

# Crowdfunding



## An introduction to the basics of raising money for a project through online platforms

**KICKSTARTER**



### Introduction

Throughout the past few years, you've probably heard the term "crowdfunding," but like many others, are unaware of what it is or how it works. In actuality, it is exactly what it sounds like: raising funds from a crowd. The concept is a fairly new one and has recently taken the internet by storm with its achievements by helping individuals and groups find success in funding different projects and ideas.

The success of crowdfunding is mainly due to the aid of the technological giant, the internet, where many people all over the world have access and communicate or network with each other for a number of reasons, one simply being helping or advising others. Since crowdfunding has proven to be an effective tool for raising money for all sorts of ideas over a short period of time, the future of crowdfunding is expected to be much brighter than it already appears to be.

During the year 2012, an estimated \$2.7 billion USD was raised that allowed more than 1 million campaigns to be funded. This is an increase of 81% from the \$1.5 billion USD total money raised in 2011. Forecasters predict that in the year 2013, crowdfunding will produce more than \$5 billion USD in funds raised (*Massolution, 2013*).

With an increase of almost 100% projected for 2013, crowdfunding is becoming more and more of a valid option when figuring out how to fund a project.

### Background

As stated before, crowdfunding is a relatively recent concept, especially through the internet. The idea is said to have originated from the process of crowdsourcing, but it is important to understand that crowdsourcing involves receiving ideas from the public where crowdfunding involves receiving money from the public to help fund ideas.

The idea of crowdfunding was initially assumed to be a failure in the business world since many believed it would not find much success and help from the public. However, the concept did find much success once banks' lending criteria tightened and commercial financing became commonly unavailable to the average person.

Since the beginning, the government's involvement hindered, but then improved the ease of crowdfunding. At first, just private companies could ask for donations (usually large sums of money) from wealthier individuals or organizations, otherwise known as qualified investors. But now, thanks to the Securities and Exchange Commission, it was only until recently that entrepreneurs and start-up companies are able to solicit small investments over the internet from the general public.

Always seek legal advice before offering or soliciting funds in exchange for equity or the promise of equity. The laws can also vary from state to state so it is best to check before taking any action.



## So what exactly is crowdfunding?

Crowdfunding is a process where businesses, groups, or individuals will network with the public to find potential resources to help fund a business venture or cause. It usually takes place over the internet through a crowdfunding website, also known as a platform. The top three platforms are Kickstarter, Indigogo, and GoFundMe. Those asking for funds create a profile through a platform and explain their project and fundraising goals to the public. They then use other social networks and media to spread the word. There are three types of crowdfunding that are popular among these platforms:

### Donation

People invest simply because they believe in the cause. Donors usually only have personal motivation in helping support the cause and expect no reward at all or at least a simple thanks.

### Reward Based

People contribute more than they usually would in order to receive better rewards. A reward is often a product or pre-series item that the supporter helped produce by contributing money. Similar to pre-ordering a product or service.

### Credit Based/Equity Based

In exchange for contributions, pledgers receive an interest rate or a share of the company. Donation and reward based crowdfunding are more common through online platforms mainly because most of the platforms do not allow any form of monetary rewards to be offered.

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## How does crowdfunding work?

To fully understand, it is important to know who is involved in the process. Those parties involved are:

### Campaign Owners

The group or individual that requests the funding for a project.

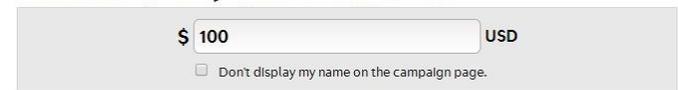
### Contributors

Also known as backers, pledgers, or supporters. Those who donate money to fund a campaign.

The crowdfunding process begins with campaign owners publicizing their project or idea through a platform. Campaign owners want to be as open and clear about their project so supporters know as much as possible about the idea and the intentions. This also helps because it gives contributors an idea of how much support is needed within a certain number of days before the campaign becomes successful.

If supporters like the campaign, they can donate whatever amount of money they want to fund the campaign. Contributors are usually people who share a common interest with the project.

How much would you like to contribute?



A screenshot of a crowdfunding contribution form. It features a text input field containing the number '100' and a dropdown menu set to 'USD'. Below the input field is a checkbox labeled 'Don't display my name on the campaign page.' which is currently unchecked.

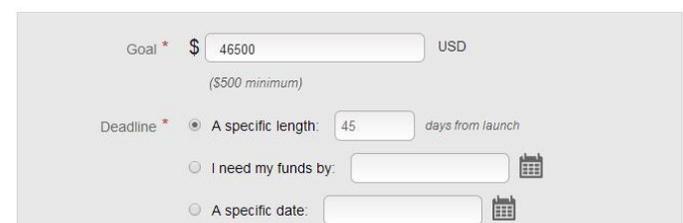
For a campaign to be successfully funded, the required amount of money, or the “funding goal,” needs to be raised within the time limit, or the “funding deadline.”



Both the funding goal and the funding deadline are set by the campaign owner when setting up the campaign through the chosen platform. Some funding platforms allow for a choice between flexible and fixed funding goals. Be sure to look over each option and make a decision based on your project. Ask yourself, if the goal is not reached, could we still deliver the proper perk rewards to our supporters?

### Funding Goal

Tell us how much you plan to raise and when you need it.



A screenshot of a crowdfunding form for setting a funding goal. It includes a 'Goal' field with a '\$' symbol, a text input field containing '46500', and a 'USD' dropdown menu. Below this is a note '(\$500 minimum)'. The 'Deadline' section has three radio button options: 'A specific length:' (selected) with a text input field containing '45' and 'days from launch'; 'I need my funds by:' with a date picker icon; and 'A specific date:' with a text input field and a date picker icon.

Funding Type \*  Flexible Funding

Keep the funds you raise, even if you don't reach your goal.  
Good if your project can use whatever amount of funds you can raise.

- You can receive funds via direct credit card or PayPal
- Your maximum campaign length is 60 days
- We charge a 4% fee if you reach your goal, and a 9% fee if you don't

Fixed Funding

Contributions are refunded if you don't meet your goal.  
Good if your project can't happen unless you reach your goal.

- You receive funds via PayPal only
- Your maximum campaign length is 60 days
- We charge a 4% fee if you reach your goal, and no fee if you don't, but you get no money

The campaign is complete on the day of deadline, not when the funding goal is met.



After a campaign is successful, the reward system comes next. Just like the funding goal & funding deadline and other basic campaign information, rewards/perks are set to be given to supporters as thanks for their contributions. Rewards can range from something minor, like a formal thank you, to something major, like the product you are trying to get funded, depending on how much money is contributed. The type of reward and the price it goes for are both set by the campaign owner.

## The do's & don'ts of campaigns and rewards

It is important to make sure that your campaign complies with the "Terms of Use" of each platform. Not all platforms have the same rules, but most are very similar. Be sure to read through each site's legal documents to make sure your campaign is allowed.

### Campaign Specifications

#### What can be campaigned?

- » Creative Projects (artwork, product design,
- » Fashion, music, video, books, games, etc.)
- » Events (concerts, plays, other forms of gatherings)
- » Causes (nonprofit campaigns, political campaigns, financing campaign, disaster relief, etc)

#### What cannot be campaigned?

- » Funding for illegal activities
- » Funding that causes harm to people/property
- » Funding intended to scam others
- » Funding for scholarships, bills, etc.
- » Funding that promotes violence, degradation, or hatred against others

#### Reward Specifications

- » Must relate back to campaign or campaign owner's business
- » One reward per tier, unless it comes in a set
- » No financial incentives
- » No drugs or alcohol
- » No weapons or weapon accessories
- » No items promoting hate, personal injury, death, or damage to others/property.
- » No item that would violate the law or another person's rights

## Benefits of crowdfunding for campaign owners & backers

### Campaign Owners

- » Successful projects build good reputation  
*Backers will see success and follow*
- » Free form of publicity
- » Positive feedback from the public before project release  
*Backers can offer advice in the middle of campaigns for potential improvements*
- » Minimizes tedious fundraising process so entrepreneurs can focus more on business
- » Backers are likely to pass along good ideas to the campaign owners because they have a vested interest in the success of the project  
*A literal example of giving the people what they want*
- » Can help launch a project with ease when there is little capital to spare
- » Also gives campaign owners an idea of how successful their idea is before fully releasing it onto the market
- » A great alternative in raising capital without giving up equity or accumulating debt

## Backers

- » Can receive much more at a lower price  
*Depending on the rewards set by the campaign owners, contributions can sometimes net more than what would originally be offered if the product were bought on the market*
- » Are able to shop for unique products that can't be found anywhere else
- » That great feeling after helping someone!

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## Risks for campaign owners and backers

### Campaign Owners

- » Avoiding great feedback from the professional critics (investors)
- » Lack of necessary information on platforms can hurt campaign success significantly because supporters are not getting enough information or can assume campaign is a scam
- » More ideas get funded that cannot possibly return capital and will fail on the market. Too many failures will give crowdfunding a bad rap
- » Reputation at risk if campaign owners fail to meet campaign goals or fail to give rewards after a successful campaign. Failure to meet funding goal will result in a large fee, unless earnings are refunded, which in turn means no money. There is still a fee if the goal is met, it is just less
- » Due to concerns of idea theft, campaign owners are sometimes reluctant to publicly announcing important details of their project
- » Using the same network of supporters constantly can cause them to cease their support

### Backers

- » Can fall victim to scam campaigns
- » Can miss out on awesome rewards if campaign is unsuccessful.

### Disputes between both parties

- » Platforms are not responsible
- » Campaign owner contact information can be given to supporters for personal resolve
- » Contributions can be delayed, withheld, reversed, or refunded if there is breach of contract  
*This is usually the case when dealing with scams*

## Keys to Success: Important things to remember before/while crowdfunding

It's important to tell the story of the campaign. Explaining the steps taken in between the ideation process and the current state tells supporters where you are in your production process. Telling the backers about alterations made along the way in the concept or the design, including achievements and milestones, proves to them that you care about your idea and moving it forward. Also, informing pledgers about personal/company background reassures them that you're the real deal.

It is also important to give as much information and detail as possible to avoid confusion among supporters and to better promote the campaign. Providing images and videos of the project's progress is definitely recommended, as it showcases the project's unique qualities and its functionality. However, campaigns with videos are dramatically more successful than ones with just images.

### Your Story

Tell potential contributors more about your campaign.



When expressing the funding goal and funding deadline, explain what the funds are being used for and how you decided on the length of the funding period. Campaign owners need the trust of supporters if they want their help with funding. Supporters are more likely to trust a campaign owner if they have a detailed, well laid out plan of attack for the project once the funding is reached. Present this information in an easy to read format.

If the goal is not met, it is important to tell the supporters whether or not their funds will be refunded and how you plan to proceed.

To avoid not reaching your funding goal, the goals need to be realistic based on the minimum amount needed to move into production comfortably. In addition to a well calculated funding goal, the length of the funding period is a major factor. Sometimes a longer funding period is not as beneficial, and the pros and cons of the funding period need to be weighed on a per project basis.

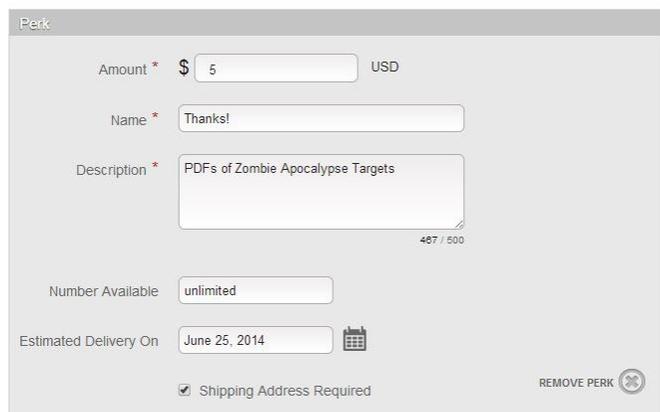
Stretch goals can also be implemented to a project to help entice potential supporters into actually backing the project, or get people who are already supporters to pledge even more in hopes of reaching the stretch goal. Stretch goals can include more features, different colors, different markets, etc.

Having reasonable yet exciting rewards is a vital factor and is what gathers the crowd. The most common pledge is about \$25 and the average pledge amount is about \$70. Knowing this, it is best to plan and bring out the greater rewards that people would be excited about between this range so that campaigns can earn as many contributions as possible.

Many campaigns have a low level perk that allows almost anyone to back to the campaign. This perk tier usually ranges between \$1-5, and consists of easily deliverable rewards, such as a thank you from the owner, a digital good, or the backer's name listed in the credits.

## Your Perks

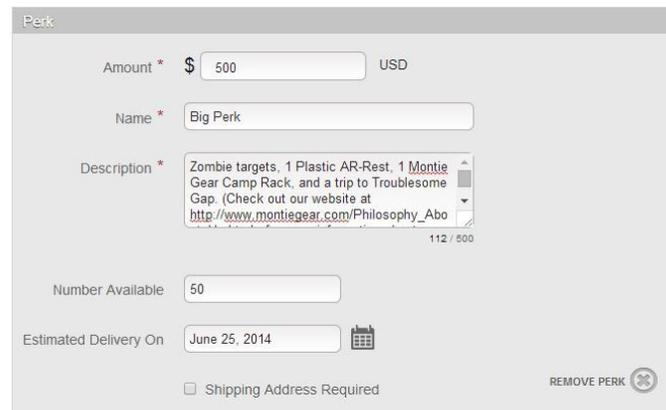
Let folks know what they get in return for supporting you. You can have up to 20 active perks.



The screenshot shows a 'Perk' creation form with the following fields: Amount: \$ 5 USD; Name: Thanks!; Description: PDFs of Zombie Apocalypse Targets; Number Available: unlimited; Estimated Delivery On: June 25, 2014; Shipping Address Required: checked; REMOVE PERK button.

Be sure to have an appropriate number of perk tiers for your campaign. Too many options can get confusing and discourage potential supporters. Having

graphics to illustrate tiers is a common solution. It's also a good idea to have an even greater reward set at a higher pledge amount for those backers who really want to help or want to get their hands on that reward. This helps campaign owners occasionally raise large amounts of money at one time.



The screenshot shows a 'Perk' creation form with the following fields: Amount: \$ 500 USD; Name: Big Perk; Description: Zombie targets, 1 Plastic AR-Rest, 1 Montie Gear Camp Rack, and a trip to Troublesome Gap. (Check out our website at [http://www.montiegear.com/Philosophy\\_Abo](http://www.montiegear.com/Philosophy_Abo)); Number Available: 50; Estimated Delivery On: June 25, 2014; Shipping Address Required: unchecked; REMOVE PERK button.

Finally, know the target audience. The marketing of the project should be projected towards the audience that is most likely going to support the idea. Revolving the rewards around the audience is also a smart idea. Keeping the backers updated and intrigued about the project could lead to them spreading the word about the project as well.

Successful campaigns are backed up by campaign owners who effectively get the word out to potential backers. Talk to potential backers every way you can. Use social media such as Twitter and Facebook, but don't forget enthusiast forums and trending news websites (e.g. Reddit). Traditional approaches such as press releases and new stories can also be great ways to gather contributors. It is just a matter of finding and reaching out to those people.

## Start your campaign and get funded!

