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# CROWDFUNDING AS A SERIOUS BUSINESS MODEL

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An increasing number of large corporates see crowdfunding as a way to bring in extra money to finance innovation and boost their customer engagement.

It is reported that more than 2 000 global crowdfunding platforms exist, with the majority being in China and the USA. As could be expected, they evolved to niche themselves into funding-specific categories such as technology, gaming and design.

Critics complain that it is becoming more of a marketing tool than an innovative funding mechanism, but I'm not sure it matters.

The customer, who is allegedly king, gets to be part of the process of creating products that he/she wants, for an investment that has significantly less risk because of scale, and possibly more reward.

**Prior to crowdfunding**

Traditionally, raising capital to finance a business venture meant applying for a bank loan or going the private equity route. Getting capital from a bank for a new business has never been fun or easy. It's probably the second most difficult aspect of starting a new business, after conceiving your unique business idea.

A financial institution would grant a loan based on its belief in the business model and its ability to create profit, how likely it is that the loan will be repaid and how much interest it will earn.  Because of this risk-based approach, a start-up or to a new, untested concept is less likely to receive funding from such an institution.

On the upside, banks don't have much say in how you run your business, and don't want complementary products or updates and conversation; all they want is your regular repayment.

**Equity crowdfunding**

The concept of equity crowdfunding began in the late 2000s as an alternative to raising capital for starting new businesses. It allows contributors and investors to fund new ideas on a larger scale at a lower risk.

There is no expectation of loan repayment on the part of those in the 'crowd' providing the funding. Returns are 'reward-based'. In exchange for funds donated, funders receive either first editions of products, or they are personally thanked for their contribution and will receive some form of exclusive token. The drawcard is the status associated with the exclusivity, such as the Paper E-Watch example in the previous article.

Equity-based crowdfunding exchanges 'levels of ownership' or shareholding in a new venture. This also allows existing businesses to increase their production and create scale faster and without paying upfront fees.

Research conducted by Beauhurst in the UK indicates that the two largest equity crowdfunding platforms, Seedrs and Crowdcube, together accounted for 21% of equity investment in 2017, and funded more than 250 companies. Their analysis shows that crowdfunding is now outperforming traditional private equity, and that better established companies are also looking to equity crowdfunding to fund expansion.

**Then came the ICO**

An Initial Coin Offering is not dissimilar to crowdfunding and it has the same objective, but here, crypto coins are traded in exchange for cryptocurrencies, allowing new businesses to bypass regulated processes while raising money. This form of fundraising requires an understanding of blockchain architecture.

But there are some differences. Most crowdfunding projects are limited to a region, whereas ICOs are more accessible and can trade in crypto coins globally.

For a start-up funder, the price of crypto coins is predesignated and cannot be changed during the ICO phase. Those who invest in an ICO receive tokens in return for their investment and this allows access to, and payment for, the platform and its services.

Ethereum is a cryptocurrency project that has raised $18 million in ICO and reached an approximate $1 billion market cap in 2016.

But, because cryptocurrency markets fluctuate and are unregulated, more due diligence is necessary than with traditional crowdfunding platforms. It is still a new technology and, for now, is skewed towards financing technology businesses.

**What does this tell us about the evolution of human psychology and how the world views traditional vs new?**

It is not news that Millennials and Gen-Z have, and are, using the Internet of Things to find better ways of doing things. From the way we watch TV to the way we order a taxi, businesses have adapted to meet their customers' needs and will continue to do so.

What crowdfunding provides that other forms of finance do not, are lower barriers to entry in a far bigger marketplace than ever before. The Internet provides a way to take some of the pain out of business finance, which was previously accepted as an unavoidable cost of doing business.

An entrepreneur with a great idea does need to prove that it is worthy of space on the crowdfunding platform and convince investors to back them. The investors then decide whether they want to participate or not. But no forecast is needed to prove how rich the idea will make investors or how quickly they will get their money back. And from an investor perspective, the risk is lower because of the potential scale and volume of contributors.

Investors can either be part of the success of the idea, become equity shareholders or get rewarded for participating, but there is no expectation of repayment.

Crowdfunding allows the creation of a relationship with funders, the opportunity to thank them personally and to continue a dialogue while building your business. The funders can become verifiers of your next ideas.

Humans warm to the idea of community, of contributing and of belonging, and this might be part of the drawcard of crowdfunding.

Technology and the Internet have created ways for the public to change/challenge/disrupt/hack everything we want and make it more convenient for us to obtain – all those inconveniences our parents thought they'd just have to put up with, be it buying a car, booking a hotel, a greater variety of TV programmes, arranging for a taxi service, social interactions, shopping and ordering food… and procuring money.