging, you will need to provide the hard stats that will make the visitor feel confident in your startup.

4. PLAN AHEAD

Most crowdfunding campaigns are like a reverse bell curve where the majority of funds come in at the beginning and the end of the campaign. This follows logic as people get involved when something is new and exciting or they’re nearing some sort of deadline. In order to keep your momentum consistent, plan your social media and email campaigns based on the beginning, middle, and end of the campaign and have a clear strategy for each stage.
5. KNOW YOUR FINANCIALS

You need to determine what a reasonable funding goal is for your startup to get off the ground. People want to know that you will spend their money wisely and that you have a plan for how much capital you need and what it’s going to be spent on. If you have prepared detailed financial projections, you’ll know exactly how much you need and how you will spend it. If you do not have these yet, you should make it a priority.

6. ENTICE YOUR AUDIENCE

Unless your campaign is cause or donation-based, people are expecting something in return. Make sure you clearly demonstrate what your funders will be receiving for their pledge (a reward, interest, dividends, etc). Additionally, given the large number of campaigns that are competing for crowdfunding dollars, be sure that your rewards are enticing.

7. MAKE THE SALE

Have a clear call to action (CTA). Too many crowdfunding campaigns are timid in their request for the sale. Be sure to clearly ask the visitor to contribute to your campaign.

8. NURTURE YOUR BACKERS

Be sure to thank and engage your backers. Also, provide credit where credit is due, even if it’s a simple one line note, a social media thank you message, or an automated email. This will not only keep your backer happy, but it may encourage them to leverage their social networks for your campaign.

Fourth, Lastly, you’ll need to present what’s in it for them. Do they get a reward, interest on their loan, or equity? Clearly explain what they will be getting in return and make sure you don’t have any ambiguity here.
What to Avoid

REASONS CAMPAIGNS FAIL

Below is a list of some of the reasons why crowdfunding campaigns have failed:

- Lack of a unique and differentiated product or service
- Lack of creativity or social media savvy to generate awareness and engage potential backers
- Lack of a brand identity
- Failure to demonstrate the market need for the product or service and the company's value proposition
- Funding goals that are too high or too low
- Lack of a video pitch or poor quality video
- Complex messaging
- Failure to demonstrate credentials and credibility
- Lack of a clear call to action
Crowdfunding Platforms

With hundreds of crowdsourcing websites at your fingertips, you are probably asking yourself which one is best for you. To help you out, here’s a list of the best and most popular crowdfunding sites on the web, categorized by the niche market that they serve.

DONATION-BASED CROWDFUNDING

1. Kickstarter – Kickstarter is one of the most popular crowdfunding sites. They boast statistics of over $700M donates, 85M unique viewers, and 700M page views in 2012. The site is primarily used in the tech, design and gaming industries.

2. Indiegogo – Indiegogo emerged from the Sundance Film Festival as a way for independent filmmakers to fund their projects. It didn’t take long for other people in the arts world to catch on. Eventually, small businesses started using the site and it became one of the largest crowdfunding platforms around.

3. GoGetFunding – GoGetFunding seeks to be a crowdfunding platform for everything. In some sense they are, but the campaigns on the site tend to be more cause related campaigns and appeal to donors emotional reaction to the campaign.

4. GoFundMe – GoFundMe is primarily used for personal projects such as medical bills and honeymoons as well as philanthropic donations such as disaster relief campaigns.

5. RocketHub – RocketHub is a donation-based funding site for a variety of creative projects. RocketHub is unique in that it helps campaign owners and potential promotion and market partners connect in order to help the success of the campaign.
EQUITY-BASED CROWDFUNDING

1. **Fundable** – Fundable has been one of the leading JOBS Act Advocates and helped to push the SEC to overturn the general soliciting ban. They are the second cheapest crowdfunding platform on the market. The company takes 3.5% of the final amount raised and the startups only receiving the funding if their campaign is fully funded.

2. **MicroVentures** – MicroVentures is the ideal site for startup businesses seeking angel investment. The site specializes in small investments under $1M. The majority of investors are accredited, angel investors. Though, with the passing of the JOBS Act the investor pool will likely extend to non-accredited investors as well.

3. **CircleUp** – CircleUp works primarily with consumer companies that offer an actual product to the public. As a result, this site usually hosts small businesses as opposed to true startups. You are allowed to define and maximum and minimum amount you want to raise as well as a minimum amount that a single investor can invest.

4. **Crowdfunder** – Crowdfunder works with primarily with tech startups that are seeking capital outside of Silicon Valley. The goal is to connect local investors with local entrepreneurs.

LOAN-BASED CROWDFUNDING

1. **SoMoLend** – Similar to MicroVentures, SoMoLend works with startup businesses seeking to raise less than $1M. What makes SoMoLend unique is that it in addition to individual investors, it works with banks and even cities to find debt financing for entrepreneurs. Furthermore, they play a more active role in facilitating the communication between the investors and borrowers.

2. **Kiva** – Kiva works with very small, microfinance institutions to provide micro-loans to individuals across five continents who are unable to access tradition banking options. The loans provided through Kiva are smaller than traditional loans and are usually provided to people who would not have access to funding elsewhere.
CUSTOM PLATFORMS

1. **Appbackr** – Appbackr is solely for individuals seeking to build a mobile app. It has primarily operated on a donation-based site to help mobile app entrepreneurs get off the ground. However, this will likely change with the JOBS Act.

2. **CrowdSupply** – CrowdSupply is a retail oriented site that works exclusively with consumer products. Furthermore, once your campaign is funded, the company operates as an online storefront for the startup.

3. **IgnitionDeck** – IgnitionDeck is based on the WordPress platform and allows campaign owners to run a full campaign from a WordPress site. Campaign owners are provided with an in-depth admin panel, as well as a number of themes and an enewsletter feature.
How Crowdfunding Fits with Traditional Strategies

EFFECTS ON FAMILY, FRIENDS & FOUNDERS FUNDING

Many entrepreneurs and small companies first turn to their family, friends and founders (FFF) for donations and support when launching a business. It is also a great starting point to get feedback from people you trust before approaching investors on a larger scale. The JOBS Act has changed things so that once a startup approaches accredited investors (based on $200,000 annual income or more or $1 million net worth, excluding a personal residence) the family-and-friend funding source is then limited to only $2,000 or 5% of annual income for each non-accredited investor.

The entrepreneur can still approach family and friends, it just needs to be at a much earlier stage. Once emails or online posts sound like fundraising campaigns, it becomes general solicitation. The two can’t occur concurrently.

Another uncomfortable position is qualifying if your friends and family are actually “accredited investors.” This requires 3rd party verification from a combination of IRS forms, bank statements, consumer reports and written confirmation from brokers, attorneys or CPAs. Investors at a friend and family level may be unwilling to supply such personal information.

EFFECTS ON ANGEL INVESTMENT

Angel investors are specifically utilizing equity crowdfunding platforms to source new deals and investment opportunities. They are also using these platforms to form Angel syndicated or groups. Essentially, an Angel or collection of Angels can form a group that other individual investors can join. Individuals select how much they are willing to contribute and the leaders of the group will determine which individuals to accept or not. From here, these groups can collectively select startups to invest in based on their crowdfunding campaign.
As the equity based crowdfunding funding vehicle develops, experts anticipate that many of the best crowdfunding rounds of investment will be led by angel groups or seed stage funds. First and foremost, the screening and due diligence needed to decide which startups warrant investment is best suited for the professionals (i.e. Angels). Meanwhile, Angel groups can benefit from gathering additional partners and co-investors, recruiting and engaging new Angels, spotting new deals and giving the first look to a broader network of accredited investors to help close out portfolio deals.
Conclusion

If you feel crowdfunding could be a viable strategy for your startup, it is essential to do some research and planning. Identify the best structure for your business, based on your goals and incentives for backers. It is important to honestly evaluate what is important to you. Prepare a pitch video, images and/or graphics, copy and content for the campaign. The more compelling and unified your messaging, the greater the participation you’ll inspire.

Crowdfunding is not only a funding strategy, but also a marketing tool to engage customers and promote brand awareness. Ideally, the crowdfunding effort will be part of a larger integrated marketing campaign that engages the media and generates buzz around social platforms.

The Startup Garage helps startups achieve the milestones investors care about. Visit our blog, or connect on any of the platforms below.