

DOCUMENT

Introduction to Crowdfunding



Australian Centre for Education & Training

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Overview of Crowdfunding

What is crowdfunding?

Crowdfunding is a method of raising capital for a project, cause, or venture by appealing to people through the Internet and social media. Money is pooled as donations or investments from a large group of interested people. Investments can be reward-based, loan-based, or equity-based. The people who contribute money to the project or venture are called 'funders'. Funders may also be known as 'backers', 'donators', or 'investors'.

There are four types of crowdfunding:

- **Donation-based crowdfunding:** Funders contribute donations on a charitable basis, with nothing required or provided in return.
- **Reward-based crowdfunding:** Funders receive rewards (e.g. gifts, merchandise, discounts, etc.) in return for their financial contribution.
- **Loan-based crowdfunding:** Funders loan money to the entity for which capital is being raised. In return, the entity agrees to pay back the entire sum of money received from the loan. The terms of the loan must be agreed upon by both the funder/s and the entity, and may include the requirement for the entity to pay back interest accrued on the loan, along with the principal amount invested.
- **Equity-based crowdfunding:** Funders are issued shares, or receive equity considerations, in the entity for which capital is being raised.

Three parties are involved in the process of crowdfunding:

- The campaign creator: the person wishing to raise funds for the project, cause, or venture.
- The intermediary: the website or platform that advertises and promotes the crowdfunding campaign.
- The funders: individual or groups of individual donators and investors who contribute to crowdfunding the campaign.

How does it work?

- The project is prepared. This includes elaborating upon the idea or proposal and making an attractive presentation about it. An interesting video is the most helpful tool to do this.
- The target goal and reward scheme (if applicable) are decided. How much money is to be raised? Will the crowdfunding be donation-based, reward-based, or equity-based? If applicable, how will the funders be repaid?
- A suitable platform for the campaign is selected from the many options available on the Internet. Factors to consider in choosing the most suitable platform include popularity of the platform, effectiveness, and suitability for the project, cause or venture, along with the desired approach to crowdfunding.
- The campaign is begun by posting the project, cause, or venture on the chosen platform. The campaign is then shared with friends, family, and the wider community to increase its publicity and garner support.
- The money raised is used to start turning the idea or proposal at the centre of the campaign into reality. It must be noted however, that with many crowdfunding platforms, the money is not made available unless the target goal has been reached.

What are the advantages and disadvantages of crowdfunding?

Advantages:

- It is an easy and convenient way to raise funds. With the reach and popularity of the Internet, the exposure provided by crowdfunding websites and the amounts raised by these platforms continue to grow.
- It offers an alternative option to raise money, instead of the conventional route through banks. Unlike with banks, crowdfunding can provide access to donations, as well as interest-free loans and investment agreements.
- The campaign creator can control how money is received. Additionally, the creator can decide the terms, conditions, and type of repayment/return to investors.

- The campaign creator can select from multiple platforms, with each offering different incentives and fee amounts.

Disadvantages:

- It is possible that no return (funding) will be made from the campaign. Additionally, some platforms only process (make available) the funding that has been procured once the target amount to be raised has been reached. In this situation, financial contributions from funders will not be paid if the target amount is not reached.
- The inability to change the campaign. Once a project, cause, or venture is listed on a platform, the description and stated completion time cannot be changed. If changes are made to the project, cause, or venture and these are not communicated to funders prior to this, investors can ask for a refund.
- Crowdfunding is limited mostly to short-term business ideas and causes. Successful crowdfunding campaigns focus on a goal (e.g. product or service) that will be achievable and ready within five years.

Guide to Starting a Crowdfunding Campaign for a Business Idea or Proposal

This step-by-step guide outlines the actions required to effectively raise funds for a business idea or proposal through crowdfunding. The crowdfunding method of raising capital is best suited to entrepreneurs offering a unique product or service.

1. Clearly outline the product, service, or process that is to be crowdfunded.

Once you have a clear understanding of how you can differentiate yourself from other businesses, produce a description of the idea or proposal (product, service, or process) for which you are raising capital.

2. Set a time limit on your crowdfunding campaign.

Setting a timeline provides a deadline for your audience to choose to invest in your business. The duration of the campaign should be adjusted to take into account the amount of money you wish to raise, and the desired timing of the objectives of your business plan.

3. Determine the amount of money you wish to raise.

This step is important because some crowdfunding platforms only pay out the money raised once the pre-stated campaign target (goal amount) is reached. Identifying your targeted market and estimating the response to your campaign in advance is necessary, as it will assist you in determining a realistic campaign target that can be achieved within the set time limit.

4. Develop a compelling pitch about your product or service.

Build on the description you created in Step 1. to produce an informative and compelling 'pitch' that will convince potential funders to support your campaign. Ensure your pitch explains how your idea or proposal will make a positive difference to people's lives and/or become profitable in the future.

5. Choose the right crowdfunding platform for your business idea or proposal.

Many different crowdfunding platforms, or sites, are available today. Each offers its own advantages and disadvantages for different types of business ideas or proposals. A clear understanding of the goals and limits of your own business is necessary to select the best platform for your idea or proposal.

6. Go live with your campaign.

At this point, each part of your campaign should be finalised, with the campaign itself ready to promote to your desired audience. It is crucial at this stage to ensure all videos, pictures, and descriptions are formatted correctly to your crowdfunding campaign page.

7. Promote your business.

Ensure your crowdfunding campaign is active and accessible, and continue to promote your business idea or proposal through other social media to maximise the audience it reaches.

8. Actively follow and support the progress of your campaign.

Before, after, and while your crowdfunding campaign is active, be responsive to questions about your business idea or proposal. Ensure that all enquiries are responded to politely, honestly and promptly.

Additional guidance on launching a crowdfunding campaign can be found at the links below:

- '8 Steps to Launching a Successful Crowdfunding Campaign' by Nathan Resnick (2014): <https://www.entrepreneur.com/article/236582>
- 'How to set up a crowdfunding campaign' (public wiki 2015): <https://knowhownonprofit.org/how-to/how-to-and-why-set-up-a-crowdfunding-campaign>

Crowdfunding Website Comparison

Starting a business or launching an idea or proposal requires skills and determination, as well as financial capital. One of the most easily accessible methods of raising capital is crowdfunding. Money raised through crowdfunding may be in the form of donations, micro-loans, or an ownership (equity) or profit share in the company.

Each crowdfunding platform (website) is different, and has its own advantages and drawbacks. This article outlines the benefits and disadvantages of each crowdfunding platform, along with the method of funding that each platform offers entrepreneurs.

Please note that the information detailed here is correct as at 11th November 2016, but is subject to change without notice at the crowdfunding platforms' discretion. Fees included here are based on the fees payable for campaign creators in Australia. Please check the website of the relevant crowdfunding platform for the most up-to-date information.

gofundme.com

Benefits	Drawbacks
<ul style="list-style-type: none"> Platform with the highest amount of money raised Funds are paid out even if target amount is not reached (no penalties for missing funding goal) 	<ul style="list-style-type: none"> Relatively high transaction fees Less exposure than some platforms
Costs	Market
<ul style="list-style-type: none"> 5% of money raised goes to platform 1.75% + \$0.30 charged for payment processing \$0.30 charged per donation 	<ul style="list-style-type: none"> Artists Inventors Charities Entertainers

www.indiegogo.com

Benefits	Drawbacks
<ul style="list-style-type: none"> Option to receive funds if target not reached (flexible funding) Support with marketing and promotion Fees only charged if funds are raised Discounts for non-profits and social causes (0% platform fee) 	<ul style="list-style-type: none"> Relatively high transaction fees Less exposure than some platforms
Costs	Market
<ul style="list-style-type: none"> 5% of money raised goes to platform For funds raised through PayPal, 3-5% charged for payment processing For funds raised through credit card, 3% charged for payment processing, plus \$0.30 charged per donation \$25 bank transfer fee charged for campaigns with bank accounts outside the US 	<ul style="list-style-type: none"> Artists Inventors Charities Entertainers

pozible.com

Benefits	Drawbacks
<ul style="list-style-type: none">• Australian platform• Highest success rate of any major platform• Encourages relaunch/new versions of initially unsuccessful campaigns• Fees are only charged if target is met	<ul style="list-style-type: none">• Relatively new platform• Currently has minimal international investors• Target amount must be reached before funds are paid out
Costs	Market
<ul style="list-style-type: none">• 3-5% of money raised goes to platform• 2.4-3% charged for payment processing• \$0.30 charged per donation	<ul style="list-style-type: none">• Artists• Inventors• Designers• Entertainers

www.kickstarter.com

Benefits	Drawbacks
<ul style="list-style-type: none">• Highest viewed platform• Social media promotion	<ul style="list-style-type: none">• Target amount must be reached before funds are paid out• Projects cannot offer financial incentives
Costs	Market
<ul style="list-style-type: none">• 5% of money raised goes to platform• 3-5% charged for payment processing• \$0.05 - \$0.20 AUD charged per donation	<ul style="list-style-type: none">• Artists• Inventors• Designers• Entertainers

www.kiva.org

Benefits	Drawbacks
<ul style="list-style-type: none">• Platform facilitates interest-free micro-loans• Non-profit based• Zero fees involved• Supports people to create a better future	<ul style="list-style-type: none">• Relatively new platform• Majority of user base US-based• All loans are repayable• Platform is only for borrowers who are financially excluded, cannot access other fair and affordable sources of credit, and/or are creating social impact in their communities
Costs	Market
<ul style="list-style-type: none">• 0% of money raised goes to platform• 0% charged for payment processing	<ul style="list-style-type: none">• Charities• Entrepreneurs• Individuals

ozcrowd.com

Benefits	Drawbacks
<ul style="list-style-type: none">• Exclusively for Australian projects• Relatively competitive fees• Option to receive funds only if target amount is reached (all-or-nothing funding)• Option to receive funds if target not reached (flexible funding)	<ul style="list-style-type: none">• Relatively new platform• Less exposure than other platforms
Costs	Market
<ul style="list-style-type: none">• 2.9% of money raised goes to platform• Fees charged for payment processing vary depending on whether the transaction is personal or commercial, the contributors' payment methods, and volume discounts	<ul style="list-style-type: none">• Personal campaigns• Business campaigns• Charities

For additional information on crowdfunding platforms in Australia and New Zealand, please see the link below:

- 'Crowdfund it! Crowdfunding Platforms in Australia & New Zealand' (2014) by Anna Maguire: <http://www.crowdfundit.com.au/2012/12/18/crowdfunding-platforms-in-australian-and-new-zealand/>

References

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- Legal Vision 2016, 'What You Need to Know About Crowdfunding in 2016', viewed 11 November 2016, <<https://legalvision.com.au/what-you-need-to-know-about-crowdfunding-in-2016/>>.
- Kickstarter 2016, 'Kickstarter Basics', viewed 11 November 2016, <https://www.kickstarter.com/help/faq/kickstarter+basics?ref=faq_nav#Kick>.