

TARGET FUNDING BONUS CHAPTER

Crowdfunding

Crowdfunding is a method of raising capital for a specific purpose by soliciting small contributions from numerous individuals (*backers*), both familiars and strangers. One of the most famous historic crowdfunding campaigns in America was that of Joseph Pulitzer in 1885, who ran ads in his newspaper requesting donations to pay for the base of the Statue of Liberty. Pulitzer succeeded in raising the needed funds from 160,000 donors over five months.

Today's tech-enabled version of crowdfunding emerged after a British rock group raised \$60,000 in online donations from fans to fund the band's reunion tour in 1997. That one-off, independent crowdfunding effort was followed in 2003 by the launch of ArtistShare, a crowdfunding website for artistic endeavors of varying types. Since then, online crowdfunding has evolved, diversified, and gained steam, and is now used to fund creative ventures (works of art, concerts, films, etc.), philanthropic ventures (causes, projects, organizations), and commercial ventures (products, startups, businesses).

As a rule of thumb, crowdfunding is well suited for raising funds to launch a new product or product line and to launch or expand a business that sells a tangible product or subscription service. That said, service businesses—such as green-tech dry cleaning and adventure travel agencies—are also successfully crowdfunding.

More than 300 crowdfunding platforms are currently in operation in the United States. The number of crowdfunding platforms continue to rise—as do the volume of funds raised and the number of businesses raising capital on crowdfunding platforms.

As you might suspect, crowdfunding platforms are not created equal. Many crowdfunding portals provide an above-board, easy-to-use, and effective way to raise funds to help launch or grow a business. Unfortunately, there have also been some inferior crowdfunding sites out there, which tend to open and fold in short order.

Most crowdfunding platforms offer one or two of four different crowdfunding models:

- **Donation-Based:** Donors pledge gifts of money or resources, receiving nothing in return other than a public acknowledgment for their tax-deductible contribution. Donation-based crowdfunding is used to raise money for an individual or family in crisis, a charitable cause or project, or a nonprofit organization. Rarely do philanthropic-focused crowdfunding platforms allow entrepreneurs to raise capital on their sites, and rarely is donation-based crowdfunding effective for for-profit projects.
- **Debt-Based:** The fundraiser pays back the money lent plus interest to lenders within a designated timeframe. With debt-based crowdfunding, also known as *peer-to-peer (P2P) lending*, the crowd may be comprised of financial institutions, investment groups, or individual investors. Debt-based crowdfunding platforms are regulated, and the majority make loans only to entrepreneurs and established businesses deemed creditworthy. Borrowers with less than ideal credit who are approved typically pay high interest rates and must secure the loans with assets.
- **Equity-Based:** Backers buy an ownership share in the business or provide other equity financing, such as royalties, a convertible note, or a revenue-based loan. Some equity-based platforms, also known as *investing marketplaces*, allow only accredited investors to back founders/firms on their sites; some allow both

accredited and nonaccredited investors. Equity-based crowdfunding is popular with startups and young businesses with high growth potential. It is also becoming more popular with established high-growth businesses that are seeking capital to expand. Most small businesses, sole proprietorships, and independent inventions do not meet the investment criteria of accredited crowd-investors.

- **Rewards-Based:** Backers are rewarded with *perks*—such as a sample product, gift certificate, discounts, or other token of appreciation. Some rewards-based platforms curate (vet and choose) the projects funded on their sites, but many are open to any legal project that fits their general focus. Rewards-based crowdfunding is the most popular and successful crowdfunding method for creatives, entrepreneurs, inventors, startups, and small businesses—including those that do not qualify for debt and equity funding.

Each crowdfunding platform also focuses on specific types of ventures, and a reputable crowdfunding platform that is spot on for one product or business may be unsuitable for another. Some crowdfunding platforms target a certain diversity demographic—such as minorities, women, or veterans. Others target a certain country, state, or community. Some crowdfunding platforms are also curated—meaning, potential fundraisers are vetted and must be approved by the crowdfunding company.

Another thing to consider is that just because a crowdfunding platform supports ventures like yours doesn't mean it is the best choice for you. The platform may not draw the type of backers or enough potential backers for your funding needs. Or the site may be so crowded with active campaigns or so poorly organized that it is difficult for your business stand out in the crowd or for potential backers to find you.

That's why it is every bit as important to target the best possible crowdfunding program for your venture as it is to target any other type of funding for your business.

What Color Is Your Crowdfunding

Choosing a crowdfunding platform that aligns with your variables and funding strategy increases the likelihood that your crowdfunding campaign will raise the capital you seek *and* reap the added benefits of effective crowdfunding—such as concept validation, pre-sales and sales, and brand ambassadors.

To help you hone in on the best crowdfunding platform for you, investigate and consider these eight key factors:

1. **Does the platform support and have a successful track record of funding campaigns for business ventures?** If a crowdfunding platform focuses solely or primarily on charitable and nonprofit fundraising, it's probably not an option for you—unless you're a social entrepreneur and your venture aligns with the platform's focus. Look for crowdfunding platforms that specifically target businesses.
2. **Does the platform offer the crowdfunding model best suited to your funding strategy?** A donation-based campaign is not likely to be accessible or fruitful for business funding. Whichever of the three other crowdfunding models you choose—rewards-, debt-, or equity-based—look for crowdfunding platforms that offer and has successfully funded campaigns with that model.
3. **Does the platform support your industry?** All crowdfunding platforms specify the industries on which they focus. Some cover a broad range of categories; others

only a few. Look for crowdfunding platforms that not only target your industry or sector but also have active and successfully completed campaigns in that market.

4. **Does the platform target entrepreneurs of a certain diversity group with which you identify?** When a crowdfunding platform targets a specific economically or socially disadvantaged group, such as minorities, women, veterans, or low-income/low-wealth individuals, it typically attracts backers who seek to invest in entrepreneurs of that demographic. In that case, diversity can give you a crowdfunding advantage.
5. **Does the platform target companies in your geographic area?** Most crowdfunding platforms have either a global or national reach, targeting several countries or a particular country. Some, though, are “intrastate” crowdfunding platforms, or *portals*, that target businesses in a particular state or community within the United States.
6. **When are contributions collected from backers and distributed to the crowdfunding campaign creator/manager?** Some platforms collect and disburse funds only if and when the funding goal is reached—known as *fixed funding* or an *all-or-nothing* model. Other platforms collect and disburse funds when the campaign ends, even if the target amount is not reached.
7. **Are the fees transparent and within your budget?** Costs vary from platform to platform. Some crowdfunding platforms charge a percentage of funds raised; others charge a monthly fee. Most also charge third-party credit-card transaction fees. Be aware of set-up and promotional fees, and look for hidden fees. With debt-based crowdfunding, pay attention to interest rates and loan origination fees.

With equity-based crowdfunding, pay attention to term sheets, processing, and investment management fees.

8. **Is the platform active and successful?** The ideal crowdfunding platform receives a substantial number of unique visitors each month and has a highly engaged community of active campaigners and backers. Check the number and progress of active campaigns on the platform as well as the number, amounts, and completion dates of successfully funded campaigns. Check industry reviews and ratings of the most active and effective crowdfunding platforms for ventures like yours and entrepreneurs like you.

Since donation-based crowdfunding is not a viable option for the majority of for-profit ventures, I encourage you to investigate debt, equity, and rewards crowdfunding platforms that focus on ventures like yours. Let's delve a little deeper into those crowdfunding models and look at a few of the leading crowdfunding platforms for businesses.

Debt-Based Crowdfunding Platforms

For established businesses with decent credit scores and the ability to secure their loans, debt-based crowdfunding platforms offer the benefit of fast and easy access to debt funding—with loan decisions and disbursement typically made within one day and one week, respectively. Most offer short-term loans with fixed interest rates. Eligibility criteria, loan amounts, interest rates, terms, and platform fees (typically, an origination fee) vary from site to site and borrower to borrower. The most popular debt-based crowdfunding platforms for established, credit-worthy businesses are Funding Circle, Lending Club, Lendingtree, and Upstart. Funding Circle and

Lending Club allow both accredited and non-accredited) investors/lenders. Upstart, which targets young entrepreneurs and young businesses, has the most flexible qualification standards.

Many crowdlending platforms are inaccessible to startups and “unbankable” entrepreneurs and enterprises. Those borrowers might qualify for a loan from a nonprofit crowdlending platform, such as Kiva and Opportunity Fund, that focuses on businesses owned by economically or socially disadvantaged entrepreneurs or from a community-based platform, such as Lendoor.

Funding Circle

Funding Circle, the world’s first and one of the largest debt-based crowdfunding platforms for small and midsize businesses, operates in the UK, US, Germany, and the Netherlands. Its investor/lender base includes more than 70,000 accredited and retail (nonaccredited) investors around the globe. Funding Circle offers business term loans of \$25,000 to \$500,000, with fixed interest rates of 4.99 percent to 27.99 percent and repayment terms of 6 to 60 months.

Origination fees range from 0.99 percent to 6.99 percent of the principal. Loans can be used for expansion, premise improvement, equipment purchase, hiring, and other business expenses as well as for working capital.

Kiva US

Kiva is a nonprofit organization that provides access to economically and socially disadvantaged entrepreneurs around the globe. Kiva “believe[s] in character over credit and the power of community-based lending.” The Kiva crowdfunding platform enables qualified entrepreneurs in the United States to raise up to \$10,000 in interest-free loans with 36-month repayment terms.

The entrepreneur must apply and be approved by Kiva. If approved, the borrower first conducts a 15-day crowdfunding campaign on Kiva targeting family and friends (by invitation), after which the borrower can “go public,” opening their campaign to the more than 1,600 backers/lenders on Kiva for up to 30 days.

Equity-Based Crowdfunding Platforms

The United States has more than 35 registered equity-based crowdfunding platforms, on which thousands of accredited investors make equity investments and sometimes loans to qualified companies. Some are Regulation Crowdfunding (Reg CF) registered platforms, which enables companies to raise capital from both accredited and retail investors. Just remember that each investor is buying a small share of your business. In addition, equity crowdfunding platforms charge either a monthly fee for the duration of the campaign or a percentage of the total funds raised.

Four of the top-producing equity crowdfunding platforms are Elequity (RocketHub), SeedInvest, StartEngine, and WeFunder (profiled, by way of example, below). Other leading equity-based crowdfunding sites include Crowdfunder, EquityNet, FlashFunders, Fundable, NextSeed, Republic, and uFunding.

WeFunder

Founded in 2012, WeFunder—which bills itself as “the Kickstarter of equity crowdfunding”—is, to date, the country’s most successful Regulation Crowdfunding site, allowing both accredited and nonaccredited investors to invest in offerings on the site. More than 150,000 accredited investors are registered members of WeFunder. The platform targets U.S.-based, high-growth

startups and early-stage companies in a wide range of sectors—from agriculture to education, hardware, health, restaurants, technology, “moonshots,” and more. WeFunder does not curate applicants but does prescreen to ensure against fraud and that its rules are followed.

Companies can raise from \$50,000 to \$50 million on WeFunder, which uses a fixed (all or nothing) funding model. There is no cost to create a profile. If the funding goal is reached, WeFunder charges 7 percent of the total fundraiser. No investment deals are transacted and no fee is charged if the funding goal is not reached.

One of the things I like about WeFunder is its Opportunity Fund initiative, which recruits and supports companies in designated Opportunity Zones to raise investment capital on the platform. Opportunity Funds emerged as part of the Tax Cuts and Jobs Act of 2017, to encourage investment in businesses located in or locating to economically distressed communities designated as Opportunity Zones. More than 50 states and Puerto Rico have targeted Opportunity Zones.

Rewards-Based Crowdfunding Platforms

Three of the most popular and top-rated platforms for equity-based crowdfunding for entrepreneurs, independent inventors, product design companies, and small businesses are Crowd Supply, Fundable, Indiegogo, and Kickstarter.

Kickstarter

Headquartered in New York City, Kickstarter is an international crowdfunding platform supporting “creative projects in the worlds of art, comics, crafts, dance, design, fashion, film/videos, food, games, journalism, music, photography, publishing, technology, and theater.”

Every Kickstarter campaign must be a project with a clear goal, such as creating a video game, clothing line, or tech-enabled product with the intent of producing and marketing it. The project creator retains full control and responsibility for completing the project; Kickstarter is not involved in project development.

The funding amount (goal) and campaign duration are set by the creator. Kickstarter uses a fixed funding model (all or nothing). If the funding goal is not met, no pledges are collected and no fees are charged. Kickstarter's platform fee is 5 percent of total funds raised. Third-party processing fees are 3 percent plus \$.20 per credit card transaction for pledges of \$10 or more. For pledges under \$10, the credit card processing fee is 5 percent plus \$.05 per transaction.

How One Startup Raised \$383,000 in Four Crowdfunding Campaigns

Lisa Curtis got her first taste of the nutrient-rich leaves of the moringa tree while she was a Peace Corps volunteer in Niger. She mixed the moringa leaves with a popular peanut snack called *kuli-kuly*, which relieved the fatigue she'd been experiencing. Upon returning to the United States, Lisa and cofounders Valerie Popelka, Jordan Moncharmont, and Ann Tsuei launched Kuli Kuli® Foods, a for-profit social-impact company, to help women in West Africa earn a sustainable living by selling a portion of their moringa harvests in the United States. I came across Lisa's story on Unreasonable, a "digital media platform leveraging the power of story to impact the world's toughest challenges"—among them, funding a startup. I found Lisa's story so engaging and inspiring that I asked her permission to share it here, as a shining example of tenacious and targeted business funding. Here is Lisa's story, in her own words.

For Kuli Kuli, it didn't make sense to seek investments when all we had was an idea and a few months of consumer testing data. The food market is extremely competitive. No investor would put money behind a totally unproven new superfood product founded by a bunch of twentysomethings.

But we knew we had a story. And crowds love stories. So we put together a crowdfunding campaign on Indiegogo explaining how I began working with this amazingly nutritious plant, moringa, in the Peace Corps and then started selling it in the U.S. to support women in West Africa. At the last minute, a friend convinced us to change our goal from \$20,000 to \$50,000. I stayed up all night worrying we wouldn't hit it. But we reached \$24,000 in 24 hours and ended our campaign with \$53,000. In the process, we had also evangelized 800 new customers who cheered as we moved from a kitchen to a factory and eventually delivered their Kuli Kuli Moringa Superfood Bars.

Nine months later, when our bank account dipped dangerously close to zero as we struggled to keep up with demand, we again turned to the crowd. More than 200 people pitched in for a one-year, zero-interest, \$5,000 loan through Kiva.

We were now in more than 50 stores across Northern California and were doing increasingly well online. But the little capital we had was tied up in manufacturing, and so we still weren't able to pay ourselves. We'd kept our business as lean as possible but couldn't stay that way forever.

This time we went the traditional route. I went to pitch events, stalked people on LinkedIn, and set-up countless coffee dates. (I don't even drink coffee). I got nowhere. The

combination of being young, female, and in the food industry meant that I got a lot of “that’s a cute idea.” People don’t put thousands of dollars into “cute ideas.”

And then it struck me that perhaps I was doing something wrong. I’m not terribly good at being assertive. My voice naturally goes up at the end of my sentences. I have trouble convincing investors that I’m going to make them millions because I honestly have no idea what’s going to happen in five years and I’m a bad liar. In other words, I have many characteristics associated with being a woman.

But I’m really good at building movements. So I took the few investors who’d expressed interest in us and convinced them to help us kick off a crowdfunding equity round with an amazing platform called Agfunder.

In typical crowdfunding fashion, the majority of our money came in on the first day and the last day. I finally had a ticking time bomb in the form of an all-or-nothing crowdfunding campaign to convince investors that they needed to make a decision before the deadline.

At the same time, we found out that we were a finalist in the \$25,000 Ledbury Launch Fundⁱ competition. The winner was to be determined by the [Ledbury] crowd.

The crowds came through on both fronts. [Kuli Kuli won first place in the Ledbury competition.] In less than two weeks, we raised more than \$300,000 [on Agfunder]. Better yet, we now had literally thousands of people who felt like they had a stake in our company, whether they voted for us through Ledbury or invested \$25,000 through Agfunder.

So I just spent the long Fourth of July weekend celebrating not just the U.S. but the incredible community that’s turned my dream into a thriving business. It is my hope that

crowdfunding will enable many more entrepreneurs to realize their own version of the American dream.

Niche Crowdfunding Platforms

A relatively small but growing number of crowdfunding platforms focus on a particular industry, diversity group, or community.

Industry-Specific Crowdfunding Platforms

The first crowdfunding platforms were aimed at a particular sector of the entertainment industry, such as music or film. Today, there are crowdfunding platforms targeting a number of different sectors.

- **Apps:** Appsfinder, Appsplit, AppVested
- **Arts & Culture:** Patreon, PledgeMusic, Seed & Spark, Sellaband, Slated
- **Cannabis:** Fundanna and Cannafundr
- **Energy & Environment:** GreenFunder, GreenUnite, Mosaic, Sunfunder, WorthWild
- **Farming:** BarnRaiser US, FarmFundr, Harvest Returns, Steward
- **Fashion:** Before the Label, Bonfire, Crowdfunding Factory
- **Food & Beverage:** Agfunder, Cruzu, Equity Eats, FoodStart, PieShell
- **Franchising:** ApplePie Capital, BrandCrowder (Group Franchising,
- **Health & Wellness:** BIOStartr, Dodo, MedStartr
- **Science & Technology:** Experiment, Microryza, SeedInvest

Diversity-Specific Crowdfunding Platforms

Following are a few examples of crowdfunding platforms that target entrepreneurs of a certain diversity demographic. For additional examples of diversity-focused crowdfunding platforms, please see Part Two (Diversity Funding) of this book.

- **Minorities:** BlackCrowdFunders, BBnomics
- **LGBT:** GetGayFunded, PinkStart, Rainbow Campaign
- **Veterans:** Help Fund a Vet (HFAVET), Military Starter, StreetShares, VeteranCrowd
- **Women:** Grameen America, iFundWomen, Plum Alley, WomenYouShouldFund

Location-Specific Crowdfunding Platforms

Community-based crowdfunding platforms exist in virtually every state and in many local communities throughout the United States. These platforms are often collaborative partnerships between state government agencies, community development corporations, and/or nonprofit community financial institutions. Here are a few examples.

- **Business Funding Texas (BFT):** This equity-based crowdfunding portal is owned and operated by BusinessFunding, LLC, a Texas-based fintech company. On BFT, early- and growth-stage companies located in Texas can raise investment capital from local investors (primarily accredited), residing and/or doing business in Texas.
- **FundLocal:** This debt-based crowdfunding platform is an initiative of Washington State Department of Commerce in partnership with Community Sourced Capital. With FundLocal, small businesses in the state's 39 counties can crowdfund zero-interest loans from members of their local communities.

- **Hatch Oregon:** This equity-based crowdfunding platform is an initiative of Hatch Innovation, a nonprofit ecosystem-building organization, in partnership with Community Coalition of Community Capital (N3C) and One Coalition. With Hatch Oregon, entrepreneurs and small business owners in the State of Oregon can raise up to \$250,000 in investment capital from community members via a community public offering (CPO).
- **VestLo:** This equity-based crowdfunding platform is owned and operated by VestLo, a fintech company located in Darien, Illinois. The VestLo portal enables entrepreneurs and small business owners residing and business in Illinois to raise investment capital from accredited and/or nonaccredited investors residing in Illinois.

 **Learn how to crowdfund from the pros.** Creating and running an effective crowdfunding campaign to fund the launch or expansion of a business is a lot more complicated than raising funds on GoFundMe to help pay for your daughter's kidney transplant. That said, it isn't rocket science, either. You can learn the ropes and acquire the skills of putting together and running a great campaign from myriad sources—starting with the platforms you are considering and the one you ultimately choose. All of the leading crowdfunding platforms have campaign handbooks and oodles of online content on crowdfunding best practices and insider tips. Most platforms also offer free assistance as well as expert services you'll pay extra for. You'll also find plenty of how-to articles and blogs online as well entire books on how to succeed at crowdfunding. Once you learn the mechanics, it all boils down to telling the crowd a compelling story about your amazing venture and inspiring them to be part of its success.

ⁱ Ledbury, a men's luxury shirtmaker, established the Ledbury Launch Fund in 2014, an annual business competition for entrepreneurs in the consumer sector that awards a cash prize of \$25,000 and mentorship.