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Crowdfunding. More proof that everything is hackable. Even money.

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Joseph Pulitzer, Wolfgang Amadeus Mozart, Alexander Pope and the history of crowdfunding

The collective financing of an outcome is not a new concept. It has been in existence for over 300 years, but the term 'crowdfunding' is just entering its teens. And, it seems, has only just begun.

Pulitzer, Mozart and Pope are cited as being among the first to successfully fund a project through 'the crowd' in exchange for a reward of sorts.

Mozart found 176 backers to help him finance a performance of his three newly written concertos. In exchange, each received a manuscript of the concert in which they were personally thanked.

Alexander Pope needed the resources to publish his English translation of Homer's Iliad, and Joseph Pulitzer through his newspaper, The New York World, called on the public to help finance the completion of the building of the Statue of Liberty.

Then came the Internet

Fast forward 300 years, to the first acknowledged crowdfunding initiative. In1997, UK rock band Marillion used the Internet to raise $60 000 from their fans to finance their US tour. This led to the creation of numerous websites with the purpose of financing artists for creative projects, the first being ArtistShare in 2001.

In 2000, JustGiving was launched in the UK to fund charity organisations. It claims to have raised over GBP1 billion since its launch.

Crowdfunding became a vehicle to raise funds for many worthy causes, and it was during the mid-2000s that it became evident that crowdfunding could be used for more than just creative ideas – it was also a means to finance entrepreneurial businesses, start-ups and new inventions.

Post-2008

In the aftermath of the 2008 financial crash, with growing distrust of big business and financial institutions, the Internet provided a perfect opportunity to disrupt the finance system and challenge the space previously reserved for venture capitalists or angel funders.

The two major crowdfunding platforms – Indiegogo and Kickstarter – were launched in 2009 and 2010 respectively. Kickstarter saw the most successful commercial crowdfunding campaign to date in 2012. The Pebble E-Paper Watch, an affordable and trendy smartwatch, needed funding to launch to the public. Their objective of reaching $500 000 was achieved in 17 minutes and within the first 37 days they raised over $10 million. In exchange, contributors were promised the first of the watch orders from the manufacturers.

They have since launched phases 2 and 3 of the Pebble watch and raised a total of over $30 million.
And the crowdfunding platforms take 5% of capital raised as payment.

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Potato salad

In 2014, a potato fan in Ohio launched a Kickstarter campaign asking for $10 to make potato salad for his 4th of July party. He raised over $55 000. What started as a joke bet with his friends resulted in some unexpected Internet fame, funds raised to help his community and the publishing of a cookbook, including the famous potato salad recipe, which was sent free to each of his contributors and also sold online.

A sustainable alternative to traditional finance?

It seems inevitable that the success of crowdfunding for creative, potato salad or charity projects could translate into more mainstream avenues of finance, and for the pursuit of business success.

In 2007, the second peer-to-peer lending site in the US, Lending Club, was launched. It raised $125 million in 2013 and IPO-ed on the Nasdaq in 2014.

GrowVC followed in 2010 and CrowdCube in 2011 – both firmly establishing ‘equity crowdfunding’ as a concept. This was validated in 2012, when President Barack Obama signed the JOBS Act (Jumpstart Our Business Startups Act) into legislation, which legalised crowdfunding as a way for small businesses to raise capital and not be as hamstrung by regulations.

In 2013, Phase 2 of the JOBS Act went into effect allowing companies seeking investment to advertise publicly and widen their reach to potential investors.

Many businesses now have more options than before

Crowdfunding provides more avenues to build businesses, small and big.

When your potential customers also become your shareholders, they can become advocates of your business and brands. They help you define your target market and become part of your marketing plan. They can become the customers who tell you what they want from your products and services.

And it is not just small businesses who see this as a growth opportunity. A company called Fashion Entertainment used a crowdfunding campaign and raised over $20 000 to bring a new watch to market. Turns out that Fashion Entertainment is a subsidiary of Sony who saw this as a way to push innovation and boost their profitability. And it worked.

Just how much money are we talking?

The World Bank commissioned a study in 2011 which suggested that the global value of crowd funding would reach $93 billion by 2025. This suggests that those who view crowdfunding as a way of just financing musicians or potato salad might well be thinking too small.