

THE MENTA GUIDE Crowdfunding

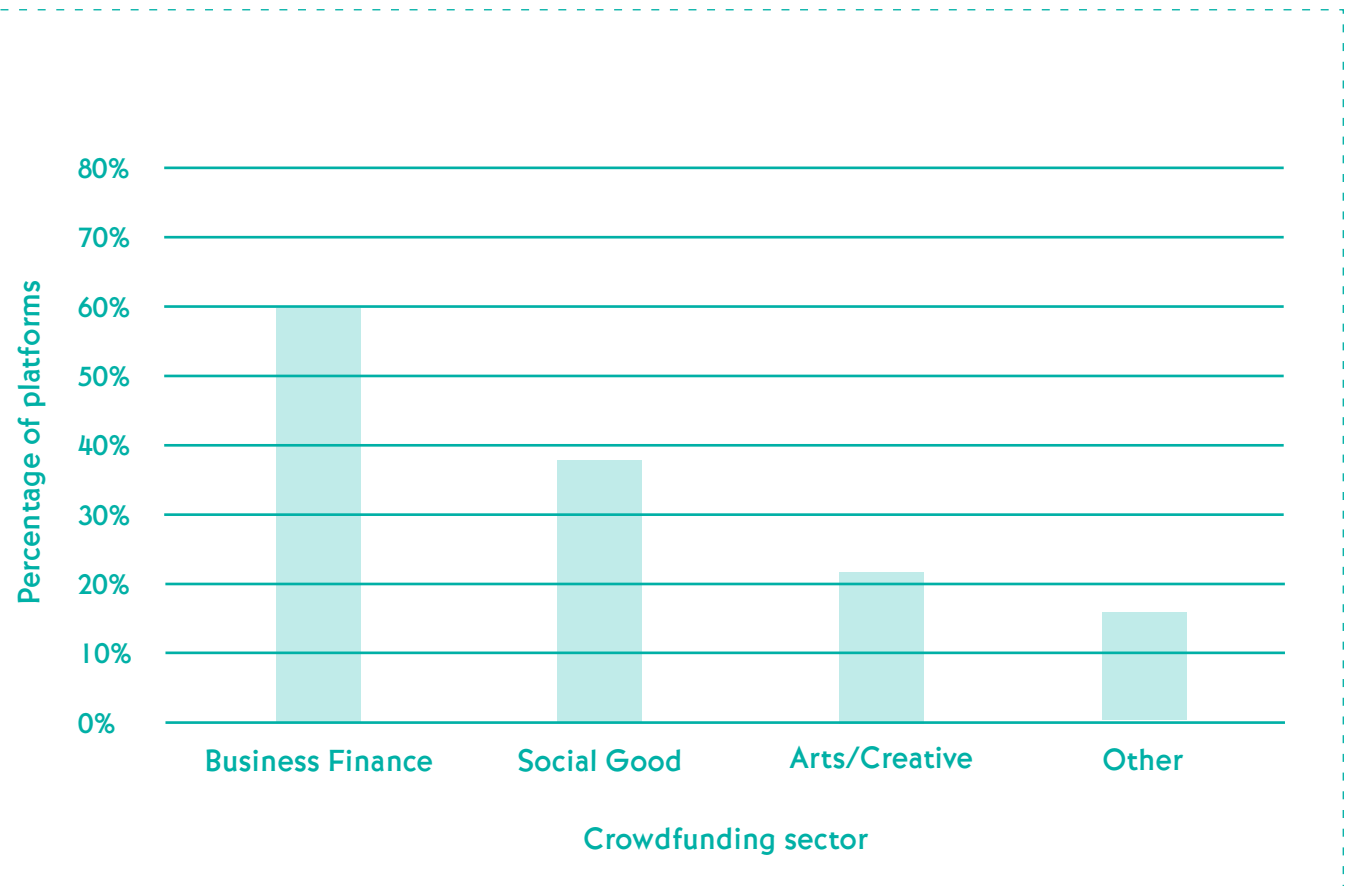
An Overview of Crowdfunding

What is crowdfunding?

Crowdfunding is a way to raise money online by asking a large number of people for small sums of money, an alternative option to more traditional and common routes for funding.

Traditionally, a business looking for funding would need to approach a small number of investors, like banks or venture capitalists, for large sums of money. With crowdfunding, you use the internet to ask 'the crowd' (members of the public) to contribute. This provides access to thousands, if not millions, of potential investors.

You can raise funds using any one of a number of crowdfunding platforms. The platforms charge a fee which may consist of a platform fee, a percentage of the sum raised, or both.



Data sourced from: [nesta.org.uk](https://www.nesta.org.uk)

Different Types of Crowdfunding

Overview

There are a variety of crowdfunding platforms, all with differing terms, so make sure to research which platform would suit you best. While it's free to create a campaign on most crowdfunding sites, it's common to have to pay a platform and payment processing fee.

The most well known reward crowdfunding platforms are Crowdfunder, Gofundme, Indiegogo, Seedinvest, Kickstarter and Fundly.



Reward crowdfunding

Perhaps the most straightforward type of crowdfunding is reward crowdfunding. This is where people invest their money simply because they believe in a business or project, and they would enjoy seeing it come into existence.

Investors may be rewarded in several ways, including getting first or discounted access to the product, free gifts, or simply a public acknowledgement.

Equity crowdfunding

Equity crowdfunding is where investments are made in exchange for shares in the business. The business must be an early-stage, unlisted company which means it hasn't been registered on the stock market.

Equity crowdfunding typically takes place via equity investment platforms.

Debt crowdfunding

Debt crowdfunding is when investors lend money to a small business or project. The loan is then paid back over time with interest. This is sometimes known as peer-to-peer lending.

Most crowdfunding platforms work one of two ways:

- **Target based:** You set a fund raising target and if you hit the target, the funds are transferred to you. If you fail to reach the target, you don't receive anything.
- **Flexible funding:** You receive the funds as they are raised.

How to Start Crowdfunding

How to start:

To set up your crowdfunding campaign, you will need to choose a fundraising platform. Create an account and set up a campaign by outlining your pitch. Your pitch should include:

- Information on your business and team
- Your fundraising target and what the funds will be used for
- The share in the business or rewards offered (if any)
- How long the pitch is open for
- When you will receive a return for investing
- Links to your website and social media accounts (so investors can check your credibility)
- Create a video. Projects that include a video are more likely to get funded. This doesn't need to be long. In fact, shorter is usually better.

Plan your pitch:

Things to consider when picking a platform:

What type of crowdfunding do you want to do?

Consider the different types of crowdfunding, 'reward', 'equity' or 'debt', and whether you need flexible or target-based funding.

What fees are being charged?

How are the fees collected on the platform you are considering using? Make sure you are aware early on about what you will need to pay when you reach your goal.

How soon can you access the money you raise?

Most platforms have a waiting period before you can draw the money out and see it land in a bank account. But the length of this period varies across platforms, some may have a significantly longer waiting period to receive your funds.

Specialism

Some platforms specialise in technology-based projects, others are designed for creatives and some host a wide range of projects. Choosing the right platform will get you in front of the right investors.

Success rate

Some platforms share their success rates for projects that achieve their target.

Features

Do you need a mobile app? Do you want marketing support?

Customer support

Look into the types of customer support offered by the differing platforms, some may offer better support than others.

Reputation

Pick a reputable site and look for stories of people who have used the platform you are considering using for better insight.

Advantages of crowdfunding:

Profile

Simply advertising your crowdfunding campaign is a great way to raise awareness of your business and what you do.

Test your market

Crowdfunding can tell you if there is demand before you invest in developing a product or service. The rate you raise funds will indicate the want/need for your product/business.

No gate keeper

You can access funds that banks or larger investors might not be prepared to offer.

More funds

If your project is popular, you may be able to raise more money than by using other methods.

Disadvantages of crowdfunding:

Not reaching target

If you use a target-based funding platform, you won't receive any money if your target is not met.

Reputational risk

If you have promised rewards to investors and do not deliver them, or deliver them late, you will attract (highly visible) criticism, so it's important to prepare for this.

Idea theft

You will need to outline your project to your investors. Your competitors will see it too and may beat you to the punch.

Equity

Depending on the type of crowdfunding you are doing; you may have to give away shares in your company. Are you comfortable with the amount of equity you will give away?



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