



# Crowdfunding Guide

Crowd88

*Disclaimer: Crowd88 does not provide financial or investment advice. This guide has been prepared as a support document to provide a greater understanding of Crowdfunding. It is recommended that before you make any decisions to Invest or Raise Capital via a Crowdfunding platform that you discuss this with your financial advisor*

# Guide



## What is Crowdfunding?

Crowdfunding can be defined as the practice of funding a project or venture by raising funding from a large number of people. It allows you to raise capital from a large number of people who typically contribute smaller amounts but who in aggregate as a 'crowd' can sometimes contribute significant amounts.

## What are the different forms of Crowdfunding?

**Equity Crowdfunding:** Is the process whereby people invest in companies in exchange for shares (equity) in the company.

**Reward Crowdfunding:** In return for backing an entrepreneurs' project, the backer will receive a reward based on the amount of funding they provided. Typically, there will be different types of rewards based on the amount of money that each backer provides.

**Product Crowdfunding:** Investors provide funding for a company; in return they receive the product that the company produces, upon completion. This is similar in concept to Reward Crowdfunding.

**Donation Crowdfunding:** This type of crowdfunding is where people donate funds to a good cause. The donator does not receive anything in return.

**Peer-2-Peer lending:** abbreviated as P2P lending is where someone lends funds to an individual or business in return for interest over a fixed period of time.

## How does it work?

In most cases people will use a Crowdfunding platform for their capital raise. On the platform, the company usually has their own profile pages where they can provide all the relevant information regarding their capital raise. They can also upload videos, pictures, graphics, financial information, strategy and business plans, key people information, other important offer information and various other details which potential funders will want to know.

The offer will usually set a minimum funding target (and in some cases a maximum target) they want to raise within a specific timeframe.

## Why Crowdfund?

**Access to capital:** Crowdfunding is one means to access the capital you need to build your company. This is particularly beneficial for early-stage companies, as obtaining capital may be difficult for them.

**Market research:** For reward and product based crowdfunding it allows companies to gather market research to determine whether their product or service is attractive to the market. It allows a company to go directly to their family, friends, customers, social media followers and the crowd to validate the potential of their product or service.

**Attract a following:** A well run raise capital campaign will not only attract funders it also attracts followers. Most crowdfunding operators will also run parallel social media pages for campaigns allowing additional PR & Marketing for the company.

**Access to Crowd:** By Crowdfunding you get access to a crowd that is registered on the Crowdfunding platform that you use. This provides additional access to capital than some other more traditional funding channels.

## What funding models are used in Crowdfunding?

There are two common funding models used in Crowdfunding;

**All or Nothing (AoN):** The AoN model is where a company sets a minimum (and sometimes a maximum) capital raise target. They need to reach their minimum target before any funds are paid to them. If they fail to meet their minimum target, all funds are returned to the investors. The AoN model is mostly common for Equity and Product based Crowdfunding.

**Keep it All (KiA):** The KiA model involves the company setting a target but regardless of whether they meet the target or not they will keep whatever funding is raised. The KiA model is more common in Charity and Reward based Crowdfunding.

### **Is Crowdfunding regulated?**

Whilst Crowdfunding is a relatively new industry a number of countries have now introduced specific legislation to govern certain forms of Crowdfunding. In particular, Equity Crowdfunding and P2P lending have been the focus of many regulators. For most countries where it is regulated it is the Crowdfunding intermediary (platform operator) that is required to hold a licence issued by a regulator.

### **What types of products or services do companies Crowfund?**

Generally, there is no restriction on the products or service offered in Crowdfunding. There are various forms of Crowdfunding and depending on the type of Crowdfunding the company selects; the structure and campaign will be determined.

### **What sets Crowdfunding aside from other methods of capital raising?**

The main benefit of Crowdfunding is that there are different modes and methods that a company can employ; depending on the stage of the business cycle they are at, their motives and business structure.

### **Who do the companies on Crowdfunding platforms raise funding from?**

There are various sources of funding provided to Crowdfunding campaigns. Some common sources of funding come from the following groups;

**Family and friends:** This specific group tends to be long-term investors, with strong loyalty and support as they want to see the company succeed.

**Employees and Customers:** This group of investors typically invest because of loyalty and their experience with the company or entrepreneur.

**Social Media Followers:** A strong social media following on Facebook, LinkedIn, Instagram, Twitter, Google + will not only potentially invest but they also promote your campaign.

**Venture Capitalists/ Companies:** this group typically invests in Equity Crowdfunding and are likely to invest larger amounts.

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*Connecting companies with investors*