

Social Enterprise Associates  
**Tip Sheet #10**

*This document introduces what crowd funding is, shares examples, and suggests tips to choose and leverage the right outlets.*

*Such efforts provide inexpensive opportunities for new ventures and good causes to gain capital.*

**Tip Sheet #10**

# Surfing the Crowd Funding Wave: Is it Right for Your Effort?

Evaluating if this alternative source for capital can help grow & sustain good causes

## Introduction

Finding new sources of capital can be difficult in a down economy, but there is an avenue which may offer an additional option for your business, initiative or non-profit cause. Crowd funding is an online sales platform used to raise money from numerous people in small amounts. Business, individuals or non-profit organizations can establish a campaign with their story and a target amount for funds raised.

The aggregate or total of ‘the crowd’ giving or investing small amounts can add up to a meaningful total. Amounts are small, as low as \$10, and many of these sites work with donations. DONATIONS? For a business? Sounds like free money, right? But remember, there is no free lunch.



## Are You A Fit?

Crowd funding works for businesses, organizations or individuals with a compelling story and/or product people want to be a part of. It requires promotion and catching the attention of interested and motivated participants. Early successes were artists raising money for projects as donations. A number of documentary and indie movies have been underwritten with many small amounts – with totals as high as \$100,000 and even more. [L.E. Baskow](#) funded a photo journey traveling from Oregon to New York City by bicycle, thanks to 39 backers. Triple-bottom line businesses can benefit from this option. Lumi Textile took their idea of a natural sustainable textile printing method to market, [raising more than \\$12,000 on Kickstarter](#).

## Surfing the Crowd Funding Wave: Is it Right for Your Effort?

Small businesses fitting as many of these criteria as possible are the best candidates:

1. Benefit from small amounts of capital up to \$25,000
2. Are interested in product pre-sales, particularly to finance manufacturing
3. Early stage organizations and individuals with a specific project
4. Are willing to do their own marketing and have an outlet to reach people: facebook, e-newsletters
5. Crowd funding is especially beneficial if you lack sales infrastructure yourself, such as a payment processing option

### Choosing The Right Crowd

Dozens of websites offer platforms for you to raise money. [IndieGoGo](#) is one of the oldest and largest sites. It caters to a wide range of efforts - creative, cause-related, inventors and entrepreneurs.

[Kickstarter](#) is another popular one, boasting over one million funders. On these sites, people give the money, usually in return for a gift, memento, or a product.

There are more specialized platforms, such as peer-to-peer lending sites. These sites lend to individuals, which can be entrepreneurs with a company. These are loans that have to be paid back, usually within three years, at rates determined by the applicant's risk profile. On [Prosper.com](#), borrowers list loan requests between \$2,000 and \$25,000 and individuals invest as little as \$25 per loan. [Lending Club](#) is another well-known site that funds up to \$35,000. Rates and fees can be as high as credit card levels, so this isn't 'free money.'

There are crowd funding sites well-suited for triple-bottom line (TBL) endeavors. [ProFounder](#) is geared specifically to entrepreneurs. What's different about it: investors receive a share of revenues over time as part of the compensation for lending. [33 Needs](#) connects micro-investors with social entrepreneurs with big ideas in topics including sustainable food, health, education, and the environment. It is a young site, but with a focus on triple bottom line endeavors, is a likely place to find committed investors who 'get' a TBL offering. Another people, profit, planet oriented effort is [Start Some Good](#). Its goal is supporting social entrepreneurs, defined broadly. Both for-profit and non-profit entrepreneurs may post to the site; staff review a campaign's goals and provide feedback to better align with site categories.

### Which Site Is Right For Me?

There are dozens of sites out there. Choose one that fits your needs. Key questions to research:

1. What are the fees? Most require processing on their site and costs vary up to 10%
2. How long is your campaign? Most set a limit to create a set of urgency
3. What types of entities posted on the site? Do you 'fit'?
4. What are their funding requirements? This one is tricky, see below for more details
5. Is there customer service / support? Or, are you on your own?
6. What, if anything, do they do to promote you?

## Surfing the Crowd Funding Wave: Is it Right for Your Effort?

Funding requirements: Read the small print carefully. Do you get the money as it comes in or only at the end? Do you keep funds raised if you don't reach your goal (some are on an "all or nothing" model)? Is there an upper cap? What do you have to offer in exchange for donations?

Be sure to check several sites as options vary, and review their Q&A pages in detail. Watch for promotions as some sites offer discounts or other special rates.

### How To Be Successful

Remember, there is no free lunch. To benefit from crowd funding, you have to be realistic:

- **Do I have a compelling story I can craft that will motivate people?**  
This is a form of democracy in action (truly the 99%). People need a compelling reason to back your idea. And, you have to package it well – it must stand out among others and be above 'the noise'. Test out your idea and your presentation on honest friends to see if it would convince them to put money in it, before trying to convince people who don't know you.
- **Can I put time and effort into creating a convincing pitch and actively promoting it?**  
Crowd funding is not a passive ad campaign. You cannot post your campaign, then leave it and expect funds will roll in. It takes active promotion. Make sure you have the bandwidth and the drive to put in the time needed to promote your campaign. You must Facebook, tweet, email, e-newsletter, promote in person, etc.

This method can generate capital, but it takes time and many donors. Data collected to date reveals 85% of backers give \$50 or less. This is a volume play. Add updates and new rewards to the campaign to attract more attention. One business was raising money to make their product. Smaller donations received bumper stickers or t-shirts, but for \$40 or more, they mailed the benefactor one of the products. They uploaded photos as manufacturing was underway to show progress and named their first ones for supporters.

Crowd funding is growing and has potential for triple bottom line businesses. Although most sites work from donations, it isn't free money. However, it can be an affordable way to access a new cash flow, find new customers and advance your business.

*The content is from the November 2011 [Investors' Circle Entrepreneur Newsletter](#). Investors' Circle is a network of 150 angel investors, venture capitalists, foundations, and family offices that are using private capital to promote the transition to a sustainable economy. The localized version for New Mexico was published in the [January 2012 Green Fire Times](#).*



www.socialenterprise.NET

Twitter: @SocialEntAssoc

Facebook: <http://tinyurl.com/4xr8sbp>

LinkedIn: <http://tinyurl.com/3gbyweq>

Social Enterprise Associates, a registered "B" Corporation, fosters 'triple bottom line' solutions supporting entrepreneurs, their organizations, and the industries in which they operate. This management consulting firm applies business and market principles to social, environmental and community efforts seeking to 'do well by doing good.' Specializations include raising capital, business plans, market research, new product development and operational implementing. Efforts have led to clients raising more than \$100 million.

Social Enterprise Associates is devoted to building a better tomorrow today. Reach **Managing Partner, Drew Tulchin**, by email [drew@socialenterprise.NET](mailto:drew@socialenterprise.NET) or phone **202-256-2692**.