

CROWDFUNDING IS THE NEW TREND IN START-UP FUNDING AND INNOVATION CULTURE

By Irene Demetriou

TASK 1: Open your phone. Go to your Apps. How many do you have? Our smartphones often appear like application labyrinths, complicated mazes of technology filled with apps for dietary habits, apps for fashion trending, apps for measuring heartbeats while we jog, apps for news, apps for chatting and messaging, apps for noting tasks and daily planning: anything you can imagine is probably already an application.

TASK 2: Open your mind. Go to all the

ideas you ever had and all the times somebody else got there first. An idea for an online portal which gathers information on available pharmacies, doctors, emergency units? Already done. An idea for interactive children's bookcases, where removable shelves are re-arranged from A to Z or from 1 to 10? Already done. An idea for a company, a unique service, a platform of information? Most of them are already there. What do we learn from our daily insistence to reject any idea we may have but never

implement? We learn that somebody else – somebody much braver, much more active and less of a procrastinator who has no fear of failure – has implemented their inspiration and succeeded. Our usual excuse – and admittedly a most pressing issue in these days of austerity and financial caution – is the lack of capital and funding. How are you to kick-start an awesome idea you may have, without any money to start with? Well there is a solution and it works: it is called crowdfunding.

PLATFORMS



WHAT IS CROWDFUNDING?

Crowdfunding is the use of small amounts of capital from external financing, i.e. a large number of individuals, to finance a new business venture, typically via the Internet. The rise of the crowdfunding industry over the past decade has come from the advancement in web- and mobile-based applications and services. The name is self-explanatory in that the crowd funds start-up ideas, which are showcased on online platforms in a target-type of arrangement: each start-up publishes an online campaign with a desired funding target and has a specific amount of time to achieve that target. So, as an entrepreneur, you would prepare a campaign which, on being published on a crowdfunding platform, would hopefully raise capital from potential investors.

TYPES OF CROWDFUNDING

In *Donation-Based Crowdfunding*, money is raised by members of a community with no financial return to the people funding a campaign. You may receive a discount, a gift such as a book, free tickets, etc. Public figures also use this method to raise money for political campaigning or for a cause: for his 2008 election campaign, Barack Obama managed to raise over \$137 million using this method. This type of crowdfunding also carries a wider social and altruistic motivation, often employed to raise money for socially sensitive purposes, for example disaster relief or schemes to tackle unemployment.

In *Equity-Based Crowdfunding* or *Crowd-investing*, as a funder you become a shareholder in the company you invest in. This means you are entitled to dividends from the company's revenue and a share of the value in the company when shares are sold. You may also have managerial rights such as the right to vote on certain decisions. As an investor, you also run the risk that any investor runs with a company, in that the company may fail and you may lose your investment. This type of crowdfunding is gaining momentum amongst technology start-ups or for start-ups which wish to go into production as soon as possible.

Crowdfunding platforms
Crowdfunding platforms are the most effective tool to make your project idea visible to the world. If you are an aspiring

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or existing entrepreneur with a start-up in mind, you can publish your fundraising campaign and tell your story in order to attract involvement and investment. If you are an investor, a crowdfunding platform will present in an orderly and professional manner all the fundraising campaigns submitted to the platform, a description of each one's policy and monetisation strategy and its desired funding target. The benefit to the investor is that, by searching on these platforms, they can see the level of support from other project investors as well as the time remaining by the end of the campaign, before deciding whether to invest or not.

Crowdfunding platforms receive applications from project owners and, once accepted, the project owner must initiate his or her campaign online. There are many different ways in which a crowdfunding platform makes money. Some add a success fee to the total amount of crowdfunding achieved. Other platforms may take an equity interest in your project, just like an investor. As of 2012, 450 crowdfunding platforms have been identified, which goes to show both the popularity and effectiveness of the idea, but also the essential choice both start-ups and investors have to make in choosing the medium which suits them best. For example, some crowdfunding platforms allow the project owner to receive the amount of total funding even if the original target has not been met. In other cases, if you have not met your initial stated target, you lose all the money, and the investors are reimbursed by the platform.

VIVA LA VITA

Konstantinos Aristotelous and Styliana Vasili managed to secure more than £27,000 for their project, which has been campaigned via Seedrs. The two young, Cypriot entrepreneurs living in London, have created Viva la Vita, a mobile application providing a handpicked shortlist of the best fitness classes happening today and tomorrow, bookable with just a few taps. Revenue is generated through a 15% commission fee on each booking. The entrepreneurs have prepared the iOS version which will be launching in a few weeks while the funds raised though Seedrs will be used, amongst other things, to fund the development of the Android version. The idea is that a person who cannot commit to monthly gym routines, will pick a gym class featured on the App and book a place through Viva la Vita on his/her mobile phone.


TOP FUNDED



Humble Grape: Successful wine & events company creating a technology driven Wine Bar in Shoreditch.

123.7%


EQUITY: 15.00%	INVESTMENT: £250,000
Overfunding	



Rare Pink: Custom diamond engagement rings online at competitive prices.

120.4%

EQUITY: 10.53%	INVESTMENT: £100,000
Overfunding	



Blue Crow Media: High quality curated city guide apps for contemporary urban life.

114.3%

EQUITY: 5.00%	INVESTMENT: £50,000
Overfunding	

SUCCESS STORIES

Veronica Mars Movie: *Veronica Mars* is one of the five highest grossing crowdfunding projects to date. Aiming for \$2 million in funding, it ended up with over \$5.7 million and a studio-backed film adaptation based on the popular TV series of the same name.

The Glif: This is a simple smartphone holder that works as a stand or tripod attachment. It's such a simple piece of engineered plastic, yet it solved the common problem of stabilizing that users faced when trying to use their iPhone camera to film or photograph. The project was designed on a \$10,000 budget, but ended up surpassing \$137,000 in funding.

Pebble: Pebble is a watch which connects to iPhone and Android smartphones using Bluetooth, alerting you with a silent vibration to incoming calls, e-mails and messages. Amazingly, the venture raised over \$10 million through crowdfunding.

Tidy Books: A mother from England managed to raise £105,000 for her innovative and eco-friendly storage that get kids reading.

HOW TO DESIGN A SUCCESSFUL CROWDFUNDING CAMPAIGN

- Decide how much funding you want to raise .
- Decide for how long your campaign will run.
- Create a top-notch video showcasing your product or service.
- Understand that crowdfunding platforms are not charity hosts and that they will demand something in return; read the policies and terms of each platform before deciding where to publish your campaign.
- Keep the idea professional and with a plan in mind. As with traditional investments, no-one is likely to give money to amateur time-wasters.


HOW TO INVEST IN A CROWDFUNDING CAMPAIGN

- Choose start-ups which you feel passionate about in order to secure maximum engagement.
- Understand that, as with any investing

attempt, failure is more likely than success. Be prepared to pay a price for it.

- Some campaigns are based on flexible funding, meaning that the idea will materialise even if the target goal is not secured; understand the dangers of investing in a start-up which has not raised the desired capital but proceeds nevertheless.

APPLICABILITY IN A LOCAL CONTEXT

The best part about crowdfunding is that anyone can benefit, as long as the idea is solid and has a monetisation plan in view. Government organisations and ministries can also be involved in crowdfunding, through the initiation of campaigns and create synergies with local stakeholders in producing something unique, either for profit or, equally importantly, for social campaigns and cultural activities. It would also be interesting to see politicians raising campaign sponsorships through crowdfunding campaigns in Cyprus' next parliamentary elections. Perhaps it is time to look at more inventive sources of funding, such as crowdfunding and European funding through competitive programmes and open our ideas to the world; you never know who might just be willing to fund your dream. 

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