

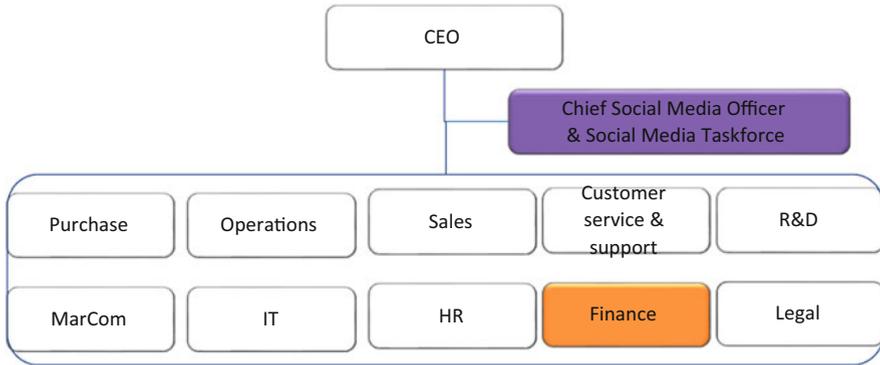
This chapter elaborates on crowdfunding, which is a new funding mechanism for organizations and entrepreneurs to raise small amounts of money from the crowd as micro-investors (instead of a large amount of money from the bank or a few macro-investors). Although crowdfunding may still concern a loan that needs to be paid off, an increasing number of crowdfunding projects only focus on giving rewards in return. This chapter discusses the history and rise of crowdfunding. The reader gets to know the different types of crowdfunding projects, which are linked to different platforms. Besides giving general tips and tricks for doing a crowdfunding project, this chapter looks at legal issues and risks that are linked to crowdfunding.

This chapter particularly moves to the finance department of an organization by discussing how money can be raised through crowdfunding (Fig. 10.1).

---

## **10.1 Introduction to Crowdfunding**

Nowadays, an increasing number of people have innovative ideas that they wish to put on the market. Maybe you are an enterprising person too, who has written a song, book, or film yourself, developed a game, or want to create a start-up to sell handmade items (e.g., jewelry or clothes). Many people have dreamed about it, but they frequently lack money for realizing the dream. Starting a new business or realizing an innovative business project entails some investment risks, and banks or macro-investors are not always willing to throw themselves into an adventure and grant a loan. Nonetheless, from now on, such dreams can come true by means of crowdfunding. In other words, when many people (e.g., relatives, friends, colleagues, acquaintances, etc.) invest a small amount of money in a project, then a large amount of money can be raised too (i.e., without having to rely on a bank or a big investor). Hence, crowdfunding projects will collect money from the crowd and thus differ from the traditional way of investing.



**Fig. 10.1** The multidisciplinary approach of crowdfunding

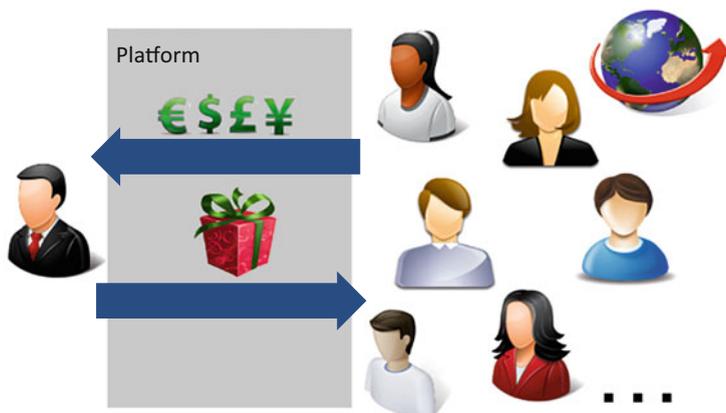
An important challenge faced by crowdfunding projects is finding sufficient investors. Assume that you have €1,000 of extra cash on your bank account which can be spent on other things than taxes, food, or other basic needs. In which novel projects would you probably invest €1,000?

- Maybe you will be convinced if the entrepreneur passed a fraud check and can be considered trustworthy or if the project was proposed by an award-winning entrepreneur, let's say "Manager of the Year."
- If not yet convinced, maybe you will invest if the entrepreneur shows a thorough business plan which stipulates the problem to be solved, how the final product can solve that business problem, a calculation of costs, a planning with milestones, and the percentage of equity (ownership) an investor will get.
- Or maybe you will only invest if the entrepreneur is someone you know, such as a relative, friend, or acquaintance.
- What if you can decide to invest a smaller budget, e.g., €500, €50, or €10 (instead of €1,000)?

Such arguments may convince people to invest, and that is what crowdfunding is all about (Cassady-Dorion et al. 2012).

Crowdfunding tries to raise small amounts of money from a large crowd without gatekeepers. In return, the micro-investors can get a reward (e.g., a T-shirt) or they can even become a shareholder. As anyone can invest, a synonym for crowdfunding is "fan funding." The synonym refers to the fact that an entrepreneur needs to convince people and make them excited about the entrepreneur's idea in order to become a fan and maybe an investor or even an advocate who influences other people to invest too. Figure 10.2 illustrates that crowdfunding distinguishes the entrepreneur on one side and many micro-investors on the other side.

The entrepreneur should try to convince the crowd by using the advantages of social media. In other words, he/she "pitches" the crowd or tries to convince others by clarifying his/her identity, idea, business plan, and what the micro-investor will



**Fig. 10.2** An introduction to crowdfunding

get in return for the money. The micro-investor has power as he/she can choose whether or not to invest. Particularly, money will only be invested if the micro-investor believes in the idea and the corresponding business plan of the entrepreneur. Therefore, before investing, an open dialogue should be created, in which the crowd can ask questions about the project in order to critically review and rate the entrepreneur's idea.

Crowdfunding is usually characterized by an “all-or-nothing” approach, except for charity projects which will rather use a “keep-it-all” approach. The former means that only if the entrepreneur raises 100 % of the funding target, the project is actually funded and money will be exchanged. Hence, if an entrepreneur cannot convince enough people to invest in a project, he/she cannot start working with the funds that are already raised as the risks for failure would be too high and the investors would be more likely to lose their money. As such, the “all-or-nothing” approach of crowdfunding is a guarantee for the micro-investors.

In sum, crowdfunding relies on social networks in which connections can make online payments and this 24/7 (i.e., not limited to office hours). As such, crowdfunding can be an efficient way of finding investors, and it is highly accessible for many people around the world. Moreover, investing in a crowdfunding project is meant to be fun, as the micro-investors can get perks (rewards) and feel connected to a project by seeing it grow.

## 10.2 Defining Crowdfunding

Definitions for crowdfunding share some common elements, as indicated in bold:

- “Crowdfunding is the practice of **funding a project or venture** by raising many small amounts of **money** from a large number of **people**, typically via the **internet**” (Forbes 2012b).

- “Crowdfunding is the collective effort of **individuals** who network and pool their **money**, usually via the **internet**, to support **efforts** initiated by other people or organizations” (Wikipedia 2013).
- “Crowdfunding is the practice of getting a large number of **people** to each give small amounts of **money** in order to provide the finance for a **business project**, typically using the **internet**” (Cambridge Dictionaries Online 2014).

Based on the definitions, crowdfunding typically is about (1) raising money (2) for funding, financing, or investing in efforts, e.g., a business project or a venture, (3) from a large number of people or individuals and (4) via the Internet. Crowdfunding can be used for a wide variety of activities, e.g., for charity or disaster relief, citizen journalism, supporting artists by fans, political campaigns, start-up company funding, software development, R&D, civic projects, etc.

Crowdfunding is related to the larger concept of **crowdsourcing**, which refers to outsourcing to the crowd in the hope to save money in an organization’s way of working. As with traditional outsourcing, crowdsourcing refers to a function that was previously performed by an internal employee (e.g., a translation service) and that will now be performed by an external party. But unlike the traditional outsourcing, an open call is made to the crowd (e.g., on a public forum, instead of to a limited number of potential partners) (Howe 2009; Klososky 2011). Crowdsourcing can also be used in the context of social innovations and R&D (see Chap. 5 on social CRM).

The characteristics of crowdsourcing can be directly translated to crowdfunding, namely:

- Instead of a function, crowdfunding implies funding a project.
- Similar to crowdsourcing, crowdfunding relies on the crowd.
- Crowdfunding also refers to an open call on the Internet and by using social media.

Hence, crowdfunding can be seen as an application of crowdsourcing. A crowdfunding project typically works as follows.

- First, an entrepreneur wishing to start a crowdfunding project needs a recognized crowdfunding **platform** on which a web page can be created to promote the project. A crowdfunding platform can be considered as a social media tool that offers a “wall” to each user and this “wall” is publicly accessible to the crowd.
- On the project page, the entrepreneur gives **information** about the project (called the “pitch”). The more information is given, the greater the chance of funding. The information is not necessarily limited to text but frequently contains pictures and may start with a video to get the attention of potential investors.
- The entrepreneur should stipulate **perks**, which define what people get in return for their investment. Such recognitions can take many forms and usually depend on the amount of money that a person invests in order to stimulate people to

invest more money. For instance, in the context of a project on game development, the investor's name can be mentioned in the game credits when investing €5, while the investor can become a beta tester of the game as from €10. For a larger amount of money, the investor can also get a poster or a T-shirt, for instance.

- Next, the entrepreneur should mention the targeted amount of money he/she needs to raise and how much money has already been raised. The latter are called the **pledges** towards a goal. For instance, assume that a project needs €13,000 and that €4,616 has been pledged so far. This amount of money is invested by 41 micro-investors, called **backers**. This example can be expressed as “41 backers have pledged €4,616 of a €13,000 goal, and there are still 27 days to go.”
- Most crowdfunding projects use an “all-or-nothing” approach (instead of a “keep-it-all” approach), which means that the backers will only exchange money if the targeted amount is raised within the deadline. As such, the micro-investors are protected from projects with a high risk of failure.
- Finally, a crowdfunding project has a separate section for **comments**, which backers or other people can use to ask questions to the entrepreneurs (e.g., about the business plan). This is an opportunity for the entrepreneur to convince people to invest in the project by building trust. The entrepreneur should create a network of fans who believe in the project by responding to questions and by letting people feel part of the project.

---

## 10.3 Origins of Crowdfunding

Crowdfunding has its origins in the mid-2000s. It became more popular during the recent economic crisis that started around 2008 in the USA and that spread to the rest of the world. By then, many organizations were facing problems with finding investors. Financial institutions were less likely to grant a loan to novel business ideas, and also government subsidies had been reduced. Consequently, organizations had to find other ways to finance their projects. While the economic crisis resulted in financing problems for many organizations, citizens still had savings on traditional bank accounts with only a low return. As such, crowdfunding was initiated as a win-win situation for organizations and citizens to find each other. Meanwhile, the popularity of crowdfunding has significantly risen worldwide.

Crowdfunding is a relatively new funding model that contrasts with the traditional funding sources (Crowd Valley 2012). The typical funding sources can be arranged according to their amount of money invested and their desire for control and information, ranging from family and friends, over “Seeds” and “Incubators,” to “(Super) Angels” and traditional “VCs” (i.e., “venture capitalists” or “venture capital investors”) (Smerik 2012). VCs typically invest the largest amount of money compared to Angels, Incubators, or just family and friends. Being a new funding source that rather targets small amounts of money from many micro-investors, crowdfunding can be classified between family and friends on the one

hand and the other traditional funding sources on the other hand. Crowdfunding benefits from the use of social media and viral messages which can easily reach family and friends but which can also target total strangers who might become fan of a novel business project. Remember the social ripple effect of Chap. 2 which involves multiple social networks. However, as pledges may vary from smaller to larger amounts of money (e.g., from €1 to €1,000 or even €50,000), crowdfunding can still target both small and larger investors.

In theory, all categories of investors may benefit from crowdfunding (Smerik 2012). For instance, if the crowd asks critical questions about the business plan of an entrepreneur, then the traditional investors (e.g., VCs and Angels) can also profit from this information. Further on, crowdfunding makes investing possible for regular people who are not able to invest large amounts of money. Finally, the entrepreneur can benefit from the critical reflections of the crowd to improve his/her business plan and to get validation by wisdom of the crowd. As such, the entrepreneur tries to ensure the existence of a large fan base with fans being more likely to buy a particular product or service and which decreases the risk of failure afterwards.

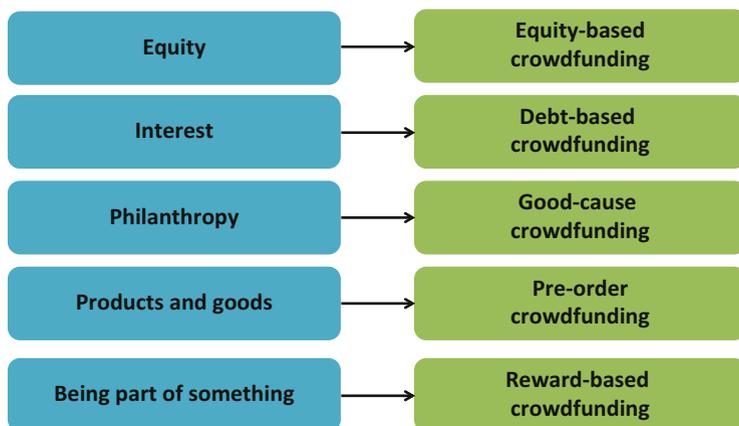
---

## 10.4 Crowdfunding Types and Platforms

The first way to classify crowdfunding projects is by means of the economic domains in which the projects are situated, such as the cultural sector (e.g., art, film, theater, comics, photography, music, dance), the nonprofit sector and social causes (e.g., charity and disaster relief), journalism and publishing, technology and games, food, fashion and design, energy and environment, business and entrepreneurship (e.g., start-ups), etc.

Nonetheless, crowdfunding projects are mostly classified based on different funding models (i.e., based on the reasons why people invest money), namely (Gerber and Hui 2013; Smerik 2012), (1) to obtain equity, (2) to earn interest, (3) for philanthropy (i.e., to give something back to the community), (4) for interesting products or services, or (5) to be part of something (e.g., for fun, passion, or status). Figure 10.3 shows that these five goals are, respectively, linked to five funding models for crowdfunding projects.

In the crowdfunding literature, one can also find an additional classification with four similar crowdfunding types: (1) equity based, (2) lending based or credit based (instead of debt based), (3) donation based (instead of good cause), and (4) reward based. Although these four crowdfunding types are also adopted by the European Commission (Belleflamme 2013; Future Media Lab 2014), this book prefers stipulating five crowdfunding types in order to emphasize the difference between reward-based and preorder crowdfunding.



**Fig. 10.3** Crowdfunding types: from investment reasons to funding models

### 10.4.1 Type 1: Equity Crowdfunding

The first crowdfunding type emphasizes equity, which refers to ownership, market share, or value of a company that is divided among shareholders. This type of crowdfunding projects is especially related to start-ups that look for regular people who are willing to invest a small amount of money in the company in exchange of equity. This implies that the entrepreneur will provide real ownership of the company to a large group of micro-investors.

As equity crowdfunding makes investing available to the (nonaccredited) crowd instead of only to the high net worth individuals or accredited investors (e.g., VCs or Angels), it entails higher risks than other crowdfunding types. Therefore, it still remains illegal in some countries (see Sect. 10.6).

Crowdfunding platforms such as AngelList™ (<https://angel.co/crowdfunding>), LocalStake™ (<https://localstake.com/>), or Seedrs™ (<http://www.seedrs.com/>) can be used to launch equity crowdfunding projects.

### 10.4.2 Type 2: Debt-Based Crowdfunding

The second type of crowdfunding involves a debt-based or lending-based funding model. Instead of going to a financial institution for a loan, the entrepreneur will borrow or lend some money from many individuals. Afterwards, the entrepreneur will pay the investors back, mostly with an additional percentage of interest (i.e., similar to a personal loan in a bank). Synonyms for debt-based crowdfunding are micro-financing or peer-to-peer (P2P) lending.

For supporting debt-based crowdfunding projects, entrepreneurs can use platforms such as LendingClub™ (<https://www.lendingclub.com/>) or Prosper™ (<https://www.prosper.com/>), among others.

### 10.4.3 Type 3: Good-Cause Crowdfunding

The third funding model concerns good-cause crowdfunding, which is frequently done for—but not limited to—not-for-profit projects. It typically involves people who donate or lend money to a project with good moral or ethical value.

Besides donations (e.g., for charity), this crowdfunding type involves personal loans for low-income individuals and is thus also called “social lending.” For instance, in the developing countries, farmers can ask a personal loan to buy seeds, fertilizers, herbicides, and agricultural supplies. Or social lending can also be used to buy water meters, to fix a house, etc. Such social loans usually have a smaller target amount than debt-based crowdfunding.

Good-cause crowdfunding is linked to platforms such as Kiva™ (<http://www.kiva.org/>) or FirstGiving™ (<http://www.firstgiving.com/>), among others.

### 10.4.4 Type 4: Preorder Crowdfunding

Frequently, crowdfunding projects relate to a preorder funding model. This means that people make pledges to pre-buy a product or service for later delivery (i.e., when the project is successfully finished). Compared to the previous crowdfunding types, the micro-investors do not get any financial return but become one of the first buyers and thus the first users of a certain product or service.

Kickstarter™ (<https://www.kickstarter.com/>) and Indiegogo™ (<https://www.indiegogo.com/>) are typical platforms to illustrate preorder crowdfunding.

### 10.4.5 Type 5: Reward-Based Crowdfunding

One of the oldest and easiest ways to invest in crowdfunding projects is reward based, in which the micro-investors get a predefined perk or reward, e.g., a T-shirt or another recognition.

This crowdfunding type can be considered as a variation of good-cause and preorder crowdfunding, as the emphasis is not on making money (i.e., equity or interest). Instead, the emphasis is rather on the satisfaction to help someone (as with good-cause crowdfunding), while getting something in return that is perceived as valuable (as with preorder crowdfunding, albeit not necessarily the product or service of the project).

Platforms that can be used for reward-based crowdfunding are, for instance, Kickstarter™ (<https://www.kickstarter.com/>), artistShare™ (<http://www.artistshare.com/>), or RocketHub™ (<http://www.rockethub.com/>).

### 10.4.6 Crowdfunding Platforms

A crowdfunding project must always be funded on a recognized crowdfunding platform in order to be conform to legislation. Crowdfunding platforms can be pledging platforms that focus on preorders, rewards, or donations (e.g., Kickstarter™) or rather capital marketplaces which focus more on equity or lending (e.g., AngelList™ or LocalStake™), or both.

Nowadays, many crowdfunding platforms exist. Table 10.1 gives an unlimited list of common crowdfunding platforms, as an illustration. Most of them are from

**Table 10.1** Examples of crowdfunding platforms

Kickstarter™ <a href="https://www.kickstarter.com/">https://www.kickstarter.com/</a>	Indiegogo™ <a href="https://www.indiegogo.com/">https://www.indiegogo.com/</a>
artistShare™ <a href="http://www.artistshare.com/">http://www.artistshare.com/</a>	RocketHub™ <a href="http://www.rokethub.com/">http://www.rokethub.com/</a>
AngelList™ <a href="https://angel.co/crowdfunding">https://angel.co/crowdfunding</a>	LocalStake™ <a href="https://localstake.com/">https://localstake.com/</a>
Seedrs™ <a href="http://www.seedrs.com/">http://www.seedrs.com/</a>	LendingClub™ <a href="https://www.lendingclub.com/">https://www.lendingclub.com/</a>
Prosper™ <a href="https://www.prosper.com/">https://www.prosper.com/</a>	Kiva™ <a href="http://www.kiva.org/">http://www.kiva.org/</a>
FirstGiving™ <a href="http://www.firstgiving.com/">http://www.firstgiving.com/</a>	GoFundMe™ <a href="http://www.gofundme.com/">http://www.gofundme.com/</a>
YouCaring.com™ <a href="http://www.youcaring.com/">http://www.youcaring.com/</a>	Start Some Good™ <a href="http://startsomegood.com/">http://startsomegood.com/</a>
GiveForward™ <a href="http://www.giveforward.com/">http://www.giveforward.com/</a>	Crowdrise™ <a href="https://www.crowdrise.com/">https://www.crowdrise.com/</a>
Fundly™ <a href="https://fundly.com/">https://fundly.com/</a>	FundRazr™ <a href="https://fundrazr.com/">https://fundrazr.com/</a>
Razoo™ <a href="http://www.razoo.com/">http://www.razoo.com/</a>	Rock the post™ <a href="https://rockthepost.com/">https://rockthepost.com/</a>
DonorsChoose.org™ <a href="http://www.donorschoose.org/">http://www.donorschoose.org/</a>	Crowdtilt™ <a href="https://www.crowdtilt.com/">https://www.crowdtilt.com/</a>
Rally.org™ <a href="https://rally.org/">https://rally.org/</a>	Fundable™ <a href="http://www.fundable.com/">http://www.fundable.com/</a>
FundAnything™ <a href="https://fundanything.com/">https://fundanything.com/</a>	GoGetFunding™ <a href="http://gogetfunding.com/">http://gogetfunding.com/</a>
CrowdFunder™ <a href="https://www.crowdfunder.com/">https://www.crowdfunder.com/</a>	CircleUp™ <a href="https://circleup.com/">https://circleup.com/</a>
Pozible™ <a href="http://www.pozible.com/">http://www.pozible.com/</a>	PeerBackers™ <a href="http://peerbackers.com/">http://peerbackers.com/</a>
COfundOS™ <a href="http://cofundos.org/">http://cofundos.org/</a>	MedStartr™ <a href="http://www.medstartr.com/">http://www.medstartr.com/</a>
MicroVentures™ <a href="https://microventures.com/">https://microventures.com/</a>	Ulule™ <a href="http://www.ulule.com/">http://www.ulule.com/</a>
Crowdcube™ <a href="http://www.crowdcube.com/">http://www.crowdcube.com/</a>	FansNextDoor™ <a href="http://www.fansnextdoor.com/">http://www.fansnextdoor.com/</a>
Etc.	

the USA (as crowdfunding was initiated there, see Sect. 10.3), but an increasing number of countries start to have country-specific crowdfunding platforms. A detailed list of European crowdfunding platforms is given by Future Media Lab (2014), in association with the European Crowdfunding Network (<http://www.eurocrowd.org/>).

For instance, the 1 %Club™ (<https://onepercentclub.com/>) is a crowdfunding platform for charity projects in the Netherlands, while the Dutch Tenpages™ platform (<http://tenpages.com/>) focuses on books, Cinecrowd™ (<http://www.cinecrowd.nl/>) focuses on films, and OnePlanetCrowd™ (<http://www.oneplanetcrowd.nl/>) focuses on ecology. Or the Belgian community for crowdfunding has launched a portal (<http://www.bccf.be>) which intends to give more information about crowdfunding in this specific country and to group Belgian crowdfunding platforms, e.g., SonicAngel™ for music (<http://www.sonicangel.com/>), Sandawe™ for comics (<http://www.sandawe.com/>), Flanders Fashion Institute™ for fashion (<http://www.fashionangel.be/>), etc. Another example is the German platform Sellaband™ (<https://www.sellaband.com/>) which focuses on music, while Crowdfunding Berlin™ (<http://www.crowdfunding-berlin.com/en/>) is a portal that groups other crowdfunding platforms. These examples show that niche platforms exist (e.g., for film, books, music, fashion, ecology, etc.). Nonetheless, most crowdfunding platforms can be used for different types of projects.

An overview of the top 10 crowdfunding platforms based on traffic data from the Compete Rank (<https://www.compete.com/>) and the Alexa Rank (<http://www.alexa.com/>) (see Chap. 6 on SEO) can be found at: <http://crowdfunding.org/>. On this website, the reader also gets to know more about the fees that are charged by these crowdfunding platforms to the entrepreneur or to the micro-investors.

---

## 10.5 Tips and Tricks for Crowdfunding

As mentioned before, crowdfunding projects can be situated in diverse domains, even for making potato salad (<https://www.kickstarter.com/projects/324283889/potato-salad>). In the potato salad example, the entrepreneur wished to obtain \$10 but ended up with almost \$52,000 from approximately 6,500 backers. His perks ranged from saying a backer's name out loud while making the potato salad (\$1), hanging out with the entrepreneur while he is making the dish (\$10), to a pizza party or a recipe book. Nevertheless, not all crowdfunding projects successfully raise their funding goal. Therefore, this section gives some general tips and tricks that facilitate the funding of a crowdfunding project (Barrera 2013; Business Funding Resources 2014; Cassady-Dorion et al. 2012; Clark 2012; Mollick 2014).

### 10.5.1 Before a Crowdfunding Project

Before a crowdfunding project starts, the entrepreneur can prepare for a **fraud check** by publicly listing his/her name and the company name, his/her address, social security number or VAT number of the organization, etc. To further protect the micro-investors and to convince the crowd, the entrepreneur should write a **business plan** as a **pitch**. As with a typical business plan, the entrepreneur should clearly describe a problem, how he/she intends to solve that problem, and how the solution can make money. Furthermore, a business plan should present a financial plan that stipulates how much money is needed (from crowdfunding and/or other investments) and how much money is expected to be earned. Based on this financial information, it is possible to verify whether the project is likely to be successful or at least break even. For instance, the target amount for a crowdfunding project can be defined to cover the expected expenses. Other details to be included in a business plan involve all efforts that must be done to realize the proposed solution and to which degree the requested funds will help with these efforts. In case of equity crowdfunding, the entrepreneur should also specify how much ownership the micro-investors can get. Nonetheless, most crowdfunding projects give perks (rewards).

When creating **perks** for a crowdfunding project, the entrepreneur should reflect on how the crowd can be stimulated. For this purpose, perks should rather be unique, creative, and personal. Particularly, if people start dreaming about the perks, they might become convinced to invest in the project. Usually five to eight perks are required per project, but this may change during the campaign. While creating perks, the entrepreneur should avoid being over-creative as he/she should also be able to finance those perks afterwards. Some ideas for perks are early access to a product or service, discounts or vouchers, limited edition items, free entry to a location, a party, donated perks from local businesses, teaching a class or hosting a tour, personal thank you notes, sharing insider secrets, etc.

Before launching the actual crowdfunding project for finding micro-investors, the entrepreneur should start a **pre-campaign**. In particular, it is important to have some first-degree connections who believe in the project and who give early feedback. They can be relatives, friends, or acquaintances but also an external network of fans who are involved in the project as from the start and who might become investors or even advocates afterwards (see social CRM, Chap. 5). Hence, during the pre-campaign, the entrepreneur is looking for trust based on interactions, without requesting financial support yet. As the emphasis of the pre-campaign is only on convincing people before they act, it is better to avoid words such as “help,” “support,” or “fund.”

### 10.5.2 During a Crowdfunding Project

When the crowdfunding project actually starts, the early believers from the pre-campaign phase may become the first investors. This early money matters for

the perception of other investors. For instance, projects that already raise a significant part (let's say 20–30 %) of the requested money within the first day(s) are likely to convince other people to invest in the project too. Hence, early money may create a positive vibe, which is important as the fund-raising period of a crowdfunding project is limited in time (e.g., between 30 and 90 days and ideally between 30 and 45 days to keep the momentum going).

During this campaign period, the entrepreneur can start **pitching**, which involves live fund-raising by organizing meet and greets, showing demonstrations about the product or service involved, responding to questions about the business plan, storytelling, etc. Consequently, the crowdfunding campaign is all about communication, although the quality of the message is more important than its length. Some suggestions to talk about on the crowdfunding platform are perks, milestones, media coverage, or any update about the organization and the product or service under study. As such, the crowdfunding platform can be used as a blog (see Sect. 2.2.2), e.g., with circa two to five updates per week.

Based on the principles of social CRM (Chap. 5), micro-investors should get the feeling that they are special and belong to an exclusive community. When people feel engaged and the perks are attractive, funders might even invest more than once. An example of how funders can be treated in a more exclusive way is by frequently sending them updates (e.g., daily), in addition to the publicly available updates that are released to the crowd. Particularly, social media give many opportunities to crowdfunding to communicate about the project, to convince others to invest, and to create an exclusive community. For instance, social media can help people get engaged by asking questions, sending thank you notes to micro-investors, doing polls, spreading a link to the crowdfunding page, using specific hashtags, retweeting, etc. Although different social media tools can be integrated, crowdfunding can especially profit from publicly available tools (e.g., Twitter™), because they are not limited to existing connections and generally allow sending both public and private messages.

### 10.5.3 After a Crowdfunding Project

Some crowdfunding projects succeed with an immense success. A well-known crowdfunding example concerns the Pebble smart watch, for which almost \$10,000,000 was raised instead of the targeted \$100,000 (<http://www.kickstarter.com/projects/597507018/pebble-e-paper-watch-for-iphone-and-android>). This example shows a project that surpassed its goal, namely, with a big difference between the actual pledges and the targeted amount. Also for the web comic “The order of the stick,” the final funding was much larger than expected (<http://www.kickstarter.com/projects/599092525/the-order-of-the-stick-reprint-drive>). If a crowdfunding project raises more money than expected, additional activities can be financed. For instance, an artist raised enough budget for a tour trip, besides recording the album for which the project was initially launched (<http://www.indiegogo.com/projects/help-a23-side-project-make-album>). Therefore, this artist

gave special perks to his backers, ranging from thank you notes and a digital album to a Skype™ session with the lead singer or a customized song from the artist especially made for those backers investing \$2,500. Such special perks may stimulate fans to invest more money.

On the other hand, approximately half of the launched crowdfunding projects will not be funded, depending on the type of crowdfunding (Cassady-Dorion et al. 2012; Future Media Lab 2014). For instance, good-cause crowdfunding is likely to have a higher funding probability than equity crowdfunding. When crowdfunding projects fail to raise the targeted budget, no money will be exchanged when the “all-or-nothing” approach is followed in order to protect micro-investors. For instance, a certain T-shirt project was not funded because it only raised \$141 from four backers instead of the targeted \$1,380 (<https://www.kickstarter.com/projects/2024903697/project-z-the-undead-shirt-design-8>). This means that the backers in this example will not give the promised \$141 since the project is considered to be too risky. In cases when the funding goals have not been reached, the entrepreneur should take advantage of this failure by rethinking his/her idea and by reconsidering the related business plan. After making substantial improvements, a new crowdfunding project may be launched in an attempt to collect the required money.

Even when a crowdfunding project successfully raised its funding goal, certain risks remain for both the entrepreneur and the micro-investors (Mollick 2014). Particularly, it is possible that the entrepreneur will not be able or does not want to reward the perks. Such a situation may, for instance, happen when the project has a delay, when a new product flops, when an organization goes bankrupt, or when the entrepreneur turns out to be a fraudster. Once a project successfully raised its money, the role of a crowdfunding platform generally stops. This means that the final responsibility usually resides with the entrepreneur (i.e., project owner or creator) and the micro-investors and that legislation should protect them. For instance, crowdfunding platforms may rather refer to “donors” than “investors” as both terms can have different legal consequences. In such cases, the crowdfunding platform may still be used to leave unsatisfied comments on the page of a certain crowdfunding project. For instance, a crowdfunding project on HD video recording glasses was successfully funded, but received negative comments from disappointed backers who did not receive their perks after 1 year (<https://www.kickstarter.com/projects/zioneyez/eyeztm-by-zioneyez-hd-video-recording-glasses-for/comments>) (Forbes 2012a). In such unforeseen cases, communication from the entrepreneur to its micro-investors is key to maintain confidence.

---

## 10.6 Legislation Related to Crowdfunding

As crowdfunding is a new and popular mechanism for fund-raising, this section offers a glimpse of the legislation that deals with the matter in hand, without intending to be legal advice.

Legislation about crowdfunding is still complex and rather unclear as it varies from country to country. Moreover, given the relatively recent rise of crowdfunding, many countries have not yet adopted specific legislation that deals with the topic. In such countries, the legislation for traditional fund-raising (e.g., investment laws, banking regulation regarding loans, or e-commerce rules) also applies to crowdfunding. This implies that some forms of crowdfunding can be illegal or ethically less appropriate, especially for equity crowdfunding and debt-based crowdfunding. A possible problem with debt-based crowdfunding might be that people applying for a loan must usually demonstrate that they are creditworthy, i.e., capable to repay the loan. Further on, the reason why equity crowdfunding can be illegal in some countries is because the traditional investment laws or securities laws want to protect investors for the typical (high) risks of investing. Particularly, in a traditional investment, investors may lose a large amount of money if the organization fails. Hence, for security reasons, many traditional investment laws require that investors are accredited, which means that they must have a high salary or net worth. The latter contrasts, however, to crowdfunding which focuses on raising small amounts from a lot of regular people. Also in contrast to equity crowdfunding are those traditional investment laws that stipulate a maximum number of investors (which is called a shareholder cap).

In order to solve the legal issues that are related to crowdfunding, a few countries start recognizing crowdfunding as an exemption to traditional legislation. For instance, in the USA, the JOBS Act (i.e., Jumpstart Our Business Start-ups) explicitly stipulates the conditions under which equity crowdfunding is legalized for start-ups, because they may create new jobs and thus have an economic impact (Cassady-Dorion et al. 2012; Stemler 2013). Within the European Union, a harmonized European Crowdfunding Network exists (<http://www.eurocrowd.org/>), but the legislation that applies to crowdfunding still differs from member state to member state (Future Media Lab 2014). For instance, while waiting for specific legislation on crowdfunding, a European Member State may traditionally regulate that fund-raising projects only need specific approval by a national authority if they exceed a certain target amount (e.g., €100,000 or €1,000,000). This example would imply that smaller European crowdfunding projects (i.e., which are under the nationally determined limit) can be launched without needing approval, while a gray area exists for crowdfunding projects above that limit. In order to deal with country-specific legislation, Future Media Lab (2014) explains that crowdfunding platforms usually “circumnavigate such restrictions by cooperating with a regulated third party on the relevant activities, for example with an online payment provider” (p. 4). For country-specific information, see: <http://en.wikipedia.org/wiki/Crowdfunding>.

Meanwhile, crowdfunding projects can take some measure to protect the micro-investors. First of all, a crowdfunding project should have a business plan which discloses relevant information about the entrepreneur, his/her idea, and a fraud check. Furthermore, a crowdfunding project can only raise money on a registered platform (see Sect. 10.4.6), which also deals with legal reporting, among others. Ultimately, in an “all-or-nothing” crowdfunding project, the entrepreneur should

convince the crowd about his/her idea in order to raise money. Otherwise, the project remains unfunded. Social media can help convince the crowd as they typically concern many-to-many communication. In particular, social media can be used for free, allow direct feedback from the crowd, and can go viral in a relatively short amount of time. The social media initiatives can also be visible on the crowdfunding platform in order to obtain a total picture and to convince more people (i.e., “wisdom of the crowd”).

On the other hand, crowdfunding also entails some risks for the entrepreneur. In general, the entrepreneur should fulfill the promised perks (e.g., equity, interest, preorders, or rewards). Further on, as crowdfunding means convincing people with a business plan, also competitors get access to the entrepreneur’s novel ideas. Crowdfunding thus increases the risk of disclosing business secrets. Larger risks are particularly associated with equity crowdfunding, in which investors become shareholders. For instance, a large difference exists between someone who is entitled to a T-shirt and someone who partly owns an organization. Two long-term problems may arise for equity crowdfunding, namely, (1) for decision-making and (2) for follow-up funding. First, depending on whether the majority decides or not, macro-shareholders may be forced to follow the opinions of micro-shareholders. For instance, many micro-investors could get the power to block a sale. To facilitate decision-making, it might be more practical to let the micro-shareholders be represented by a single spokesman or a third party. Secondly, clauses in a crowdfunding contract may contrast to the needs of macro-investors, which makes follow-up funding more difficult in the future. For instance, some terms of micro-investors can make it more difficult for shareholders to exit (while this is what professional VCs or Angels frequently do). In such cases, micro-investors can be bought out to make room for a VC investment (or they can agree to be pooled and represented by a third party). Both long-term risks illustrate that, in worst case, an organization may risk going bankrupt and investors risk losing money after equity crowdfunding (Whiteboard 2013). In conclusion, crowdfunding can be a good solution for fund-raising, especially if an organization does not need a VC or Angel and just targets one round of fund-raising.

More legal and ethical issues on social media can be found in Chap. 11.

---

## 10.7 Takeaways

Crowdfunding is a new way to raise money from the public but should not be considered as the most ideal funding mechanism for all situations. Instead, crowdfunding should rather be used as a plan B, i.e., after trying the traditional funding mechanisms. Remember the risks discussed in this chapter for both (micro-)investors and entrepreneurs.

When opting for crowdfunding, entrepreneurs should understand and involve their audience (similar to social CRM, see Chap. 5) and should spend enough time on their business plan (which is also needed for targeting customers). A

crowdfunding platform should be chosen that best fits the business plan, such as pledging platforms (e.g., Kickstarter™) or capital marketplaces (e.g., AngelList™ or LocalStake™).

Furthermore, entrepreneurs should be careful with the complex legislation on crowdfunding at hand, which varies from country to country and which still remains unclear to some degree.

---

## 10.8 Self-Test

- Can you describe the history and emergence of crowdfunding?
- Look for real-life examples of crowdfunding projects, and explain to which funding model they apply (not).
- What is a pledging platform, and why do you need it in the context of crowdfunding?
- Can you classify a particular crowdfunding platform in one or more social media types, as discussed in Chap. 2? Please motivate your choice.
- Can you classify a particular crowdfunding platform in one or more funding models? Please motivate your choice.
- Can you explain why some types of crowdfunding might be illegal?
- How do you see the future of traditional fund-raising and crowdfunding? Please motivate your choice.

---

## Bibliography

- Barrera, A. (2013). *Storytelling in crowdfunding*. Retrieved June 15, 2013, from: <http://www.Slideshare.net/press42/storytelling-for-crowdfunding-20270153>
- Belleflamme, P. (2013). *Crowdfunding: Tapping the right crowd*. Retrieved June 15, 2013, from: [http://ec.europa.eu/internal\\_market/conferences/2013/0603-crowdfunding-workshop/docs/paul-belleflamme\\_en.pdf](http://ec.europa.eu/internal_market/conferences/2013/0603-crowdfunding-workshop/docs/paul-belleflamme_en.pdf)
- Business Funding Resources. (2014). *The anatomy of a crowdfunding campaign*. Retrieved July 25, 2014, from: <http://www.youtube.com/watch?v=qY1PjKqEjiE>
- Cambridge Dictionaries Online. (2014). *Crowdfunding*. Retrieved July 28, 2014, from: <http://dictionary.cambridge.org/dictionary/british/crowdfunding?q=crowdfunding>
- Cassady-Dorion, Z., Neiss, S. & Best, J. (2012). *Crowdfund investing – who, what, how & why*. Retrieved June 15, 2013, from: <http://www.Slideshare.net/StartupCanada/crowd-funding-presentation-12027900>
- Clark, L. (2012). *How to get your crowdfunded Indiegogo campaign to the top*. Retrieved June 15, 2013, from: <http://www.wired.com/2012/10/how-to-get-your-crowdfunded-indiegogo-campaign-to-the-top/>
- Crowd Valley. (2012). *Crowdfunding – Asset classes and crowd driven models*. Retrieved June 15, 2013, from: <http://www.Slideshare.net/growvc/crowdfunding-asset-classes-and-crowd-driven-models>
- Forbes. (2012a). *The truth about Kickstarter and ZionEyez*. Retrieved June 15, 2013, from: <http://www.forbes.com/sites/markgibbs/2012/08/20/the-truth-about-kickstarter-and-zioneyez/>

- Forbes. (2012b). *What is crowdfunding and how does it benefit the economy*. Retrieved June 15, 2013, from: <http://www.forbes.com/sites/tanyaprive/2012/11/27/what-is-crowdfunding-and-how-does-it-benefit-the-economy/>
- Future Media Lab. (2014). *Creative funding for creative media. Crowdfunding guide for media professionals*. Retrieved July 25, 2014, from: <http://www.futuremedialab.info/wp-content/uploads/2014/01/FML-ECN-EMMA-crowdfunding-guide-final.pdf>
- Gerber, E. M. & Hui, J. (2013). Crowdfunding: motivations and deterrents for participation. *ACM Transactions on Computing-Human Interaction*, 20(6), article number 34.
- Howe, J. (2009). *Crowdsourcing. Why the power of the crowd is driving the future of business*. New York: Three Rivers Press.
- Klososky, S. (2011). *Enterprise social technology*. Austin, TX: Greenleaf Book Group Press.
- Mollick, E. (2014). The dynamics of crowdfunding: An exploratory study. *Journal of Business Venturing*, 29(1), 1–16.
- Smerik, R. (2012). *Crowdfunding. Is there safety in numbers?* Retrieved June 15, 2013, from: <http://www.slideshare.net/startupfest/crowdfunding-13723289>
- Stemler, A. R. (2013). The JOBS Act and crowdfunding: harnessing the power – and money – of the mass. *Business Horizons*, 56(3), 271–275.
- Whiteboard. (2013). *How crowdfunding nearly bankrupted my company*. Retrieved June 28, 2013, from: <http://www.whiteboardmag.com/how-crowdfunding-nearly-killed-my-company-the-smarchive-story/>
- Wikipedia. (2013). *Crowdfunding*. Retrieved June 15, 2013, from: <http://en.wikipedia.org/wiki/Crowdfunding>