Crowdfunding for Entrepreneurship

Special Report

by Shareq Husain, Anton Root

November 2015

GLOBAL ENTREPRENEURSHIP WEEK

AlliedCrowds

Executive Summary

WHAT ALLIEDCROWDS DOES

DATA AND ANALYTICS:
We use proprietary methods to provide accurate insight on crowdfunding in the developing world.

ADVISORY:
We leverage our extensive industry knowledge to guide those interested in crowdfunding.

TECHNOLOGY SOLUTIONS:
We work with global organizations to develop crowdfunding platforms and provide other related services.

Crowdfunding is no longer just a niche form of financing for creative projects. In 2015, transactions across donations, lending, reward, and equity crowdfunding is expected to cross $34 billion, and overtake the VC industry in size. The genie is well and truly out of the bottle.

AlliedCrowds is a UK-based startup focused on spreading prosperity through crowdfunding, founded by noted author and former hedge fund manager Lars Kroijer. We are pleased to partner with Global Entrepreneurship Network to produce the definitive crowdfunding guide for entrepreneurs during Global Entrepreneurship Week 2015.

The report starts out with an overview from Jonathan Ortmans, President of the Global Entrepreneurship Network. Jonathan emphasizes how we have only just begun to scratch the surface on the impact that crowdfunding can have. The report defines the different models of crowdfunding, provides an overview of the global landscape, and explains where crowdfunding fits compared to the traditional models of finance. To give an overview of P2P lending, we spoke with Sam Hodges, cofounder of Funding Circle, who highlights the intrinsic advantages that marketplace lending has over balance sheet lenders. The report then looks at how crowdfunding platforms have disrupted traditional financiers.

"Working together and enabling cross fertilization of ideas and resources, the finance industry can evolve to serve the changing needs of entrepreneurs, and spur a new leap in global economic prosperity," said Shareq Husain, head of strategy and innovation at AlliedCrowds.

In the next section, we spoke with Kiva CEO Martin Tschopp. It was exciting to learn that Kiva has developed a new model of social underwriting that is not dependent on the FICO score, and has the potential to deepen financial inclusion globally. The report then focuses on choosing the right crowdfunding model, both from an entrepreneur and investor perspective.

The report shares insights on how to optimize campaign strategy, a case study of one highly successful campaign, and manufacturing tips from the CEO of a firm servicing crowdfunding entrepreneurs. It then explores the link between crowdfunding and sustainable development, which is a $95 billion opportunity in the developing world alone by 2025. The report ends with a feature on financing entrepreneurs in the MENA region with insight from the MAGNiTT founder Philip Bahoshy.

We hope the report will be useful in showing the increasing sophistication of the global crowdfunding industry, and in helping entrepreneurs to think about how they can turn to the crowd to finance their businesses and products.

WHAT'S INSIDE

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AlliedCrowds

Foreword

Over the past five years, there has been an explosion of interest among policymakers around the world in creating ecosystems that help entrepreneurs start and scale new firms. One obvious approach is to make sure that there is enough early stage capital available — and that is where the global trend toward crowdfunding is really starting to make an impact.

According to research, crowdfunding platforms raised $16.2 billion in 2014 — more than tripling the amount from the previous year. The figure is even more impressive considering the amount of regulatory uncertainty that has existed on this issue around the world.

But while startup-focused policymaking is a new concept for even the most entrepreneurial economies, government decision makers are beginning to make progress as more and more countries choose to bring this form of early stage financing to the regulated world.

In Asia, Korea's National Assembly passed legislation in July 2015 making fundraising from local individual investors a legal activity — part of a package of 61 economic stimulus bills proposed by President Park Geun-hye.

In Europe, it appears nations like the United Kingdom and Sweden have already gone through more than one round of regulatory actions to fine-tune rules for crowdfunding.

Australians too are calling for lowering the threshold for 'sophisticated' investors who are allowed to participate in equity crowdfunding.

And in the United States, the US Securities and Exchange Commission recently finalized the rules guiding how startups can sell equity and the new guidelines become active in April or May 2016.

With the regulatory frameworks relaxing around the world, we have only begun to scratch the surface on the impact that crowdfunding can have. Over the next several years, you can expect the number of crowdfunding platforms to increase. You can also expect the amount of capital invested to increase. And don't be surprised when you also see exciting new high-growth startups emerge, bringing innovations to society while driving global economic growth.

- Jonathan Ortmans, President, Global Entrepreneurship Network

"We have only begun to scratch the surface on the impact that crowdfunding can have."

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Philip Bahoshy, Founder and CEO, MAGNiTT

Crowdfunding Overview

Crowdfunding is a novel way for project organizers, entrepreneurs, and startups to raise money for their causes. Facilitated by the spread of online technologies (and specifically, social media), crowdfunding capitalizes on the many-to-many form of communication that has already opened up new opportunities in industries from ecommerce (e.g., Ebay) to accommodation and travel (e.g., Airbnb, Uber).

Crowdfunding did not arise within a vacuum, but was instead a response to the needs of individuals who were unable to access funding to grow their businesses in the aftermath of the 2008 recession. Making use of new, internet-enabled communications tools, crowdfunding created an alternative method for entrepreneurs to start up and grow their businesses. At the same time, historically low interest rates have pushed investors to seek returns in alternative investments.

There are four models of crowdfunding: donations-, rewards-, lending-, and equity-based.

Donations-based crowdfunding allows individuals to send money to people or projects in need, with no expectations of a tangible perk in exchange for their money.

Rewards-based crowdfunding channels money to creatives or entrepreneurs, who promise to send a reward in exchange for the money; often, this model is used to collect pre-orders for an innovative product.

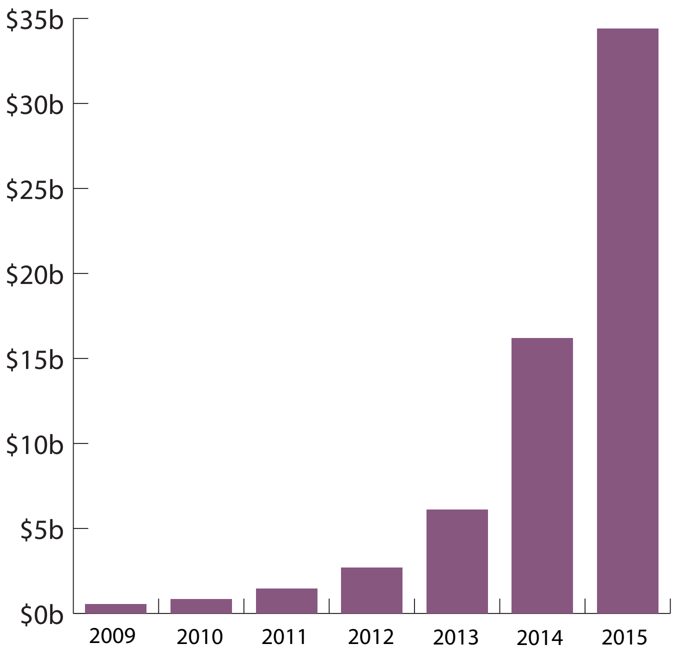
Lending-based crowdfunding (also known as debt-based crowdfunding or peer to peer lending) allows individuals to lend money to other individuals, or to companies, in return for regular (and agreed-upon) interest payments.

Equity-based crowdfunding allows individuals to purchase equity in a company, with the possibility of that company making an exit (typically, and IPO or acquisition), leading to a financial return.

The crowdfunding platforms take on marketplace features — enabling causes, products, projects, or startups (depending on the crowdfunding model) to post their campaigns, and allowing the audience to browse through them, or to search for those matching specific categories, locations, etc.

Crowdfunding has grown rapidly over the last several years, morphing from a way for amateurs to fund hobby projects, to a multibillion dollar market globally, embraced by both medium-sized and large firms, as well as some of the largest multilateral institutions around the globe.

Crowdfunding Market Size



Source: Massolution

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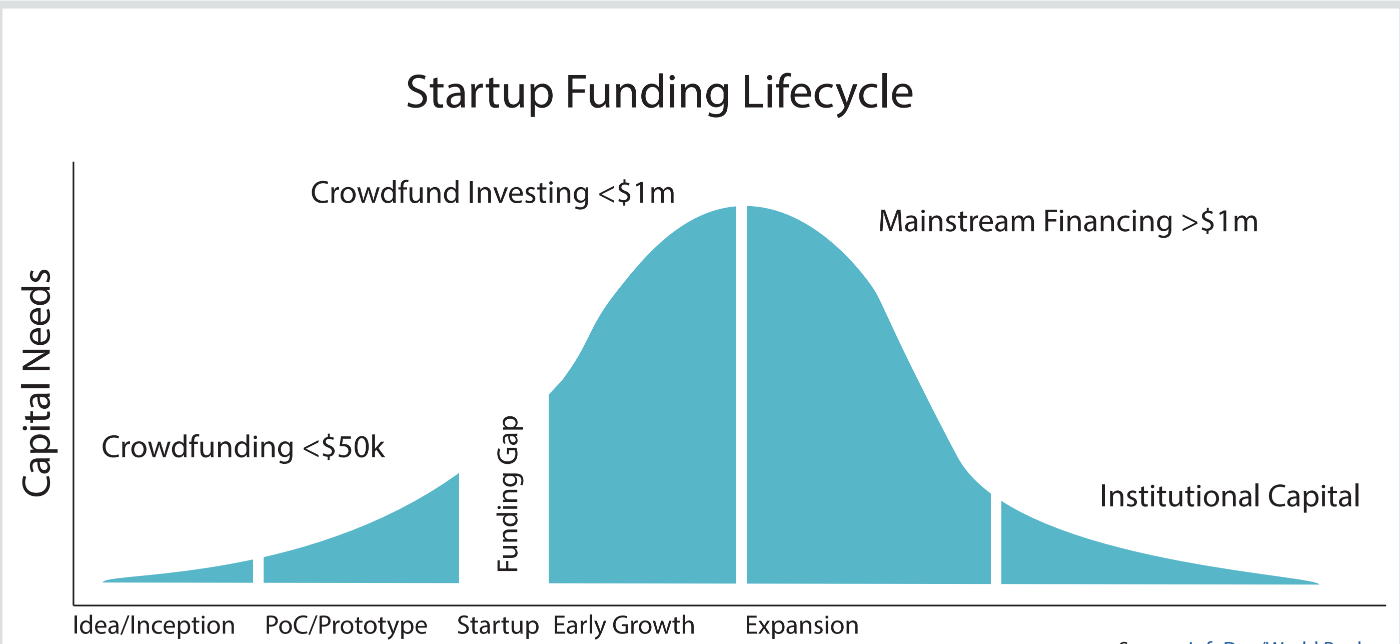
Traditional Funding Methods

Crowdfunding is one of several options available to entrepreneurs who are looking to fund their businesses. Below we outline some of the options that are typically available to startups through various stages of maturity.

The earliest entrepreneurs, who have little more than an idea for a company, typically start out by bootstrapping their startups. The initial phases of a company are often funded through personal savings, friends or family members, or by maxing out credit cards — an unappealing option as credit cards often carry high interest rates.

If a startup proves viable in the early going, its founders have typically turned to banks in order to finance further growth. Indeed, roughly 40 percent of startup capital in the US has come from bank loans. In the European Union, 30 percent of startups have secured bank loans. The amount of money startups can borrow depends heavily on the company's maturity and financial strength. Small, localized banks have been especially important to fueling early stage growth for startups, as they are more likely to consider "soft" qualities of a startup such as the strength of the business plan and the management team, instead of emphasizing a firm's revenues.

Instead of taking out loans from a bank, some startups can finance their operations by turning to angel investors or VCs, who invest in a firm in exchange for equity. The investment amounts vary largely, from tens of thousands of dollars for seed-stage firms, to millions for later financing rounds. Early investors can bring with them non-financial benefits, expanding an entrepreneur's network and providing mentoring experience.



Source: InfoDev/World Bank

Funding Circle on P2P Lending

Funding Circle

Funding Circle was born out of frustration with the traditional small business loan process. As a small business owner himself, Funding Circle's US managing director and cofounder Sam Hodges and his business partner experienced first-hand how hard it is for small businesses to access finance. When the pair couldn't get a small business loan to grow their chain of succeeding fitness centers, they knew something was wrong. So, they set out to build a better solution for American small business owners. In October 2013, they merged their marketplace lending business with Funding Circle. Since then, Funding Circle has lent more than $1.5 billion to more than 12,000 businesses across 15,000 loans. There have been over 43,000 investors including individuals, institutions and even the UK government. With the recent acquisition of Zencap, the lender now operates in five countries: US, UK, Germany, Spain, and the Netherlands. We spoke with Hodges to better understand the P2P model, and how Funding Circle is changing the lending landscape.

ALLIEDCROWDS: What competitive advantage do P2P/marketplace lenders have over traditional banks?

SAM HODGES: Markets have distinct advantages relative to balance sheet lenders. As a market place, you can bring in a wide range of different types of capital to serve a wide range of different borrower needs. Because of the ability to serve a wide range of borrower needs and at different interest rates, that gives a distinct advantage in serving a wide breadth of borrowers and strategically, that is important as you can convert a higher percentage of borrowers who come to you into customers. This results in lower loaded acquisition costs compared to lenders who have a narrower product range, who will inherently have lower conversion rates.

The second major advantage of a marketplace model is its scalability. Balance sheet lenders have constraints on long term return on equity. As a marketplace business, we are much more scalable. Investors are buying loans through us, we have a wide diversity of loans, and as a network, we actually don't have to hold regulatory capital against the loans we are doing, as investors are buying the credit, taking the yield, and also taking the credit losses.

Finally, because we are not using deposits and maturity transformation that levered deposit lending implies, there is, on some levels, less systemic risk from this model of credit formation than the historical manner.

AC: Is the growth of the P2P industry sustainable, and how do you see banks responding to this growth?

SH: We see a lot of enthusiasm from banks to partner with Funding Circle. Most banks don't view smaller ticket commercial lending as their bread and butter. Many view our business as highly complementary to theirs. We now have banks working with us on both sides of the market. We have partnerships with Santander and RBS in the UK.

AC: Who are the lenders on Funding Circle?

SH: It is different from country to country, and driven largely by regulatory differences. In the US, there are three different ways of forming capital. The first is the institutional whole loans marketplace, where institutional investors, large money and asset managers, credit hedge funds, and others who are lending through us or buying loans through us, are building up substantial portfolios. The second way is through our fractional marketplace. In the fractional marketplace, we put loans into securities and sell them in a private securities offering. In that way, we are attracting accredited investors, and there are around 9 million accredited investors in the US. We hope to have an offering for retail investors one day. Third, we have a set of managed funds that basically buy an index of our market. For family offices and high net worth individuals looking to build a diversified pool of loans, it is a very straightforward and proper way of doing it. At scale, there are meaningful advantages, as the best platforms attract the most capital at the lowest cost, because frankly, there is a lot more trust, and that is how investors think about things.

AC: When should entrepreneurs approach Funding Circle?

SH: We focus on providing credit for established expanding business. There is a pretty broad range; it could be a business with $250,000-300,000 of revenue or a business with $3-4 million in revenue. The key for businesses is to not take on too much debt. The first thing is to really understand your own capacities and what levels of debt can you support. What is the money going to be used for, and is it going to generative a positive economic return. We are looking to focus on business that are expanding with strong cash flow characteristics and helping them invest in projects that will help them grow.

AC: What kind of impact does this have on job creation?

SH: We have done a number of detailed surveys on this. For borrowers, after six or seven months, typically revenues and profitability of business have gone up, and have added between one and three additional people. There are cases of firms having added 10-30 jobs, because they are able to accelerate their business so much. We are excited about the downstream impact we are able to create, and that we're able to help great businesses expand. What that means are additional onramps from wealth creation, the ability to address income inequality, and of course, the job creation angle.

AC: What was 2015 like for Funding Circle, and how do you feel about 2016?

SH: 2015 has been an incredibly strong year, the business overall has grown by over a 100 percent. The US business has grown by over 350 percent, year-on-year. Credit performance stays very strong, and we raised a substantial Series E equity financing with a $150 million round. We're going into 2016 feeling the wind in our back.

Crowdfunding and Traditional Financing Methods

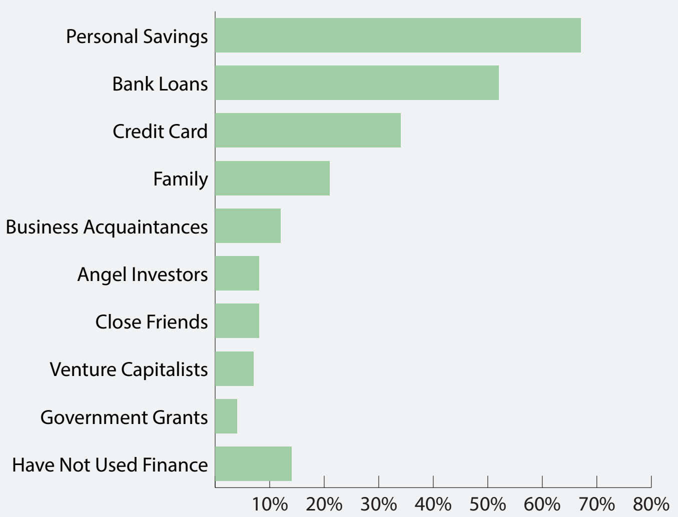
Almost by definition, startups want to grow, yet typically don't have the funds necessary to realize their growth. Friends, family members, and maxed out credit cards can only take a company so far; the very lucky few are able to access angel networks and VCs willing to invest. The vast majority of startups (as many as ten million in Europe), however, are unable to access the financing they need to grow.

Crowdfunding is an effective way for entrepreneurs to bridge the gap between the earliest stages of funding and later growth capital. While it is a great fit to fill that gap, it should not be thought of as a full replacement to more traditional channels of funding. In some cases, there is an overlap, but crowdfunding is best used as a tool to supplement the more traditional financing methods.

Entrepreneurs in the earliest stages are typically unable to make use of crowdfunding. Crowds are willing to pre-purchase a product on a rewards-based crowdfunding platform like Indiegogo, but they need to be convinced that the product is viable. Without a product to showcase, even if it's still in prototype stage, a campaign is unlikely to persuade the crowd to pledge money, unless there is a strong altruistic perspective. Therefore, early stage startups still rely primarily on friends and family, as well as credit cards, to finance their businesses. If a startup decides to crowdfund later on, friends and family members can help the entrepreneur in other ways: by sharing the campaign among their own social circles, for example, which will help to build momentum.

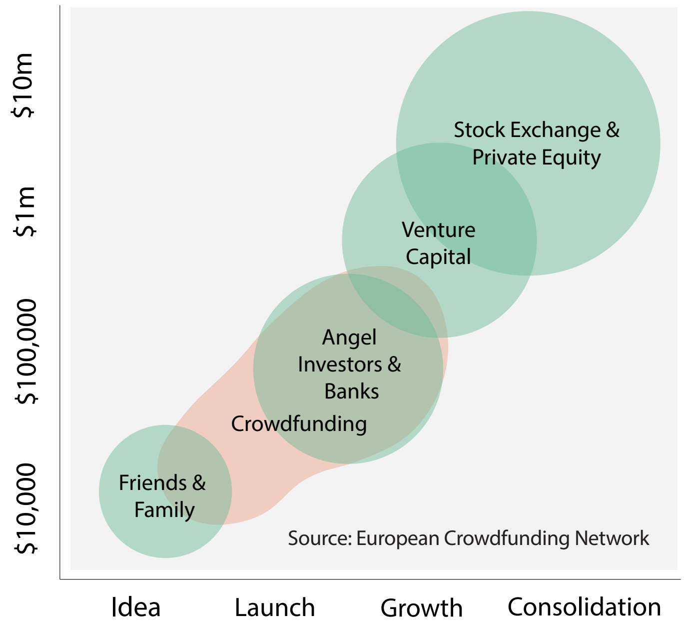
Since the 2008 recession, banks have shied away from lending to early stage businesses, limiting a crucial source of startup funding. Even without the recent credit crunch, bank loans can be quite cumbersome for time-starved entrepreneurs. Business loans typically take months to process; the application itself can also be time-consuming, taking entrepreneurs away from focusing on running their business. Indeed, one of the advantages of P2P lending platforms is the speed with which loans are processed — Funding Circle, for example, can process an application within hours and disburse the loan in under two weeks.

Startup Sources of Capital



Source: INC. Fast-Growing Firms Sources of Funding, The Kauffman Foundation

Where Crowdfunding Fits In



More recently, banks have also made use of P2P platforms, both by lending money via the marketplaces, and by referring businesses. That's a sensible strategy, as banks are typically most accustomed to working with larger clients and do not have an incentive or the expertise to work with smaller firms. The banks do, however, have money to lend, and lending this capital via a marketplace is an effective solution. Such developments point to a potential future in which established institutional players work with online intermediaries to mutual benefit.

Angels and venture capitalist firms are, likewise, making use of crowdfunding intermediaries, primarily as a way to discover, communicate with, and invest in startups they would not have found otherwise. The best example of this AngelList, which emerged as an online platform for startups to connect with potential backers, and has since introduced the Syndicates feature, which allows accredited investors to co-invest alongside prominent Silicon Valley investors. That's a model that can be replicated for specific sectors and geographies, and greatly expanded as equity crowdfunding opens up to the unaccredited investors following the SEC's recent approval of the JOBS Act.

While, initially, the talk around crowdfunding centered around how it would challenge existing players, the new funding model has emerged as more of a complementary tool. Expect more and more traditional players to turn to crowdfunding processes and technology to open up investment opportunities to the masses.

Kiva's Social Crowdfunding Mission

Image Source: Kiva

Few organizations have done more for entrepreneurship globally than Kiva. A trailblazer in the crowdfunding and P2P lending space, the organization celebrated its 10th anniversary last month.

In its ten years, Kiva has facilitated 920,000 loans to the tune of $775 million. Of the 1.8 million borrowers on the platform, 625,000 have come from least developed countries; 75 percent of the borrowers have been women. The company operates in 83 countries globally, and 202,000 of the borrowers have come from conflict zones.

"This year, we are on track to crowdfund nearly $140 million in microloans," CEO Martin Tschopp said. "It's difficult to get an exact figure for microfinance lending overall, but estimates vary around $50 to $100 billion globally, so we're a small part of the total equation."

But that doesn't mean Kiva is making a small impact. Quite the contrary — because Kiva provides its capital at zero percent interest to its field partners, it encourages these institutions to "go as deep as they can — go to the most rural and poorest areas and provide innovative solutions," Tschopp said.

In addition to providing loans, Kiva encourages its partners to offer training to their clients on financial literacy, entrepreneurship, and much more. That enables the previously underbanked to not only obtain the capital they need to grow their businesses, but to also learn about how to best make use of the loans they receive.

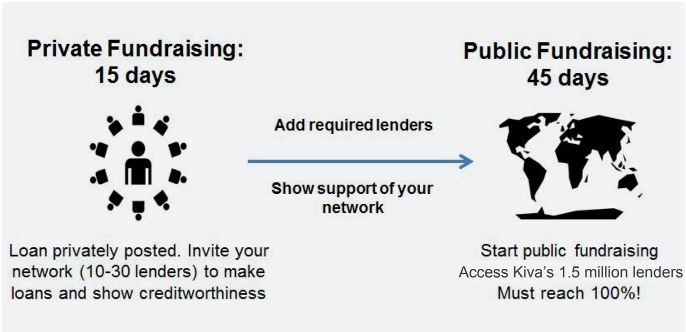
Kiva's loans are making an impact beyond just the individual borrowers. That's in large part because most of the borrowers are women, who tend to reinvest a large portion of the money they earn into their families. That, in turn, creates stronger communities and leads to greater economic growth for their countries.

To further the impact of their loans, Kiva has started to lend money to SMEs with the explicit goal of creating jobs. In Haiti, for example, Kiva made a loan a year ago to a social enterprise with the goal of creating 300 permanent, quality jobs — thus far, the loan financed 100 new employees and contracts with 300 smallholder farmers.

"Over the years, we've facilitated 100 such SME loans, and the demand from lenders has been huge," Tschopp said. "The question is, how large can this scale, can we do 100 or 1000 of these loans every year?"

Though Kiva is arguably best known for its work in developing nations, one of its most innovative solutions has come from the US, where it's piloted a 'social underwriting' program via Kiva Zip.

The Kiva Zip Model



"There is a lot of talk about new ways of underwriting credit via crowdfunding and P2P lending," Tschopp said. "But many P2P companies are ultimately using the FICO score, combined with new technology. What we're doing is fundamentally different — it's social underwriting that's not based on the FICO score. We don't care about credit history or the business's income. There are only two requirements. The entrepreneurs need to bring in the first group of lenders — the friends and family round. The average requirement is 20 lenders, but we reduce that if the entrepreneur is low-income or if the business type is particularly popular on the platform, such as small farmers. The second requirement is being able to tap into Kiva's community of lenders and the wisdom of the crowd to get their loans fully funded."

Tschopp said this "requires borrowers to hustle and write a compelling story," but if they are successful, they are able to access a zero-interest loan to grow their business. If Kiva can continue to grow this social underwriting initiative, Tschopp said the company would look to expand the program to less developed nations, like Mexico.

Kiva has had great success in the last ten years, and its focus on providing new and innovative methods of financing entrepreneurship mean the company is well-positioned to expand its reach in the next decade. The fact that new players have since jumped into the field, Tschopp thinks, can only help the fledgling industry.

"I'm extremely bullish," he said. "In the developing world, 2.5 billion people are underbanked, and we are one piece of the puzzle in financial inclusion. But the need is great, and with so many financial inclusion startups working on this, I can't see the industry going anywhere but up."

Picking the Right Model

Entrepreneurs in different stages of development have different choices to make regarding the type of crowdfunding campaign they wish to run.

Before outlining what businesses best fit the four types of models, however, it is important to mention that crowdfunding is not appropriate for every company.

Crowdfunding campaigns, by their nature, invite scrutiny and encourage transparency — a company that is awaiting patent approval, or wishes to maximize its first mover advantage may decide to keep its funding activity private.

Companies that are too early on in their development may also be better off waiting before launching their campaign. If potential backers, donors, or investors think the idea is not yet fully baked, they will hold off from pledging money, bringing potentially negative attention that may damage future funding prospects. Alternatively, mature companies also need to be careful about crowdfunding; instead, they can create their own platform to reap the benefits of market testing that crowdfunding provides. That's the course of action taken by Sony, which launched its First Flight crowdfunding and co-creation platform earlier this year.

Donations: Donations crowdfunding is best suited for charities and personal campaigns. That doesn't mean, however, that startups are barred from using this model. It can be effective for social entrepreneurs who are running projects that may be attractive to those who are passionate about that specific issue.

Rewards: Reward-based crowdfunding campaigns are suitable for many kinds of startups in various stages of development. The best fit is for startups that can promise the end product in return for the contribution — a copy of a video game, a tasty snack, or an innovative hardware product — instead of just being able to offer perks like tee shirts in return for the pledge. Typically, entrepreneurs will need to have at least a working prototype to show the potential backers before they can turn to crowdfunding, using the money raised via pre-orders to fund the earliest production run.

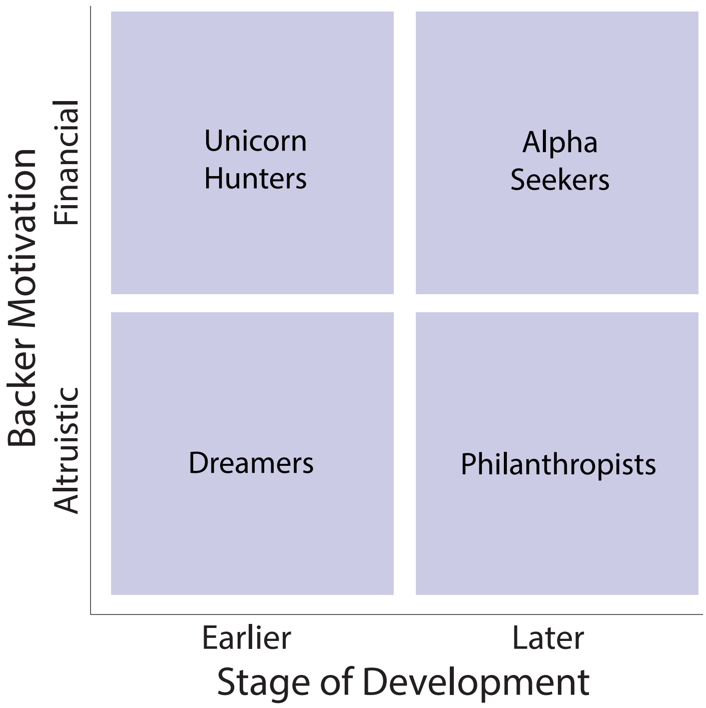
But later-stage companies can also benefit from crowdfunding, as a marketing and market-testing tool. Indeed, some well-funded startups have used crowdfunding campaigns as launch springboards, using early adopter feedback to either tweak their design, or to introduce new variants of a product (a new color or size, for instance). For later-stage companies, crowdfunding campaigns can also be used to enter new international markets.

Equity: Equity investment can often be a more desirable source of funding than loans: early startups are often the most cash-strapped and monthly loan repayments can be a severe constraint on growth. Equity-based crowdfunding campaigns are best-suited for firms that are able to show some degree of market buy-in. Investors on equity crowdfunding platforms tend to look for early stage startups that have the chance to grow rapidly, so they are willing to take on some risk if they believe in your company's long-term vision. They will not invest, however, unless a startup can show that it's on the path to fulfilling its vision. Like for rewards-based crowdfunding, entrepreneurs must be comfortable with opening up their businesses to scrutiny, which is even greater for equity campaigns, as investors will want to see business plans and cash flows to date, along with other sensitive information.

Lending: P2P lending is a great option for later-stage startups. Because lenders will expect a return on their investment, a startup must be confident that its cash flows will be able to cover monthly repayments. There are some exceptions — Kiva, for example, is enabling some borrowers to raise money from the crowd at no interest, which can be a great option for small businesses; that program, however, is currently limited to the US (see our feature above). As with other crowdfunding models, lenders to a startup will have incentive to promote the business to their own networks, building valuable word-of-mouth marketing.

While every startup will need to pick the appropriate model and platform to raise money from the crowd, there is nothing preventing a startup from creating several campaigns. Indeed, it's not difficult to foresee startups in the near future building an early adopter base by pre-selling their products on a rewards-based platform, then going on to raise a funding round via an equity crowdfunding platform, and, once it is mature enough, borrowing money by listing on a P2P platform. Some startups are already doing this. PonoMusic, for example, raised $6.2 million on Kickstarter to raise awareness of its music player, and used its success to raise a further $6 million from accredited investors on Crowdfunder.

AlliedCrowds Crowdfunder Matrix



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Indiegogo Looks to the Future

As crowdfunding matured as an industry, new players have jumped in en masse — in 2013, even Donald Trump took part, pledging to partially or fully fund select campaigns on the platform FundAnything on a weekly basis. The vast majority of the platforms have stumbled, failing to build the scale necessary to attract quality projects and new backers.

As new entrants jumped in and flared out, Indiegogo focused on its core mission — allowing quality campaigns of various kinds to raise money from the crowd — slowly rising to become one of the most prominent platforms globally. Unlike its competitors, Indiegogo has prioritized flexibility, allowing charities to raise money alongside innovative hardware products, and giving campaigns various fundraising options.

As it grew bigger, the company introduced new, innovative features,

> "Crowdfunding is becoming a big part of starting and financing your ventures."
>
> *- Alisa Cordesius, social innovation and design manager at Indiegogo*

like its InDemand funding option, which allows campaigns to raise money following the campaign's end. Indiegogo also made it easier for individuals and charities to raise money for their causes, dropping all platform fees on its donation-based platform Generosity (until recently known as Indiegogo Life).

Today, Indiegogo is a household name in the crowdfunding industry, and it has no plans of slowing down — indeed, CEO Slava Rubin has recently stated (as he has in the past) that the company is highly interested in equity crowdfunding, which was recently approved by the SEC.

As Indiegogo has matured, so has the entire industry, said Alisa Cordesius, manager of social innovation and design at Indiegogo.

"Crowdfunding is becoming a big part of starting and financing your ventures," she said. "It's a great storytelling and marketing mechanism, in addition to raising money and market testing ideas."

Having seen thousands of campaigns go through the platform, Cordesius believes one of the key success factors is the perks that campaigns offer to the potential backers.

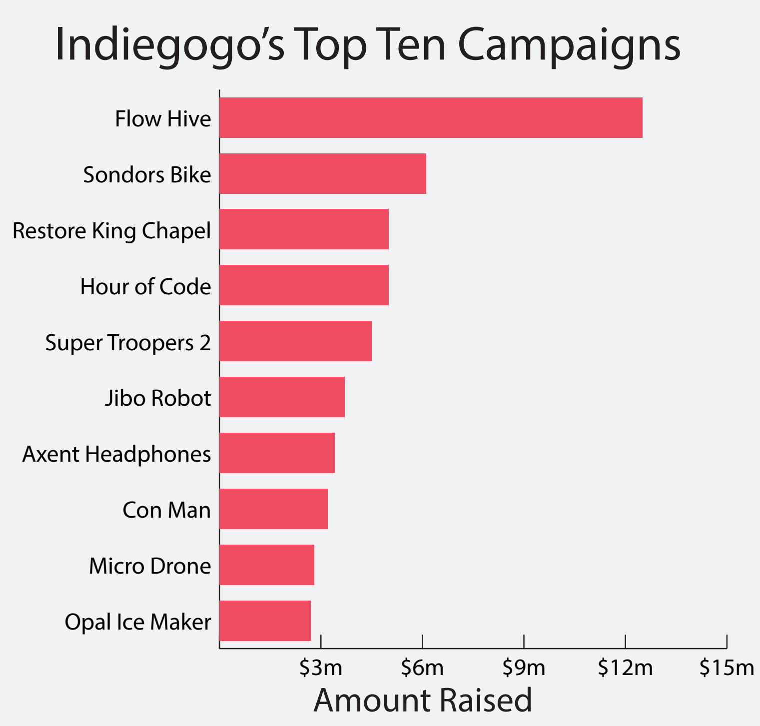
"People generally want to contribute for one of four reasons," she explained. "Either they know you, they passionate about what you're doing, they want to participate in your cause in some way, or they desire the tangible perk. The first two are selfless, while the last two are more 'selfish' — if you offer perks that hit those motivations, you have a wider audience."

While much has been made of the potential of crowdfunding to replace more traditional sources of SME funding, Cordesius believes crowdfunding can work with angels and VCs, by helping them, for example, to see which products are resonating the most with the crowd.

"At first, there was the idea that we're going to repel each other, but we've found that it's a yin-yang relationship," she said.

One of the company's goals is to find the right institutional partners to work with, which can create an incentive for entrepreneurs to crowdfund their campaigns on Indiegogo, as well as generate positive publicity for the corporates and (in the right cases) enable them to find new and innovative products their customers may be interested in. Recently, for example, Indiegogo partnered with the brewery Shock Top to run the Shock the Drought campaign, which sought solutions to alleviate the effects of the California drought.

As crowdfunding continues to mature, Indiegogo has already positioned itself as one of the most important players in the space. If it elects to enter the equity crowdfunding domain, the company can become an almost one-stop-shop for startups and entrepreneurs to raise money from the crowd, further solidifying its place as a true crowdfunding leader.



Crowdfunding Successfully

Crowdfunding campaigns have steadily gotten sleeker and smarter, as entrepreneurs have learned from the failures of predecessors. That's a good thing from the perspective of potential backers, and it also means project creators need to ensure their campaign is as polished as possible from the moment it launches. We reached out to crowdfunding consultant Rose Spinelli of The CrowdFundamentals to better understand how to build a convincing campaign, and what mistakes to avoid.

ALLIEDCROWDS: What are some things entrepreneurs may not know about but that are crucial to running a successful crowdfunding campaign?

ROSE SPINELLI: Finding relevant news media to write about you seems to be a huge stumbling block. People don't take the time to do that, and if they do, they always start too late. It's a fatal blow to many campaigns.

Also, tying relevant current events to support your campaign will always help. It can be in the form of newsjacking, which basically entails using a topic that's currently in the news and connecting the dots between it and your campaign or idea. But, it's got to be a natural fit. Say, for example, you're developing a product that will add value, or otherwise mitigate, a current vexing medical problem. You might take advantage of a study that's been released, and write an article about how your product will have a positive impact on this medical problem.

AC: What are the biggest challenges to running a crowdfunding campaign?

RS: It's a time suck, that's for sure. If you know going in you're not going to be able to take the time, maybe crowdfunding isn't right for you. If you have the luxury of working with an in-house team, keep in constant contact with them to make sure they're clear about your broader vision and strategy, and that it's being implemented; no rogue voices. You can use Basecamp to avoid tedious meetings.

Also, if you're outsourcing it completely to a full-service crowdfunding company, be hands on with them as much as possible and have them keep you updated regularly. Don't assume they're the experts. Sure, they know crowdfunding, but they don't know your product or idea. So speak up. Good communication with your team will prevent irreparable damage later.

AC: With so many campaigns now, how can entrepreneurs make their campaign stand out from the crowd?

RS: This relates to the last question, and it's about developing a public 'voice' that will give you authority and build the trust between you and your crowd. So how to differentiate yourself if your idea is not a never-been-done-before campaign? (And, by the way, most do fall into that category.) I think a lot of people fail to take true ownership of their campaign. I can't blame them. We're still very much straddling the old model, which puts an invisible wall up between you and your consumers.

AC: What are the biggest mistakes you see, and how can entrepreneurs correct them?

RS: They start too late and have virtually no strategy when they launch. That's a huge one. It usually happens because they have conjured up some external deadline that they feel they must hit. I get calls and emails from people insisting they will launch in two weeks — and they think it's okay to launch your social sites at the same time! I've come close to tears when I see really incredible ideas that just need some planning launch prematurely. I know they could have done really great if only they slowed down, took a breath, and didn't have that manic need to put it out there before it's ready.

AC: What are some tools you think are essential to running a campaign (backer-management software, for example), and what tools do you think are missing?

RS: Any tool that will help you find followers and/or press coverage. I like Followerwonk, Buzzsumo, ANewsTip, and Meltwater. What I think is woefully missing are platforms providing marketing, because that is by far the weakest link. If someone figures out how to make that happen, everyone would flock to their site.

AC: Entrepreneurs are often excited about their idea and that gets in the way of them explaining well exactly what it is they're looking to do — what are some ways for them to avoid making such mistakes?

RS: This should be a no-brainer but it seems to need to be said. The easiest way to avoid these mistakes is to focus on the user, and not on how great you are. I think there's something inherent about social media that provokes that type of hype in people, but it's the wrong approach for crowdfunding.

Lots of times, for example, campaigns describe their product or idea as the first ever, when I know for a fact that's not true. This creates unnecessary trust issues. Forget the hyperbole. Focus on what problems you're solving for your audience — and let them say how great you are. Basic marketing, really. And now that equity crowdfunding is here, all the hype can work against your company in real ways. If you're an entrepreneur who wants to raise capital in exchange for equity, make sure you understand how general solicitation works online. It's best to consult an attorney.

Featured Campaign: Coolest Cooler

Image Source: Kickstarter

If there were a Mount Rushmore of crowdfunding campaigns, the Coolest Cooler would certainly make an appearance. The second-most funded campaign ever on Kickstarter, the Coolest enjoyed incredible success, raising $13.2 million (a record at the time) from over 62,000 backers.

The Coolest is a cooler on steroids. It comes with speakers, a blender, a cutlery set, and many more useful features. Its inventor, Ryan Grepper, set out to energize the traditional cooler, making it a more prominent feature of outdoor activities. Backers bought into his vision, making the Coolest one of the most famous products to emerge via crowdfunding.

The Coolest campaign underscores both the lucrative potential of crowdfunding, as well as the difficulty of crowdfunding successfully.

Before Grepper's wildly successful campaign in the summer of 2014, he ran a campaign for an earlier prototype of the cooler in the winter of 2013. The campaign came close to its goal, raising $100,000 of its $125,000 goal. But, on Kickstarter, campaigns that don't meet their target aren't able to keep the money they've raised.

Instead of getting discouraged, Grepper went back to the drawing board, made important tweaks, and came back with a much stronger campaign the second time around.

"[The failed campaign] showed us mistakes to correct when we launched the second time, and this time, we were much more prepared with people to reach out to at the start of our campaign," Grepper said. "We also moved our design much farther along, and had much better luck launching our Coolest in the summer rather than mid-winter."

The second campaign attracted widespread media attention and backer interest, which came as an initial surprise to Grepper and his team.

"Coming in at 26,000 percent to goal is a challenge, but it's a good problem to have," the inventor said. "We've had to quickly scale up and bring in outside experts to help us execute on every stage of this process, and it's been a challenge moving at full speed while managing the process."

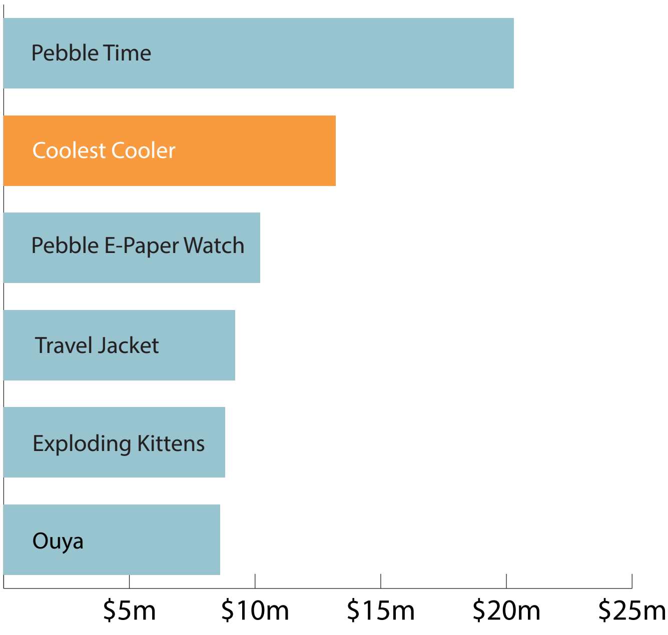
The great response allowed the Coolest team to upgrade certain components of the product, leading to a better product delivered to backers.

Currently, the campaign is in the process of shipping out the coolers to the Kickstarter backers, some of whom have grown impatient with the wait. That's a difficult problem to manage for those who crowdfund their products, as hype around a campaign brings with it greater scrutiny. Still, Grepper thinks crowdfunding is a great way for entrepreneurs to build excitement and make their vision come to life.

"We believe our Kickstarter backers will be some of our most enthusiastic supporters," he said. "[Crowdfunding] allowed us build a base of support for a new business and make a dream a reality."

Grepper said the key to running a successful campaign is preparation, and ensuring the team gives itself enough time to be able to deliver on promises made: "As an entrepreneur you need to give yourself enough runway."

Top Kickstarter Campaigns



After the Campaign Ends

Crowdfunding campaigns, almost by definition, are exciting. Energetic entrepreneurs appear in sleek campaign videos to extol the virtues of their yet-to-be-created products, while backers revel in the belief that their contributions are helping to create something that may never have existed otherwise as they track the campaign's progress toward its target.

When the campaign does reach its goal, the backers often perceive it to be the end point of the crowdfunding journey. For entrepreneurs, however, the campaign's end is just the beginning of a long process to bring the product to market.

A number of firms have sprung up to help entrepreneurs deliver products to backers. Arguably the most prominent is Dragon Innovation, which, among other services, connects hardware startups with manufacturers in China. The company has employees on the ground, ensuring that the factories understand exactly what the product is aiming to do, and that the molding, worker training, order fulfillment, and shipping phases of product development are executed as seamlessly as possible.

Led by Scott Miller, who had previously worked at iRobot and Disney, the company has worked with some of the biggest hardware products in crowdfunding, including the Pebble watch and the Coolest Cooler.

"Our vision has been to make consumer electronics feel easy," said Miller, the CEO and founder. "We are providing the easiest and shortest path from prototyping to manufacture."

The company offers a number of services to help entrepreneurs in different stages of growth manufacture their products.

The earliest stage at which Dragon gets involved is during the campaign planning phase. At that point, Dragon can provide guidance on the campaign goal, help entrepreneurs price the inputs they need to create their product, and ensure that the minimum number of units ordered during the campaign can be manufactured economically.

"The decisions you make early on can cast a very long shadow," Miller said. "We help entrepreneurs understand how much money they really need to deliver product. We explain how long it will take — manufacturing can involve up to 197 different steps, and we can help pick the appropriate ones depending on the product specifics. Finally, we go through a thorough design review to ensure the product is viable."

If the entrepreneurs make it through the process, they are awarded Dragon Certification, which can go a long way in reassuring potential backers that the product will not die out due to poor planning.

Those campaign owners that raise the money from the crowd can continue their relationship with Dragon through the manufacturing process. The company helps entrepreneurs choose the best factory, negotiate the contract, review the designs, plan the schedule, source the right materials, and much more.

Dragon also provides free services for those who are thinking about how to manufacture their product. The company has created a number of videos explaining the ins and outs of the manufacturing process, from costing the parts to what waterproofing a product may entail. Recently, the company released a software solution that allows entrepreneurs to come up with a Bill of Material (BOM) — a spreadsheet that allows factories to break down the costs, and entrepreneurs to better plan their manufacturing process. Tools like the Dragon Standard BOM, Miller said, enable the entrepreneurs and factories to converse in the same language.

Promoting that sort of mutual understanding among the players involved in the manufacturing process is crucial for the industry's maturity. Just a few years ago, early adopters did not have a clear understanding of how many units they needed to pre-sell in order for factories to work with them, which helps to explain why many of the early rewards-based campaigns experienced delays. Several years on, Miller says the entrepreneurs are much better educated about what to expect post-campaign. That will keep more campaigns on schedule, and lead to fewer disgruntled backers.

"I'm definitely excited for the industry," Miller said. "There's more mainstream acceptance — it's no longer on the fringes."

Crowdfunding, Entrepreneurship and Development

Image Source: Kiva

Crowdfunding, because of its strong link to entrepreneurship, has tremendous potential to help both developed and developing nations spur innovation, create jobs, and stimulate the economy. After all, it's for a reason that the US legislation that legalized crowdfunding came as part of the JOBS Act.

In many developing nations, entrepreneurship has moved to the top of the agenda — and for good reason. Micro-, small-, and medium-sized enterprises (MSMEs) are known for driving job growth in the developed world, and while the picture is less clear in developing nations, a widespread acceptance has been adopted for the importance of these firms in creating jobs. A 2013 International Labor Organization report, for example, found the impact of startups and small businesses to be positive on developing nations' economies.

"This is due to the positive effects of business dynamics (the processes of entry and exit): the entry of new firms may improve the overall competitiveness and innovativeness of the industry to which the start-ups belong," the report noted.

Likewise, a recent World Bank statement called for greater access to finance for MSMEs in the developing world, pointing out that these firms are, "collectively, the largest employers in many low-income countries."

Today, much of the funding that's passed through crowdfunding platforms to developing nations comes from developed nations. That shouldn't come as a surprise — developing nations have much lower rates of internet penetration and financial literacy and wealth. Crowdfunding can help to promote the latter; until emerging markets grow large enough to support robust crowdfunding ecosystems, however, we see the diaspora as a key driver of crowdfunded capital. That's because members of the diaspora community are well connected to entrepreneurs in their home countries, and can better understand the risks involved in supporting one business versus another. In addition to providing startup capital, diaspora communities can provide valuable mentoring and expertise, helping to reduce the effects of brain drain that have plagued developing nations for decades.

Governments and multilateral aid agencies can also play a role here — just as many developing nations have been promoting entrepreneurship, many have also been looking to involve the diaspora in their nations' development. We believe crowdfunding presents a tremendous opportunity to combine the two trends.

Indeed, there is another powerful reason for governments to support crowdfunding: one of the UN's recently-published Sustainable Development Goals calls for 'Decent Work and Economic Growth.' With an extra incentive to create more and better jobs, don't be surprised to see more governments experimenting with crowdfunding as a method of promoting entrepreneurial activity and job creation.

Financing Entrepreneurs in the MENA Region

"Dubai, United Arab Emirates" by Paolo Margari
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With a large population of well educated but underemployed youth, the Middle East and North Africa (MENA) region is ripe for a startup explosion.

The ecosystem continues to develop with incubator and accelerator programs supporting government initiatives across the region. Three limiting factors, however, persist: the lack of connectivity across the ecosystem; the limited access to early stage financing; and the lack of a business-friendly regulatory framework to support entrepreneurs.

Looking to solve the connectivity and funding issues, Philip Bahoshy founded MAGNiTT. The online platform allows entrepreneurs to list their startups, connect with investors, and interact with potential mentors to support them in their startup's growth.

"Our goal is to become the go-to platform for investors, mentors, and potential co-founders to connect with MENA entrepreneurs," Bahoshy said.

MAGNiTT does not aspire to be a crowdfunding platform. Instead, it is looking "to create a network to connect entrepreneurs to the appropriate services and channels based on their specific needs and requirements."

Connecting startups to the right mentors, Bahoshy believes, "is the best mechanism to support them in their business development and eventual access to angel funding."

Bahoshy did say, however, that crowdfunding can play an important role in the region.

"Our recent statistics highlighted that 37 percent of all startups on MAGNiTT are looking to raise between $50,000 and $250,000," he noted. "Access to early stage capital to kick start growth is challenging to source, and crowdfunding can potentially fill that gap."

To be successful, however, Bahoshy thinks two things need to be addressed: the development of a regulatory environment that supports equity- and lending-based crowdfunding, as well as greater education of founders and investors on the mechanisms and benefits of the different types of crowdfunding.

"There is an appetite for crowdfunding, but the current lack of regulation does not instill investors with confidence," he said.

Furthermore, "crowdfunding is perceived, wrongly, as funding of last resort," Bahoshy explained. "This points to the need for greater education around it, as well as angel investing more generally."

Despite these challenges, crowdfunding platforms continue to gain traction in the region. Bahoshy pointed to the success of Eureeca, an equity based crowdfunding platform, and Beehive, a P2P lender that he highlighted recently won the Gulf Capital Startup Business of the Year award. These two companies have taken off despite the difficulties in the region. MAGNiTT is in early conversations with both, as well as others, to recommend their services to startups listed on their platform, depending on their specific needs.

Furthermore, crowdfunding is emerging at the right time: there is a push to spur entrepreneurship globally, and Bahoshy said he also sees strong initiatives on the part of governments in the MENA region to push entrepreneurship as a means of diversifying their economies away from their reliance on oil and as a source of job creation, training, and development.

What's helping the effort is the success of a number of startups that have begun to pave the way for others: Souq.com, Talabat, Souqalmal, and Careem are just four household name examples, with Careem having just raised $60 million in Series C funding.

With entrepreneurship continuing to take off in the region and strong demand for early stage financing, expect financial regulators to look more seriously at creating the appropriate regulatory framework for crowdfunding.