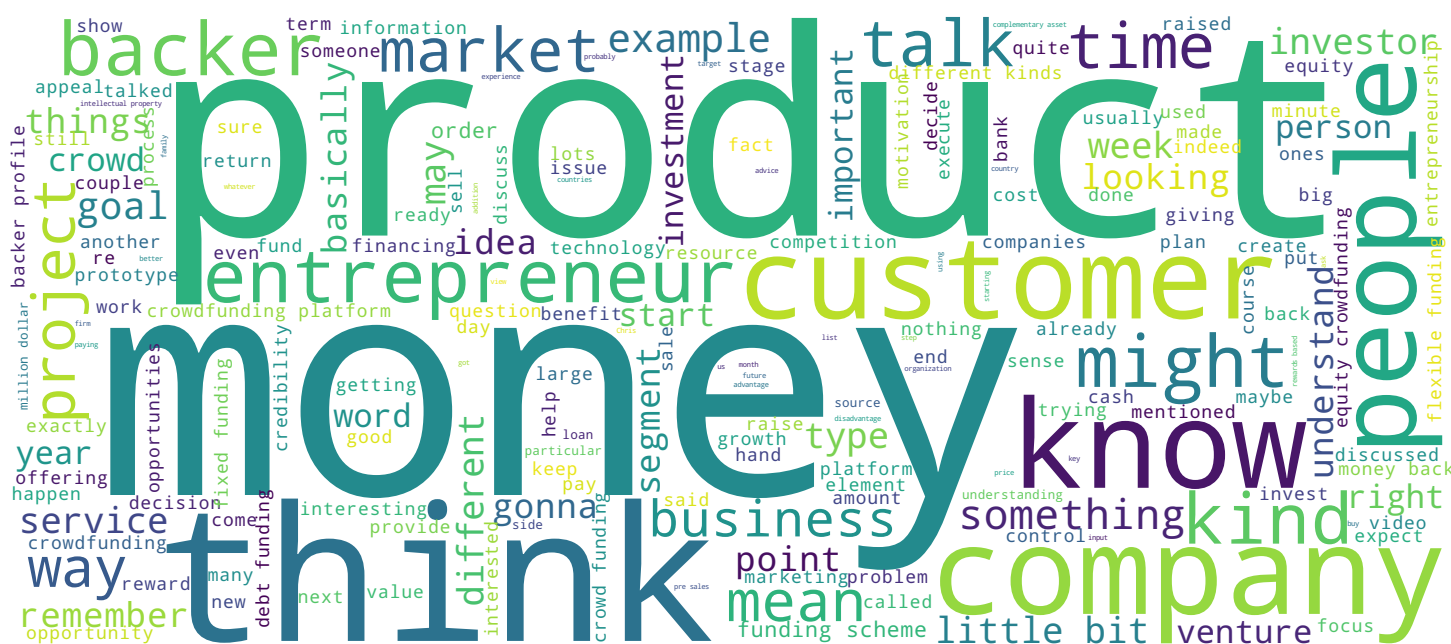
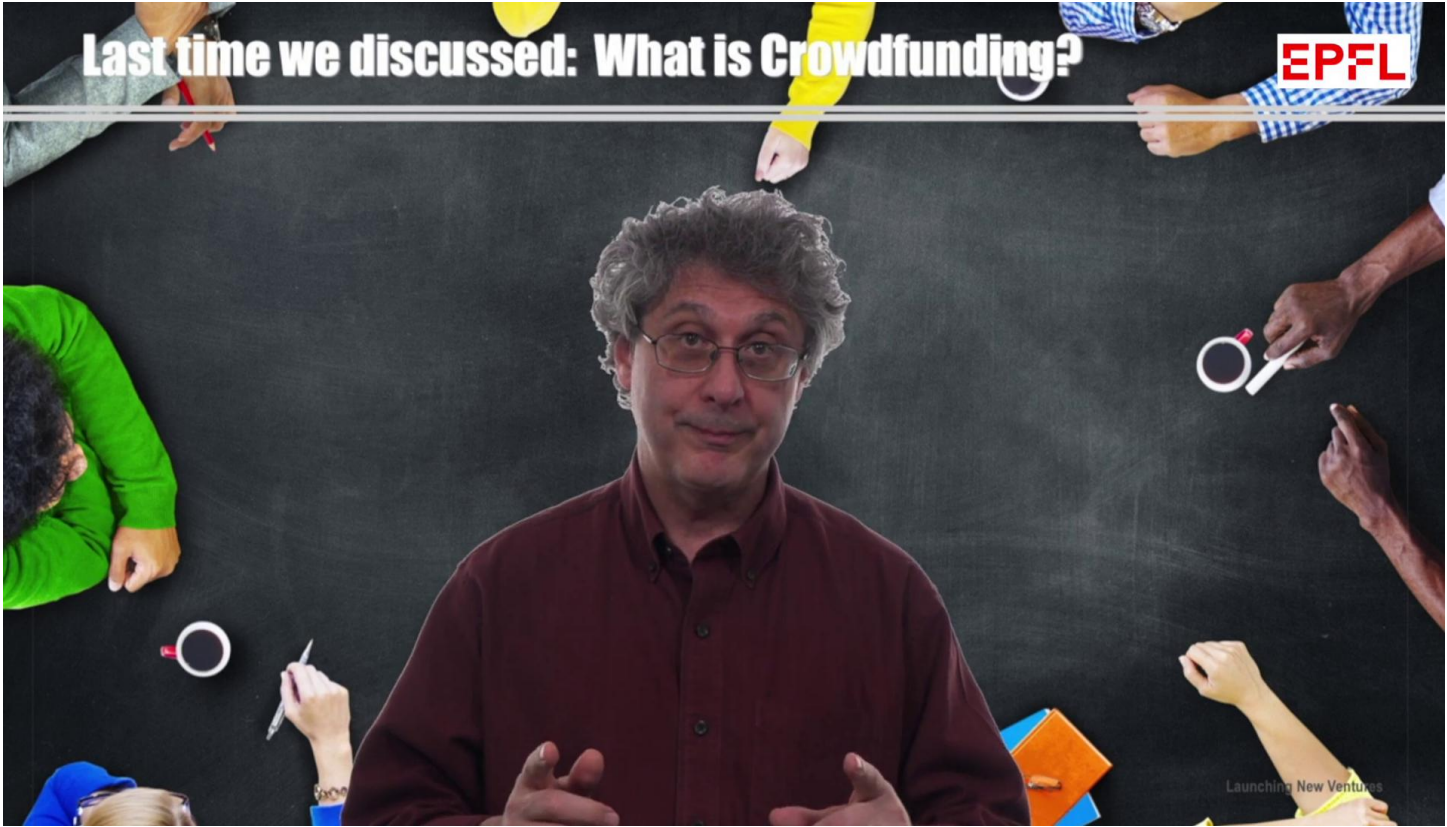


## Prof. Chris Tucci and Prof. Marc Gruber





Welcome back. This is week four navigating the funding universe and this is segment 4.5, which is crowd funding part two. Now as you recall from, think all the way back to 3.5, we were discussing what crowdfunding is and as we discussed, it's a kind of a channel for entrepreneurs to raise money for their businesses. It's one of many channels as we've now discussed in week four. And in this particular module, what we're going to do is we are going to explore the detailed financial elements of crowdfunding and how you can navigate this crowdfunding world, the different kinds of platforms, the different objectives of the crowdfunding platform and what you need to do to get yourself launched on a crowdfunding platform. So stay tuned. We're going to go through all the details right now.

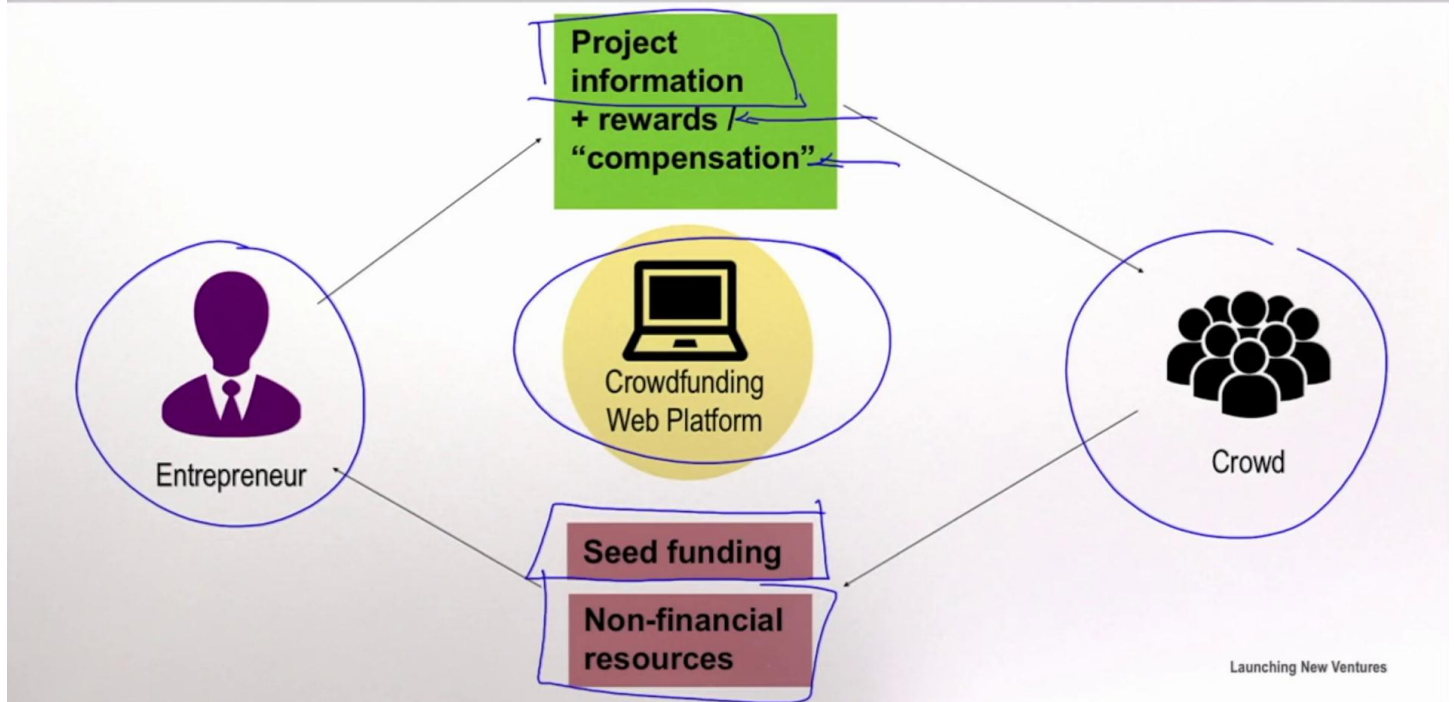
Notes

Summary

0m 08s



# What is crowdfunding?



So as we discussed in 3.5, we have an entrepreneur over here. He's trying to, he or she is trying to connect to the crowd over here and via the mechanism of a crowdfunding platform. The entrepreneur is going to give information about their project and discuss what the investors or what the crowd can expect in return that would be the rewards and or compensation elements of this. And then the crowd is going to turn around, at least some of them. The idea is the crowd will investigate this opportunity and then some of them might be intrigued by the opportunity and contribute either financial or non-financial resources. So that's a little summary of what we talked about last time.

Notes

Summary



1m 15s

# Crowdfunding: The Players



**Crowdfunding recently raised \$900 billion!**

Launching New Ventures

And as discussed last time, there are different players in the crowdfunding universe and of course, we're going to focus on this group right over here. Like this, I'm drawing a nice little shape around them. We have the entrepreneurs. They're the ones who starting the companies and looking for resources for their company. And they are interacting in this ecosystem with professional investors who invest for a living, non-professional backers who don't invest for a living but maybe invest for fun or because they want to make money or because they are indeed potential customers. Crowdfunding has really really taken off lately. In the last year or so, they've raised upwards of 900 billion US dollars across all the different categories and we're going to discuss the different categories in a minute but if you imagine there is billions of dollars changing hands in these different countries and the annual growth rate in the crowdfunding sector has been approximately 14 percent per year, which is a very high growth rate. So let's go into some of the details now about how crowdfunding platform works. Okay.

Notes

Summary



## Crowdfunding: Part II

Launching New Ventures: Entrepreneurship & Strategy for Technology-Driven Startups

Prof. Chris Tucci and Prof. Marc Gruber

As you can see by this graphic, there are different schemes that can be used to achieve different goals. Now you, as the entrepreneur, are going to have to decide what is your goal? What are you going to give to your investors in return for whatever they're going to give you? So you have to decide this and so here along the right-hand side you can see that we have specified the different kinds of schemes. The first one we're going to talk about is Equity Funding and then we will discuss Debt Funding, Rewards-based crowdfunding, Pre-sales or sales and In-kind contributions. So those are all the different kinds that we have and let's start with equity funding over here. So equity funding is when indeed you sell part ownership share of your company to the crowd. It's a small, sort of a mini version of going public. I'm actually having a public company. In fact, there are lots of similarities between an IPO, which is an Initial Public Offering that you sell it to the general public and an equity crowdfunding where you sell to a small group perhaps of backers. So you have to decide how much of the equity are you willing to give up for the money that people are paying and there are lots of different equity crowdfunding platforms out there.

Notes

Summary



0m 05s



# Crowdfunding schemes



peach



function  
— of beauty

mented



WINKY LUX



WINKY LUX



Different schemes can be used to achieve different goals

• Equity Funding

• Debt Funding

• Reward-based crowdfunding

• Pre-sales / sales

• In-kind contributions (crowdsourcing)

Launching New Ventures

You can search for it on the internet and you can see some of them, like circle up over here, has some equity crowdfunding schemes and the list of the different companies that were that were funded by them. So basically, what you're doing is you have a relatively small number of backers and you are selling an ownership share in your company to these backers. So this is a very very crucial decision you're gonna have to make. Usually just you'd be wanting more money but again as we mentioned earlier, you're going to be giving up more control, the more you partake of this particular scheme. So be careful with it but on the other hand it is a very powerful platform. It's a very powerful scheme to use and it's becoming legal in most of the countries now, have some mechanism for equity crowd for some regulations that oversee equity crowdfunding. So it is an option in your toolbox.

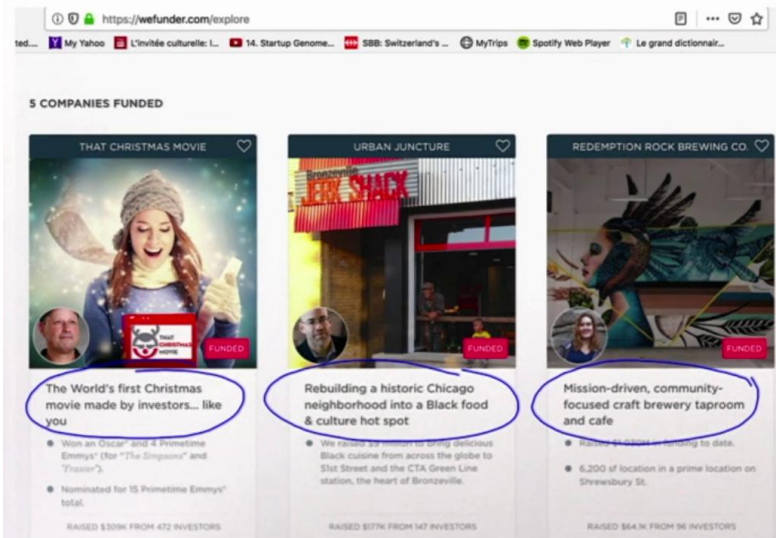
Notes

Summary



5m 14s





Different schemes can be used to achieve different goals

- Equity Funding
- Debt Funding
- Reward-based crowdfunding
- Pre-sales / sales
- In-kind contributions (crowdsourcing)

Launching New Ventures

They raised nine million dollars and this craft brewery taproom and café; community focused raised a million dollars. So there are lots of different opportunities for investors to lend you money and you have to make a very convincing pitch to them on the platform, something you need to think about. So you need to think about how you are going to attract the money from them and how you're going to structure the repayment of the debt in the end.

Notes

Summary

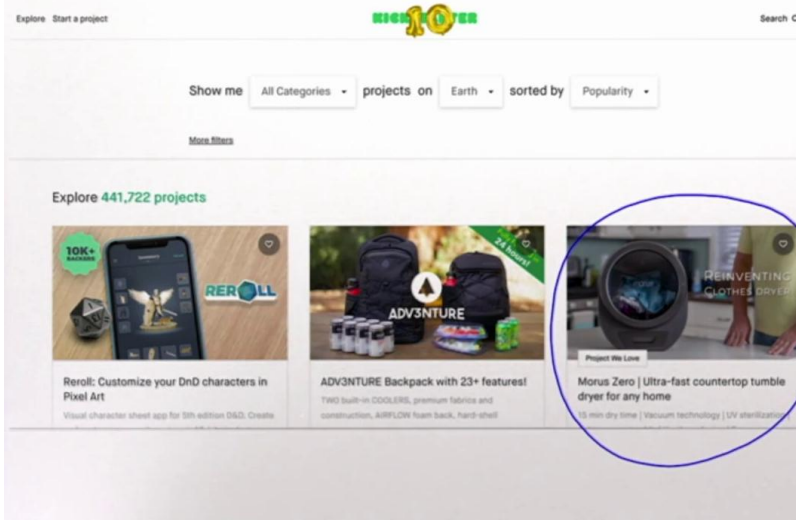






Different schemes can be used to achieve different goals

- Equity Funding
- Debt Funding
- Reward-based crowdfunding
- Pre-sales / sales
- In-kind contributions (crowdsourcing)



Launching New Ventures

Bags super popular on reward-based crowd funding sites and here's one over here on reinventing the close drier. I'm not sure if they can do an ultra-fast, counter top, tumble dryer for any home. I'm not sure if they actually give you the prototype there to take home if you give them enough money but some of them indeed will give you a prototype of the product, which is kind of a blend between a rewards-based and pre-sales, which we're going to talk about next.

Notes

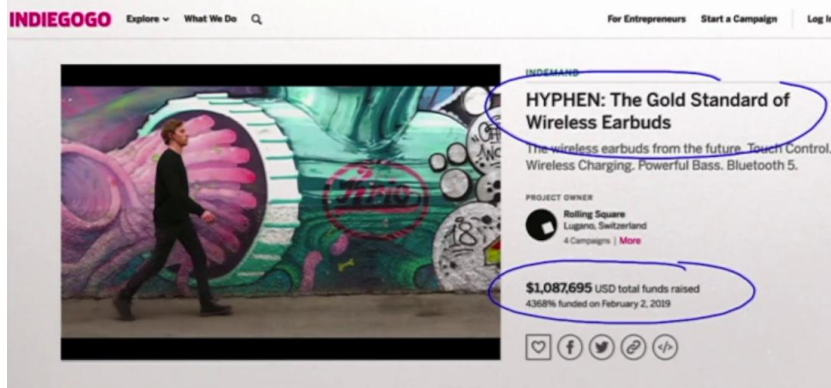
Summary



9m 51s

Different schemes can be used to achieve different goals

- Equity Funding
- Debt Funding
- Reward-based crowdfunding
- Pre-sales / sales
- In-kind contributions (crowdsourcing)



Launching New Ventures

So to continue on this theme of pre-sales or sales, it's another scheme. Now here's where the reward itself is the product for sure and so what you're doing is you are pre-selling your product. So in other words, you are raising money to actually produce the product and you're going to ship the product later. Or it could be that you already have the product and you're actually using this as a kind of a launch platform to start selling the product, your product or service. So you basically have an inventory. You're ready to go and now you're going to open up a new sales channel which is via a crowdfunding site. This section becoming a very popular route these days for new products. If look at this example here, we have HYPHEN: The Gold Standard of Wireless Earbuds. I'm going to show you that in a minute but as you can see here, HYPHEN is the wireless earbuds, supposedly from the future. And this project has raised over one million dollars. In fact, they are 4,368 percent over their initial desire for fund raising.

Notes

Summary



10m 25s









Different schemes can be used to achieve different goals

- Equity Funding
- Debt Funding
- Reward-based crowdfunding
- Pre-sales / sales
- In-kind contributions (crowdsourcing)

Launching New Ventures

This particular campaign, as I just mentioned, ended up raising more money than they even expected to get. So that was a good sign saying, oh, there's some demand for this product out there. This could be an interesting market opportunity for us. We should really pursue this.

Notes

Summary



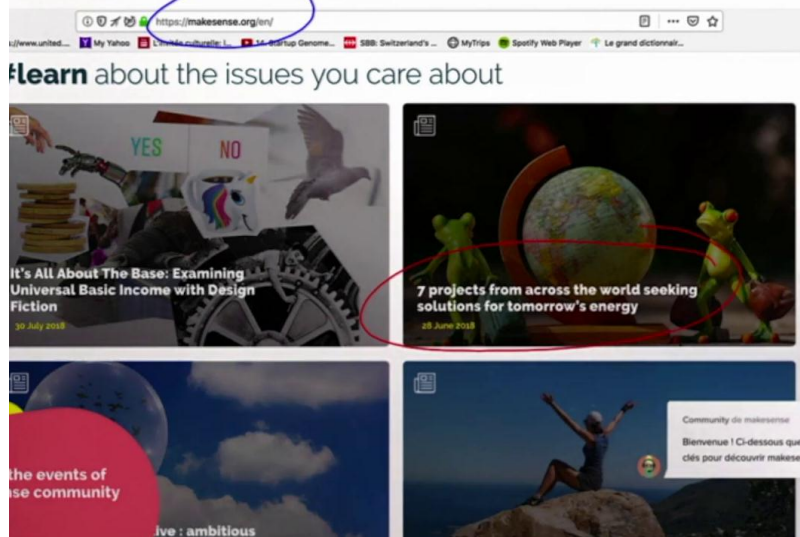
13m 05s

Different schemes can be used to achieve different goals

- Equity Funding
- Debt Funding
- Reward-based crowdfunding
- Pre-sales / sales
- In-kind contributions (crowdsourcing)

This can help you figure out what things you need to raise money for.

Launching New Ventures



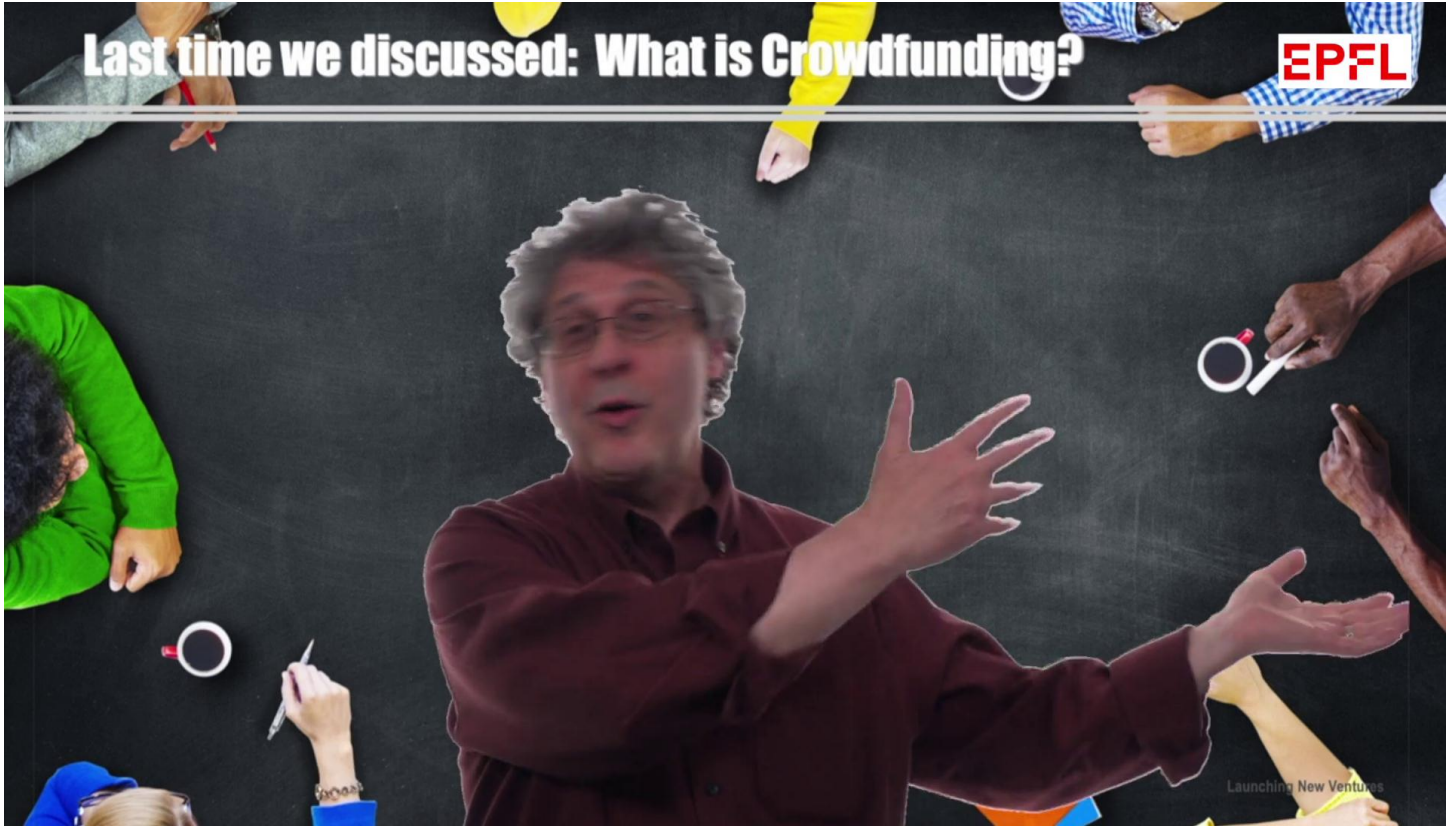
Okay. The last kind of scheme is not technically a crowdfunding scheme because you're not necessarily looking for money here. What you're looking for is some kind of contribution that's non-financial and a lot of times we would say, this is a kind of a crowdsourcing issue because what you're getting is you're getting input on an idea. A lot of times people will use this for brainstorming about different kinds of social projects. I don't know if you've seen this website called makesense dot org, but they have different kinds of projects out there and they asked people for input on the projects. So for example, here is seven projects from across the world seeking solutions for tomorrow's energy. So it gives the community a chance to weigh in on some topics and it might help you actually shape your next opportunity because you'll get input from the crowd and then you can analyze that and decide what to do next. So indeed, it's an important adjunct to the other ones. Obviously, this one is less important if you're an entrepreneur, really really looking for fundraising but it's equally important if you want to just simply get feedback from the crowd and you have to search around and find different crowdfunding platforms that allow you to tackle and tap into the wisdom of the crowd. Okay.

Notes

Summary



13m 20s



So now to focus in on the financial aspect of why you want to use crowdfunding for your venture; the first point here is, it can be a great source for seed funding. So in the early stages of your idea, now you're looking for some money to complement your friends and family, as discussed earlier this week. You can use crowdfunding as a way of getting a little bit of money to get your venture off the ground. Right now, I think the average donation is on the order of ninety US dollars, so you know, each individual donation is small but when you add it up and spread it out over a big crowd of people, you know, that money can really add up. So it's a very very good source of seed funding for new companies and it's something that's worth considering. Generally speaking the backers don't take any equity. I know I talked about equity crowdfunding. Equity crowdfunding is still a little bit in its emphasis. I think it's on the order of five six billion out of that vast pool of money that's available for all the other different kinds of crowdfunding. So generally speaking, the backers don't take equity and don't take control of your company, so it's a nice way to get some money in.

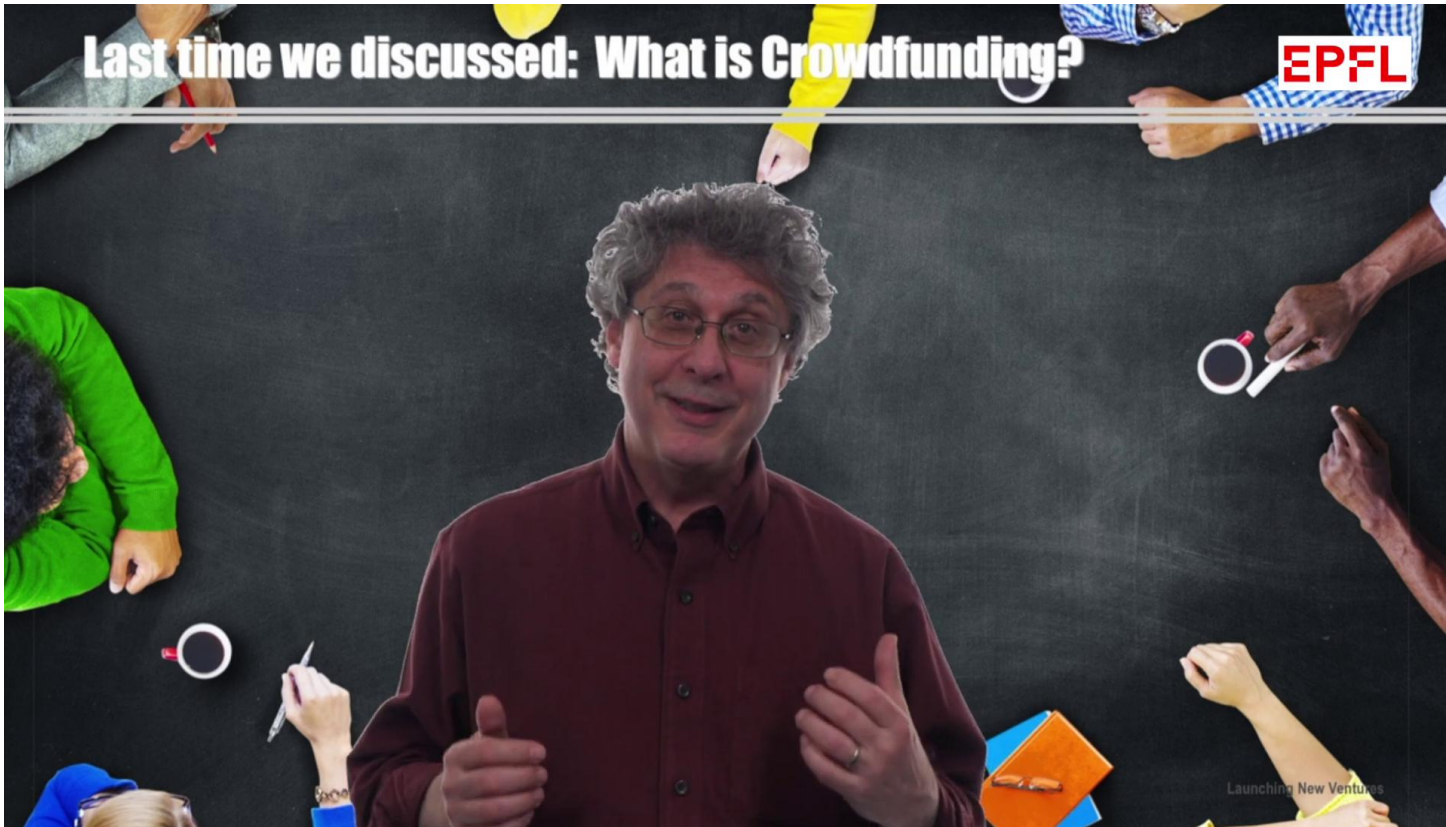
Notes

Summary

0m 22s







Now the entrepreneurs are, on the other hand, obliged to use the funds to execute the project. You know, you have to execute the project according to the plan and you're gonna have to fulfill the rewards and I think, I mentioned this before in week 3.5, but you know not shipping is a huge huge hit to your credibility for your business. So you really have to take that money, use it build your prototypes, ship them, get the feedback or if you're past the prototype stage, you're gonna take that money, you're gonna put it into production and you're going to get this company scaled up and the crowdfunding is going to help you do that. So you're really really on the hook when you do this to execute the project and you remember that your reputation is gonna be on the line. If you don't ship, the people in the crowd are gonna let you know right away. They are going to complain. They're gonna take the social media and they are going to make your life miserable. So you be ready to go when you have these projects. When you launch, you should be ready to execute as soon as you start getting these funds in. Okay. Now let's talk about the different kinds of funding schemes that you should expect.

Notes

Summary



0m 24s



## Financial Gains



- Can be a great source of seedfunding
- Backers generally take no equity
- Entrepreneurs obliged to use funds to execute project according to plan & fulfill backer rewards
- Two types of funding schemes
  - Fixed ("all-or-nothing")
  - Flexible ("keep-it-all")

Launching New Ventures

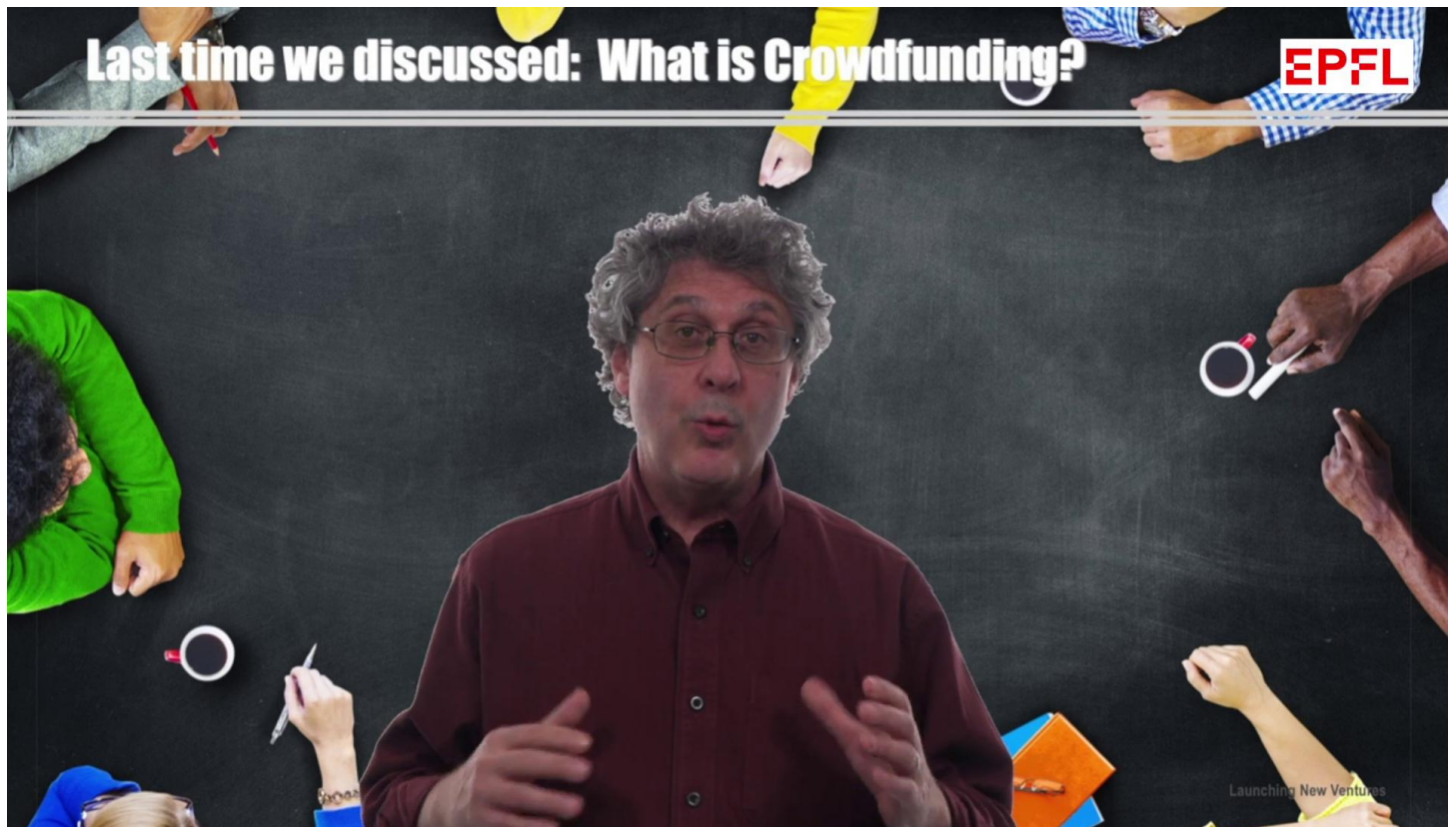
The first one is called the fixed funding scheme and the second one is the flexible funding scheme. I'm just gonna walk you through here a couple little examples and give you some tips and pointers for each of those two types.

Notes

Summary



17m 38s



Alright, let's talk first about the fixed funding scheme. Now fixed funding means all-or-nothing. It means you set a target and if you don't hit the target, you don't get any of the money. That means all the money gets sent back to the backers on this project. Okay. So what are the pros and cons here? The pros is, the pros include you're going to set a dollar amount, you know, your funding goal. It's going to create urgency because, not only on your side but on the investor side, the investors, if they think, oh well, it's a flexible project, you know. I'll just give them the money later, you know. Here they have to say, if I don't invest now this is going to end soon and when it ends, if they if they haven't raised their money then it's not going to happen at all. So it really creates a motivation here for the backers and also for the entrepreneurs. It's very straight forward and it builds trust because the backers feel like okay, I make the investment and this person is going to execute on the project. And if they don't make enough money, then that means, I'll get my money back. I don't have to worry about someone taking the money and not executing the project.

[illegible]

Summary



## Fixed funding means “all-or-nothing”

### PROS



- Solid dollar-amount goal
- Creates urgency
- Concrete motivation
- Straightforward for backers
- Trust-building

- Offered on almost **every** crowdfunding platform

### CONS



- If goal not reached, no money
- Pressure to deliver something creative /of value to backers
- Requires a lot of confidence

Launching New Ventures

Literally, every crowdfunding platform is offering this fixed funding scheme. Okay. Now from the entrepreneur’s point of view, there’s a some huge cons here. Which is if the goal is not reached, there’s no money. You don’t get a cent if the goal isn’t reached. So there’s a lot of pressure on the entrepreneur to deliver something that’s creative and or of value to the backers. Okay. It requires confidence because you really have to go all-in on this and you have to be confident that you are going to raise this money whatever you set in a short period of time and if that doesn’t work, then you’re not gonna get any money. So remember, the fixed scheme is creating urgency. It means that you get all the money if you hit your goal and if you don’t hit your goal, you get nothing.

Notes

Summary



19m 16s

Start a project

KICKSTARTER

Search Q Sig

By Richard Yim

First created

## Demine Robotics: Saving Land, Limbs and Lives

Unmanned landmine excavator to improve the safety, efficiency and affordability of humanitarian landmine and explosive clearance.

CHF 35,874

pledged of CHF 37,460 goal

282

backers

5

hours to go

Back this project

Save

All or nothing. This project will only be funded if it reaches its goal by Fri, May 17 2019 9:00 PM BST.

Launching New Ventures

So here's an example of a fixed funding scheme. This one's on Kickstarter and it's a robotic solution for saving land, limbs and lives. And as you can see by the description here, it's an excavator, a landmine excavator that improves the safety, efficiency and affordability of humanitarian landmine and explosive clearance. In other words, it's a robot that would go in and deactivate or recuperate a live or possibly live landmine. So it's a very important project. And if you look over here, they have raised, as this happens to be in Swiss francs, they've raised 35,874 francs and their goal is 37,460 francs. They have 282 backers and yet they only have five hours to go. So they're really really looking for that last 2,000 Swiss francs. They're probably frantically calling their family friends, getting on social media and trying to encourage people to put those pledges up so that they can meet their goal of 37,460 francs. And as you can see down here, and all these platforms basically similar the way that they're laid out, is it says, all or nothing. This project will only be funded if it reaches its goal by Friday, May 17th, 2019 at 9 PM British summer time. So basically, this company needs to raise all the money or else they will lose all the money that has been pledged and that money has been pledged will get sent back to the backers.

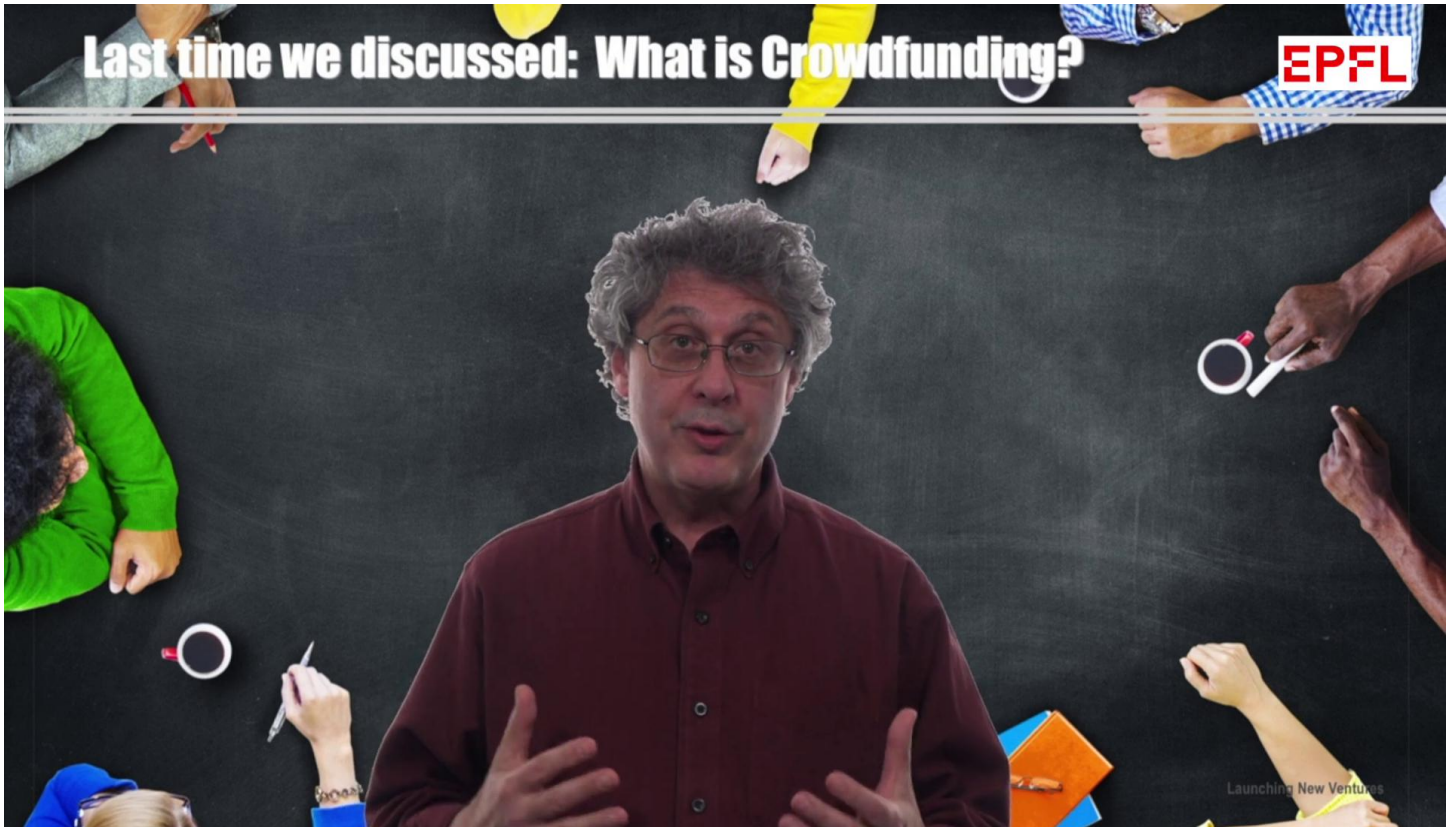
Notes

Summary



20m 22s





Okay. Let's talk about flexible funding schemes. Now flexible funding schemes means that the entrepreneur takes as much as he or she can raise, regardless of the goal set. So what are the pros and cons here? The pros include the fact that setting the goal is not such an important strategic move. In a fixed one, you really have to think about your goal, you know. I just mentioned that case there with the landmines. You know, if they fall short by two thousand francs you know be a pity, you know so because then they won't get any money. So here you really, you know, with the fixed one you really have to think about that goal. With the flexible, you're a little bit more chill. You're a little bit more relaxed I would say. It's not such an important strategic move. There's less stress for the entrepreneur and there's less timing pressure for the campaign. That sounds great, doesn't it? On the other hand, you know, from the point of view of the backers, you know they also feel the less stress, you know, they don't care so much. So basically, they are less likely to pony up because they say, oh well, this person, I could do that later, you know. There's less of a guarantee for them.

Notes

Summary



**Flexible funding means you take as much as you can raise, regardless of the goal set.**

## PROS



- Setting the funding goal not such an important strategic move
- Less stress about reaching your funding goal
- Less timing pressure for the campaign

## CONS



- Less guarantee for backers
- Not perceived as seriously as fixed-funding
- Potential for higher fees
- Flexible funding not offered on every platform: fewer options

Launching New Ventures

It's not perceived by the backers as being as serious because when you're doing a fixed one, you're very confident and you're very serious. They say, wow, this person's so confident. They're actually willing to give all the money back if they don't raise their money. Flexible is also usually, unfortunately come with higher fees because the platform realizes that there's generally less money flowing into these and so they end up taking a little bit more of the fees, so that means less money for the entrepreneur in the end. So in addition to that, flexible funding is not offered on every single platform. So most platforms offer fixed funding whereas flexible, it's a little bit more rare so you have to be careful and shop around a little bit more for the best platform for you for doing a flexible funding scheme.

Notes

Summary



23m 39s

**INDIEGOGO** Explore ▾ What We Do 🔍

For Entrepreneurs Start a Campaign Log In Sign U

**FUNDING**

## Beautifully Sculpted Porcelain Tear Drop Diffuser

An elegant essential oil diffuser subtle enough to blend in, but beautiful enough to stand out

Matthew Goddard  
1 Campaign | Seattle, United States

**\$238 USD** 2 backers

1% of \$15,000 Flexible Goal 17 hours left

BACK IT FOLLOW

Launching New Ventures

Okay. Let's look at an example of a flexible funding scheme. This one happens to be on Indiegogo and it is a beautifully sculpted porcelain teardrop diffuser, which basically means, as you can see here, there's some essential oil diffusing into the air from this little porcelain teardrop diffuser shaped like a teardrop. It's very nice, it's beautiful, it's elegant and it's subtle enough to blend in but beautiful enough to stand out as the person said. And as you can see, they've raised two hundred and thirty-eight dollars which they're going to keep no matter what but their goal was fifteen thousand dollars. And you can see right here that it's a flexible goal and there are 17 hours left. So just like I didn't pick this as an example, I just picked it because I'm looking in for a flexible goal but this one fits the exactly what I said before which is that the backers may be a little bit more relaxed about funding this because they don't feel the same pressure as the all-or-nothing. So this person has only raised one percent, slightly more than one percent, of their goal. Now they will keep the two hundred dollars but I don't think they're gonna be able to do very much with it when they really wanted fifteen thousand.

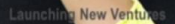
Notes

Summary



24m 29s

**EPFL**



- Notes

[illegible]

Summary









- Look around at the crowdfunding options
- Decide with whom you want to compete
- Niche platforms cater to specific audiences
  - Geographic
  - Social
  - Backer profiles
- Niches may be large or small; what is important is whether you can reach supporters through the platform

Launching New Ventures

So you want to look into the sites and you want to look for the specific audience, we'll talk a little bit about the backer profile in a minute but you want to find the specific audience that's most likely to fund your project. So there are geographic, you know there are sites that are focused on geographic regions specific regions, there are swans that are focused on certain social themes and there are other sites that are based on certain kinds of backers that go on. So you really have to look into these things. Some of them could be large, it could be small but what you want to remember is you want to reach your supporters through the platform. You define the best supporters. Some of them may be these big sites where millions of people go on and look all the time whereas you might not be the big fish, you know, you'll be a little fish in a big pond and the niche ones, you may be the bigger fish in the smaller pot as it were. So don't just look at the biggest crowdfunding sites but rather trying do your homework and try and find the best site that fits with your particular audience.

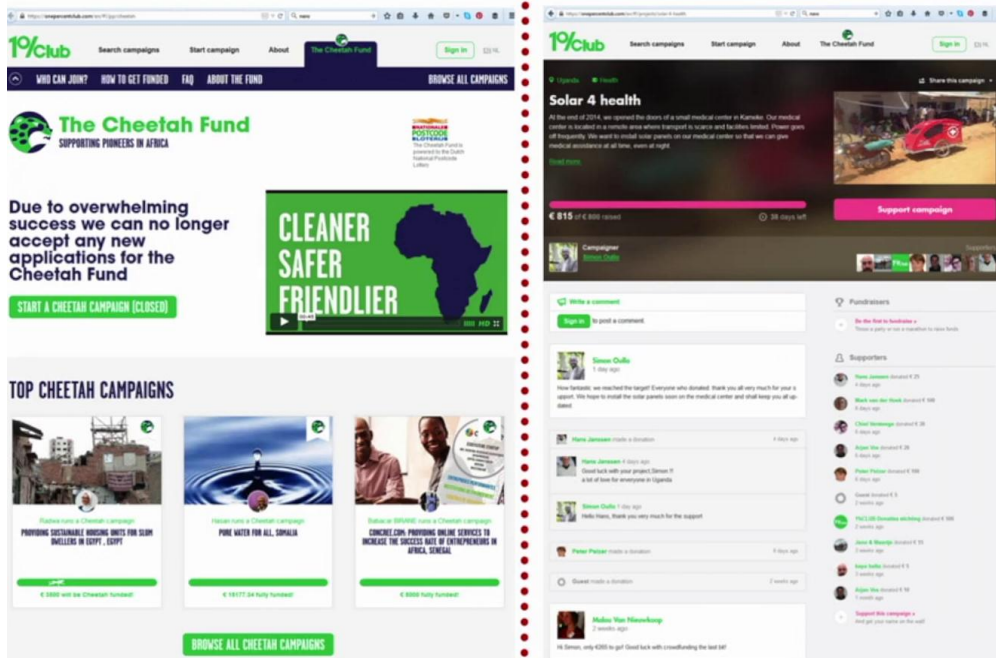
Notes

Summary



27m 26s

# Check out niche sites



Some have a social or geographical focus

Launching New Ventures

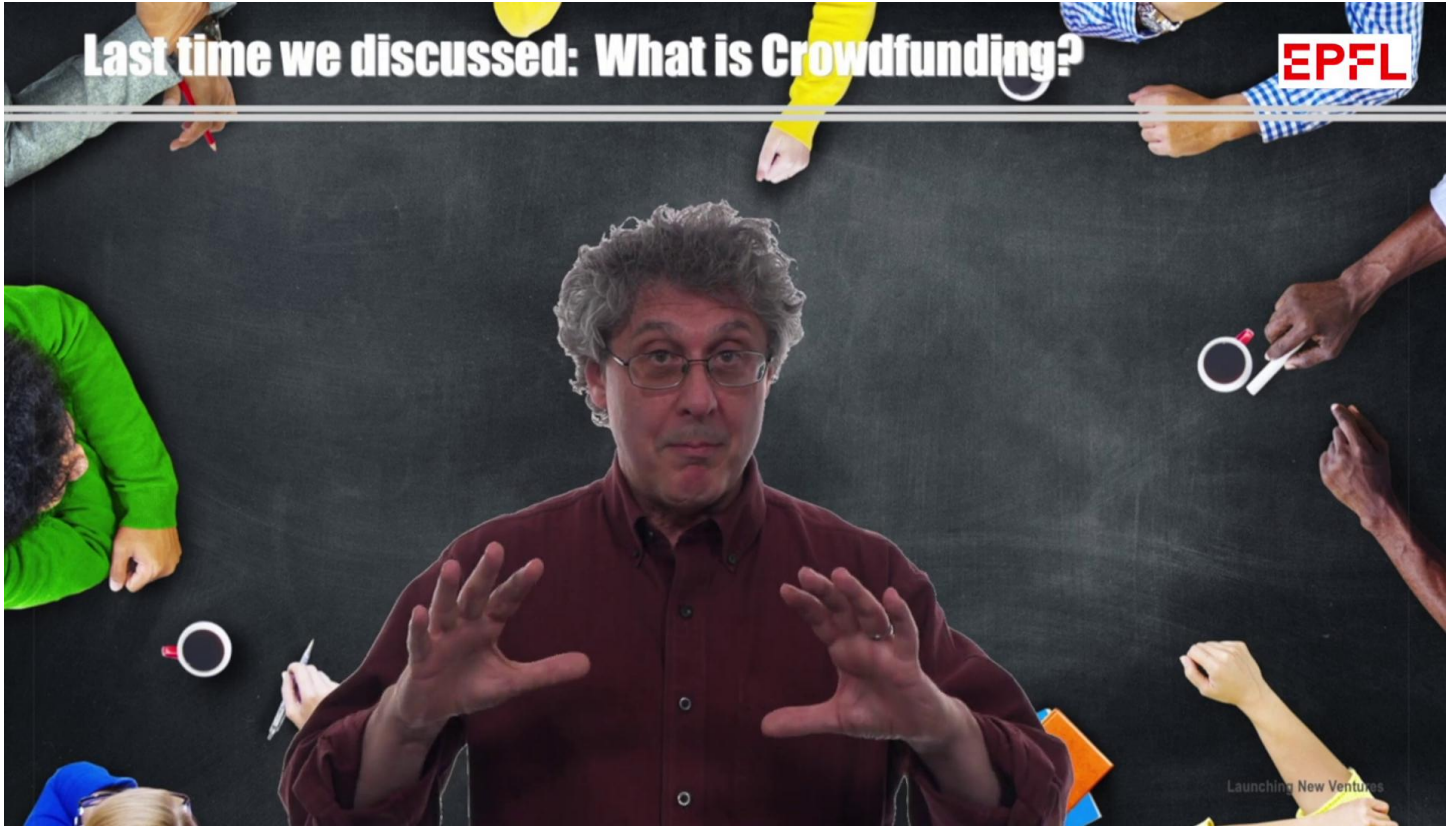
To give you some intuition on what this means, we've given you a few examples here. For example, a geographic focus here, there's this one, called the cheetah fund which is not accepting new applications now but was basically if you were based in Africa, had a good idea and you made a goal they might actually turn around and match some of that.

Notes

Summary



28m 38s



Alright as I mentioned many times, your customers may be a potential backer and so you have to decide on that when you're deciding on your backer profile, is your customer a potential backer? If so, then you are golden, you're done and your backer profile matches your customer profile which you should have already developed in your marketing plan; however, if your backer profile is not the same. In other words, your customer may not be your backer then you have to have a whole another set of things you need to think about. So who would back your project, you know, it's a question. Age, gender, which specific interests do your backers have? Maybe your project solves a problem that they face. Maybe they back social projects. Are they techies? Are they interested in kind of cool technology even if they aren't going to be your particular customer? Maybe you want to be based on a certain geographic location or do they frequent certain websites or what is their motivation? You have to think about their motivation. Do they want equity? Do they want to be a part owner of this company? Do they want early access to the product? Do they want to feel good about themselves?

Notes

Summary

0m 43s



# What is your backer profile?

In many cases your customer can also be a potential backer...

**If not**, you should develop a backer profile...

**If so**, your backer profile matches your customer profile.

Think of who would back your project:

- Age, gender...

- Interests

e.g., Does your project solve a problem they face? Do they back social projects? Are they techies?

- Geographical location

- Frequented websites

- Motivations

e.g., Do they want equity, early-access to the product, to feel good about themselves?

Launching New Ventures

In many cases, you have a plan for developing technology in a developing world and there some of the backers do it because they feel good about themselves by giving money to help social projects in developing countries. So you have to think through the motivations of your backers here and then decide on what kind of backer you have and that's going to help you get your backer profile as the target for your crowdfunding campaign.

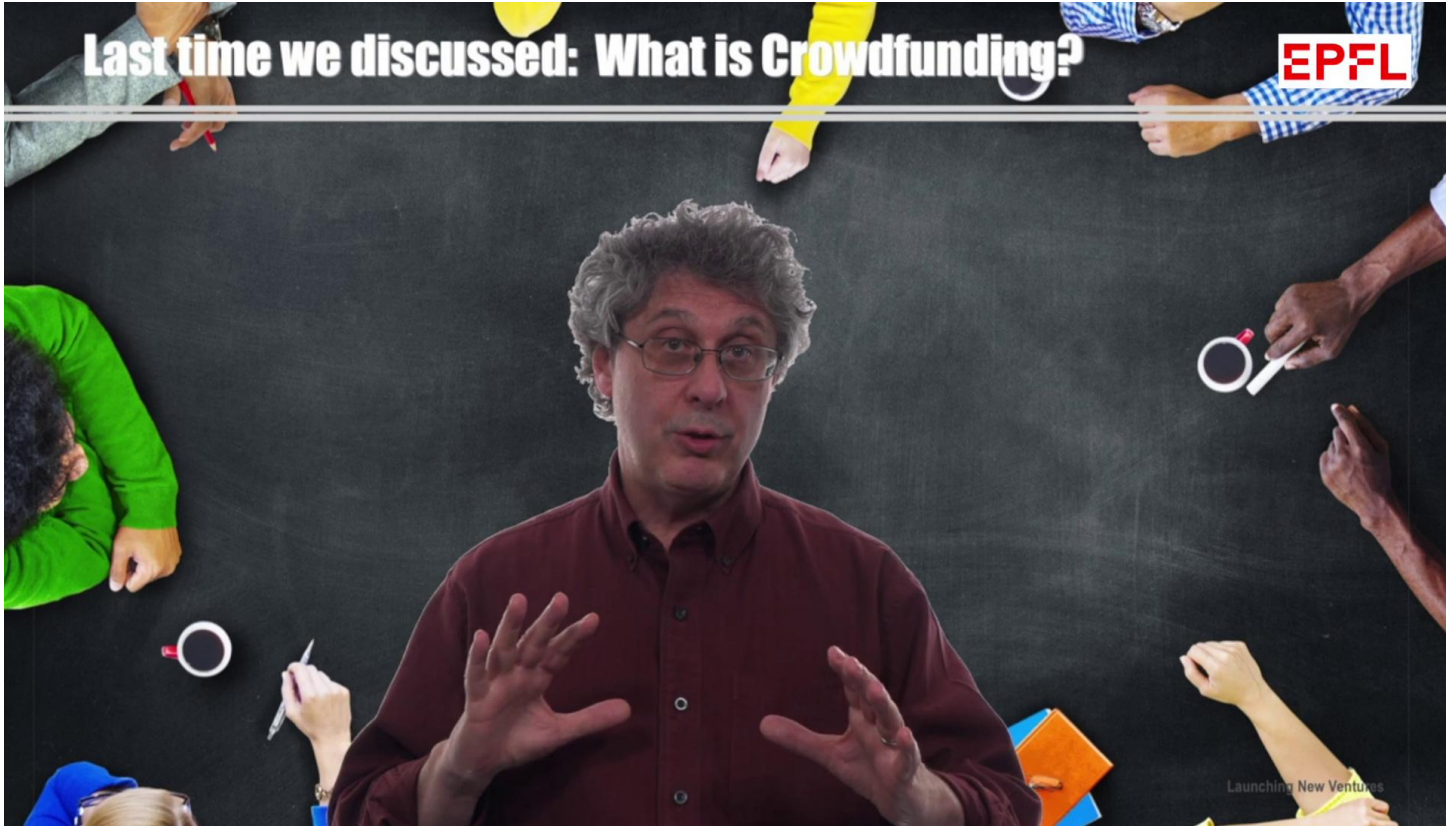
Notes

Summary



30m 22s





Let's talk about reaching your funding goal now. Now there are two factors in gaining backers and this has been backed up by research in the crowdfunding space over the last five or six years. The factors are based on; one credibility and two appeal. So first of all, you have the credibility of the entrepreneur and that means you're going to have the professionalism of the entrepreneur. A lot of backers want to make sure that this person has a good plan, that they are going to execute on this, so you want to project a professional heir in all of your materials that you have; your video that you post on the crowdfunding platform and all of your backup that you have on the platform. And second of all, they are interested in feasibility. If they don't think that you actually can make whatever it is you're gonna make or you can provide the service that you think you're going to provide then they're much less likely to want to back it because they also want to see it come to fruition. So remember, you have to appeal to your credibility as an entrepreneur to be able to get backers. Now the second thing that the backers like to see is they like to see the appeal of the project itself.

Notes

Summary

0m 46s



# Reaching your funding goal

There are two major factors in gaining backers:

## CREDIBILITY

- Professionalism ✓
- Feasibility

## APPEAL

- Relevance
- Understanding of customer need & desire

Launching New Ventures

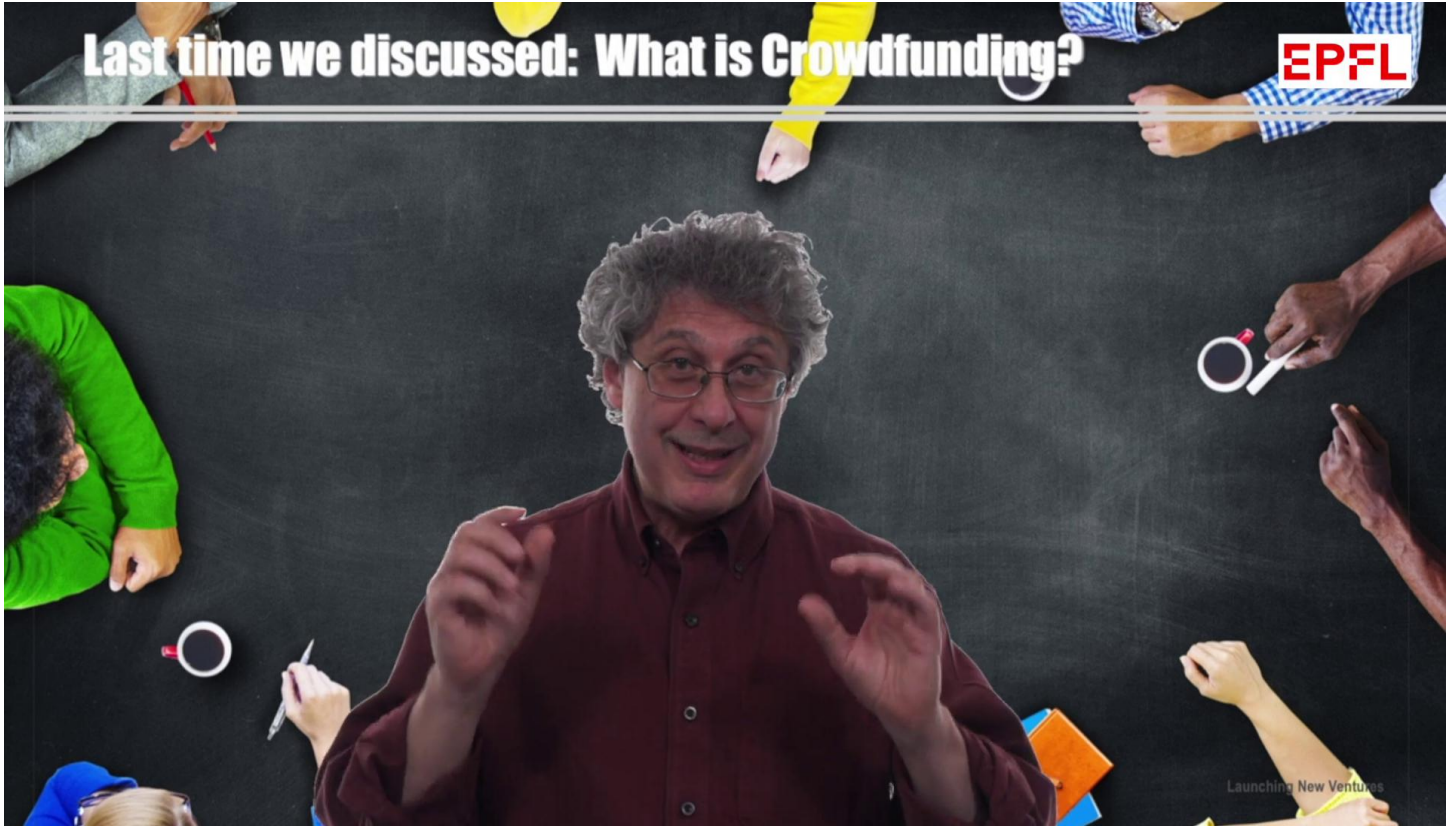
In other words, how relevant is this project? Is this something that will have appeal to a large number of users? Is this something that appeals to the backer himself or herself? How well does the entrepreneur understand customer needs? And I think here it's incumbent upon the entrepreneur to articulate why he or she understands the customer? What is the big problem that this product or service is solving? And that will help increase the appeal of the project in the eyes of the backers.

Notes

Summary



32m 13s



Let's review some practicalities we talked about. Many of these already in 3.5 but remember crowdfunding takes time. It's worth repeating this because people often forget this and they think I'm just gonna create the thing. Oh yeah. I'll just make my crowdfunding appeal and within a week or two, I should get a couple million dollars like this. It doesn't happen like that. You really have to budget some time for this. Remember, it takes time. Plan for it. Tell your story and give your team experience. You want to sell it. In your crowd funding, in your video that you usually make when that company is your platform project, you make a video and you really want to pitch your product or service in that video and try and convince the people on the lines of credibility and appeal in that and all the other backup materials that you have. Be prepared. Make sure that you have a plan and know what to expect in your plan and then finally, you have to be realistic. You have to be relevant. You have to be creative in your rewards; designing some good rewards or indeed decide designing and deciding what it is that you want from the backers and what the backers want from you.

Notes

Summary



0m 49s



# Crowdfunding Practicalities

- It takes a lot of time. Budget appropriately.
- Tell your story and your team's experiences.
- Be prepared. Have a plan & know what to expect.
- Be realistic, relevant, and creative in your rewards.

Launching New Ventures

So that you have a kind of a tiered structure, how much money they give and what they get from it. So be realistic there and don't think that you're going to, they're gonna give you money for free and they're not gonna get anything back. You have to decide on what you're giving back and you'll see right away if your project gets a uptake by the crowd. The crowd may reject it if you're not realistic enough or your project isn't credible enough or appealing enough.

Notes

Summary



34m 12s





Launching New Ventures

So that's it for crowdfunding. I hope you enjoyed this little exploration in our module 4.5 and the next module is going to be about cash management, so stick around for that and I also promised you a surprise or at least a secret surprise. It's not so surprising, probably very obvious to you but actually I am recording this video four years, almost to the day after recording it a year ago, so I'm adding 4.5 and 3.5 were actually recorded four years, in case you're wondering why I have a little bit more gray hair and maybe look a little, I don't know weaker or something like that. It's because actually time has passed but the crowdfunding space is so exciting and changing so quickly that I just couldn't leave in videos that were four years old on this particular topic. So remember, keep up to date by looking at some of our resources that we're proposing for you. In crowdfunding you can also do some internet searches on it and make sure that you keep up to date with all the developments and stay with us for 4.6. Thanks a lot.

Notes

Summary



34m 42s