



European
Commission



Crowdfunding Explained

A guide for small and medium
enterprises on crowdfunding
and how to use it

Contents

What is crowdfunding	4
- Crowdfunding explained	6
- More than just the money	9
- What are the risks?	10
The different types of crowdfunding	12
- Peer-to-peer lending	14
- Equity crowdfunding	15
- Rewards-based crowdfunding	16
- Features of the different crowdfunding types	17
How to do it	18
- Peer-to-peer lending	20
- Peer-to-peer lending - a case study	22
- Equity crowdfunding	24
- Equity crowdfunding - a case study	26
- Rewards-based crowdfunding	28
- Rewards-based crowdfunding - a case study	30
Next steps	32



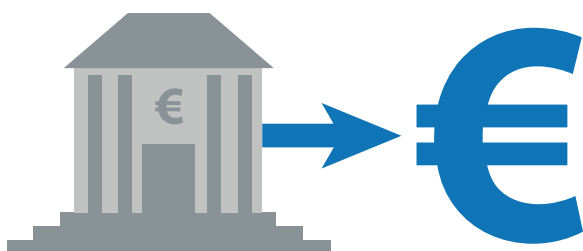
What is crowdfunding?



Crowdfunding explained

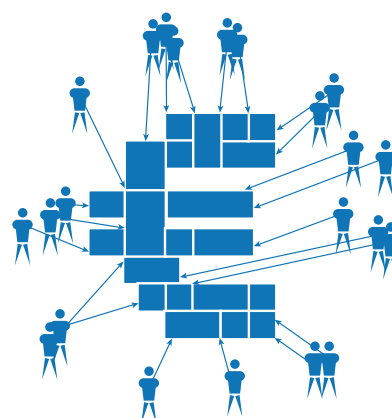
Crowdfunding is a way of raising money to finance projects and businesses. It enables fundraisers to collect money from a large number of people via online platforms.

TRADITIONAL FUNDING



Large amounts from one, or a few, sources

CROWDFUNDING



Many small sums from a large group of individuals

Crowdfunding is most often used by startup companies or growing businesses as a way of accessing alternative funds. It is an innovative way of sourcing funding for new projects, businesses or ideas.

It can also be a way of cultivating a community around your offering. By using the power of the online community, you can also gain **useful market insights and access to new customers**.

This guide is aimed at **entrepreneurs, businesspeople and companies, especially small and medium enterprises**. If you are thinking about ways of financing a new business or idea, or have heard about crowdfunding and want to learn more, you may find this guide useful.

How does crowdfunding work?

Crowdfunding platforms are websites that enable interaction between fundraisers and the crowd. Financial pledges can be made and collected through the crowdfunding platform.

Fundraisers are usually charged a fee by crowdfunding platforms if the fundraising campaign has been successful. In return, **crowdfunding platforms are expected to provide a secure and easy to use service**.

Many platforms operate an all-or-nothing funding model. This means that if you reach your target you get the money and if you don't, everybody gets their money back – no hard feelings and no financial loss.

There are a number of crowdfunding types which are explained below. This guide provides unbiased advice to help you understand the three most common types of crowdfunding used by profit-making SMEs and startups: **peer-to-peer, equity and rewards crowdfunding**.

Main types of crowdfunding

Peer-to-peer lending

The crowd lends money to a company with the understanding that the money will be repaid with interest. It is very similar to traditional borrowing from a bank, except that you borrow from lots of investors.

Equity crowdfunding

Sale of a stake in a business to a number of investors in return for investment. The idea is similar to how common stock is bought or sold on a stock exchange, or to a venture capital.

Rewards-based crowdfunding

Individuals donate to a project or business with expectations of receiving in return a non-financial reward, such as goods or services, at a later stage in exchange of their contribution.

Donation-based crowdfunding

Individuals donate small amounts to meet the larger funding aim of a specific charitable project while receiving no financial or material return.

Profit-sharing / revenue-sharing

Businesses can share future profits or revenues with the crowd in return for funding now.

Debt-securities crowdfunding

Individuals invest in a debt security issued by the company, such as a bond.

Hybrid models

Offer businesses the opportunity to combine elements of more than one crowdfunding type.

More than just the money

Crowdfunding can offer more than just financial benefits. It can give you access to a large number of people who may be interested in your project or business, who could also provide you with valuable insights and information.

Non-financial benefits of crowdfunding

- **Proof of concept and validation:** Crowdfunding gives you a reality check; you can see if others share the belief and value in your project or concept. If they are willing to contribute it is a strong validation that your market approves.
- **Help with other forms of financing:** A successful campaign can not only be a proof of your concept, but also highlights that there is a market for your business that people believe in. This is very useful when seeking additional finance from other types of financiers such as banks, venture capital, angel investors, as you might seem less risky to them, or get better terms and conditions.
- **Access to a crowd:** You are addressing a huge audience of individuals, some of whom may have valuable expertise and insights. Crowdfunding in general enables you to interact with them in a new way that provides valuable feedback without cost.
- **Powerful marketing tool:** Equity and rewards crowdfunding can be an effective way to present a new product, new company, or expansion, by pitching directly to the people that are likely to be customers. You can create buzz and interest, even before the product has hit the factory floor.

However, you should be aware that crowdfunding isn't a magic wand. Like any business venture, it requires a significant amount of concentrated effort and hard work.

What are the risks?

There are many advantages to crowdfunding, but there are also potential risks that you should be aware of. This section will help you understand and navigate the potential pitfalls of crowdfunding.

There's no guarantee you will reach your target

Much like any other business venture, there is a risk of not succeeding. If you do not reach the fundraising target, money collected during your campaign will have to be returned to investors.

Advice: Analyse carefully all possible ways how your fundraising campaign could succeed. If you fail, you can try again; some of the biggest successes tried a couple of times before they found the winning formula. Contractual arrangements should provide clarity on rights and obligations of the parties involved in case funding target is not reached.

Your intellectual property becomes public

Your ideas are online for lots of people to see and there is a risk of someone duplicating your proposition.

Advice: Ask the platforms on which you intend to list; they may offer general advice on protecting your intellectual property rights. Your local Chamber of Commerce or government agency may also be able to help you, but if you are in doubt you should seek independent advice.

Underestimating the costs

It is common to underestimate just how much time and resources crowdfunding takes. Some forms of crowdfunding may create additional costs. For instance, in case of equity crowdfunding, administrative costs may increase along with each issue of shares. You may not have enough capacity to deal with new investors, to provide ongoing information about the project or to process corporate rights of shareholders.

Advice: Be aware of the different steps you need to take, allocate enough time and work out a plan that keeps a margin for error and delay (for instance, about 10-20% of the total budget / time). Remember that you will need to allocate resources for before, during and after the campaign. You might want to ask for the help of legal counsel on legal issues related to crowdfunding.

Reputational damage

The market is now quite competitive and you will likely have experienced investors looking into your offering. Any sloppiness, errors or under-preparation will reflect badly on you and your project or business.

Advice: Make sure that you do your research thoroughly. You will find further resources in the 'Next steps' section of this guide.

Advice: Remember that this is a different kind of business venture. You may need to tailor your approach to cater to people who may not be familiar with your sector.

Advice: Make sure you fully understand the crowdfunding process before committing so that you can be sure you are able to deliver what you are promising.

Disclosure and legal requirements

Advice: Always check with the platform and your local supervisory authority what documents you will need to provide and what the costs will be for complying with the requirements, and include this in your cost plan. There might be complex issues to deal with at significant costs, so you might want to ask for the help of a legal counsel.

Law-breaking

The law around crowdfunding is still evolving and so it could be unfamiliar to many. If you do not acquaint yourself with the relevant EU and national laws you could unknowingly breach them.

Advice: Always check the legislation and requirements. Generally the platform offers general advice and points you to the appropriate place for more specialised guidance such as your local Chamber of Commerce, local supervisory authority or the appropriate government department.

Problems with the platform

There may be risk of bogus platforms.

Advice: Make sure that you chose established and respectable platforms that have a good track record and no signs of trouble. Aim for those in well-regulated environments, where you are familiar with the legislation and you can be sure that your rights will be upheld.

Issues with responsibilities towards investors and investor dynamics

Dealing with a large and potentially diverse set of backers brings different issues, expectations and demands. Not understanding a contributor's rights, complaints handling or enforcement mechanisms can create problems, particularly with equity crowdfunding, which comes with some loss of control over your business.

Advice: Research the possible implications and liaise actively with the platform to fully understand your responsibilities. See where the platform can help you and what its role is.

Advice: Before engaging in equity crowdfunding, always think very carefully about potential issues at later stages. You will need to offer investors certain rights to make the investment attractive. Be sure you are aware of what responsibilities these investor rights mean for you.

Advice: Always construct the corporate governance structure and mechanisms in full knowledge of the requirements and obligations. These are complex issues, so where necessary seek the advice of qualified experts.

Investors wishing to exit

One day your investors might want to sell their share, or new investors may decide to join your venture.

Advice: You need to have an exit strategy prepared for investors in case they choose to take their money out. You will also have to know how to deal with accepting potential new investors in the future, because this may dilute the value of the shares of your original investors.

Advice: Consider very carefully already at the outset the possible impact on your business of a change or exit of investors and consider asking for legal advice already before offering any equity to investors.

A woman in a white shirt is pointing her right index finger at a large, detailed architectural drawing or blueprint that is pinned to a wall. The drawing features various lines, text, and diagrams. In the background, another person's hand is visible, also pointing towards the drawing. The scene is brightly lit, suggesting an office or meeting environment.

The different types of crowdfunding



Peer-to-peer lending

Description

Peer-to-peer lending (sometimes called crowdlending), is a **direct alternative to a bank loan** with the difference that, instead of borrowing from a single source, **companies can borrow directly from tens, sometimes hundreds, of individuals who are ready to lend.** Crowdlenders often bid for loans by offering an interest rate at which they would lend. Borrowers then accept loan offers at the lowest interest rate. Internet-based platforms are used to match lenders with borrowers. Due diligence is carried out for each loan request, as crowdfunding platforms have a duty to protect both businesses and investor interests. **Platforms normally require financial accounts and a trading track record.**

Key features

- **Greater flexibility with interest rates:** If your campaign is popular, investors may compete with each other to lend money to your business and offer better interest rates to secure the deal.
- You may get a loan when refused by a bank.
- **Loan sizes can vary greatly so can cater for most needs. The minimum loan size is very small, which encourages a wide range of lenders to participate.**
- **The loan is repaid through direct debits to the platform,** which distributes your repayments out to the lenders.
- **Disclosure requirements are like that of a bank.** Unlike the bank, they are made public to all crowdlenders.
- As with a traditional bank loan, **you are legally required to repay the loan.**

Equity crowdfunding

Description

Equity crowdfunding consists of **selling a stake in your business to a number of investors in return for investment**. The existence of equity funding is well established, with private equity, venture capital and angel investing long playing a role in developing companies. The main difference between equity crowdfunding and these traditional models, rather than establishing a one-to-one relationship, it is offered to a wide range of potential investors, **some of whom may also be current or future customers**. **Equity crowdfunding does this by matching companies with would-be angels via an internet-based platform.**

Key features

- You will have to **set the terms**, and choose how much you want to sell, the price and how investors will be rewarded. It requires good expertise to value a venture correctly.
- **The fees payable** for raising equity finance on the crowdfunding platform will typically be a success fee and legal or administrative fees related to the issue. You may incur additional legal and advisory fees.
- **Many people can invest**, so you can have lots of small co-owners, instead of few large investors. It is usually less costly than being listed on the stockmarket.
- You need to show that **your business is investment-ready**, thus you need to produce a business plan and financial forecasts. You should also have a good **communication strategy**, with the most important information about your project readily available and easily understandable to potential investors.
- **Limited due diligence** is usually carried out by the platform and the investor may have the option to **ask for more information**, and you should be prepared to provide this information even if it comes at additional costs to you.
- There are serious **legal aspects**, the costs of which you should not ignore, such as disclosure and legal documents, annual general meetings with shareholders, processing corporate rights, annual reports and decision procedures.
- **Investors' rights can vary**. However, typically shareholders have voting rights on key matters of running the business, issuing new shares, etc. You should consider how much of the control rights over your business you are ready to give to external shareholders. As regards compensation, be aware that investors may claim damages to compensate money loss incurred, for instance as a result of breach of contract.

Rewards-based crowdfunding

Description

Rewards-based crowdfunding is where **individuals donate to a project or business with the expectation of receiving a non-financial reward in return**, such as goods or services at a later stage. A common example is a project or business offering a unique service (rewards) or a new product (pre-selling) in return for investment. This form of crowdfunding allows companies to launch with orders already on the books and cash-flow secured (a major issue for new business) and gathers an audience before a product launch.

Key features

- **Funds given don't have to be repaid**; you just deliver the service or the goods promised.
- Orders are secured before the launch of a new product, and the crowdfunding campaign allows you to **build your customer base as you raise funds**.
- You are **obliged to deliver on your promises** on schedule.
- It is a **popular option for startups and entrepreneurs** as it provides a way to fund the launch of new companies or products.
- It is **particularly suitable for products and services that are innovative** or garner high levels of consumer attention.
- **Complicated concepts or products are less suitable** for rewards crowdfunding.

Features of the different crowdfunding types

	Equity crowdfunding	Rewards-based crowdfunding	Peer-to-peer lending
Pre-trading		✓	
Pre-profit	✓	✓	
Profitable growing business	✓		✓
Established and steadily growing	✓		✓
Established stable business	✓		✓
Launching new product/service/ brand	✓	✓	✓
Making acquisitions			✓
Expanding into new territories	✓	✓	✓
Investing in new facilities			✓
Looking to refinance	✓		✓
In need of capital restructuring	✓		✓



How to do it



Peer-to-peer lending

This section will take you through the major steps of how to approach peer-to-peer lending, and gives you some more detailed tips and pointers. **Please note, that these suggested steps are offered as guidelines only.** You might find each step more or less complicated, depending on your project, the size of your team, and the amount of time you are able to commit.

Preparation

The early days of your crowdfunding campaign should be dedicated to looking into the world of peer-to-peer lending and preparing your offer. You should:

- **Research potential platforms** and the features they offer.
- Ensure you **understand the rules and legal requirements** of the platform.
- **Read as many guides, blogs and ongoing campaigns you can find** for inspiration and to learn from the experience of others.
- **Contact platforms which closely fit your needs.**
- Carefully **prepare and check any financial documents** that are required by the platform.

Tip: If you can afford to, try lending a small amount of your own money (say €100) in small sums to other businesses. You will get a very good insight into what your crowd-lenders will look for.

The Fundraising Period

The credit assessment team from your chosen crowdfunding platform will look at all of the information you have supplied. If your application is successful, they might tell you which risk category you are to be listed under. If your business is approved, it will be listed on the platform for lenders to bid on. Each lender will bid their selected amount and interest rate. Once your target is reached, lenders can keep bidding, lowering the interest rates, so the more popular your campaign, the better your terms could be.

Don't forget: Often you will need to provide financial accounts for at least the last two years and your credit history. If you don't already have it, ask a professional for help. Financial accounts take time to complete and can add costs.

After the bid

Once the auction finished, the platform will be in touch to confirm the final average interest rate. The platform will then send the funds to your bank account within an agreed timeframe.

You then have to pay back the loan and the interest on instalments that you agreed with the platform. This is usually done by a direct debit to the platform, which then manages the repayments back to the investors' accounts.

Once the loan is repaid in full, the platform will confirm the end and the operation is over.

Tip: Be available during the entire process as additional questions both from the platform as well as investors can come in, needing a very quick response.

Peer-to-peer lending – a case study

This section provides a fictional case study applied to peer-to-peer lending

Isabella's Pastry Shop

Setting the scene

Isabella is a pastry chef whose sales have been steadily increasing and she has recently moved to bigger premises, including a small restaurant that now accounts for 30% of her turnover. However, this has put a significant strain on her staff and capacity. To double her capacity she needs to buy a new machine for processing dough and additional ovens. This would allow her to double her capacity. The combined cost of these new machines is €50 000, which is what she set out to find. Isabella went to ask for a loan at her local bank, where she already has a €10 000 overdraft facility and is paying off the final year of a €30 000 loan (for the initial investment). However the bank would only offer her a loan of just €30 000 at a 14.5% interest rate, rather than the 11.5% she previously had in place. She decided to search on the internet for alternatives and came across peer-to-peer lending.



Preparation: day 1 - day 10

Isabella spent some time researching everything she could find about the concept of peer-to-peer lending, paying particular attention to how it worked, which sites offered it and under what conditions/price and the rules the sites set. She collected and read blogs/articles about peer-to-peer lending and looked at other borrowers similar to hers and the deals they had. At the end of that week she felt she understood it and knew enough to apply. To find out more about lender behaviour, Isabella registered with a couple of peer-to-peer lending platforms and lent €100 of her own money in tiny sums to other businesses like hers. It allowed her to get a better idea of what it is like to be a lender and what people will most likely focus on. With this knowledge, she spent the time putting together the financial records and other disclosure requirements.

The fundraising period: day 11 - day 20

Once everything was finished and thoroughly checked, Isabella submitted her documents to the platform. The credit assessment team from the platform followed up with her for some additional financial information, including additional filed and management accounts, and they looked at this information alongside the credit models used by the platform. Soon afterwards, Isabella heard that her business had passed the credit assessment. Now that it had been approved, the business could be listed on the marketplace for investors to bid on. Some of the lenders decided to get in touch with Isabella via the live Q&A tool. They asked her questions to get a bit more detail on how she intended to use the money and the profitability of the business over the last couple of years. Happy with Isabella's answers, her €50 000 loan was fully funded by lenders within a couple of days of being listed. She had the choice of either taking the average rate offered upon reaching the target, but decided to keep her loan on the marketplace for the full seven day auction. Over the remaining days, Isabella watched the interest rate come down as more investors bid to lend to her.

After the bid

Once the auction finished, the platform got in touch with Isabella to confirm the final average rate of 10.3% that had been offered. This was in line with the average for her rating category (B) and was below even her original borrowing cost from a bank (11.5%). Isabella drew down the loan and the funds were in her bank within three working days. Isabella paid back the loan and the interest on a monthly basis over a five-year period. This was managed by a direct debit to the platform, which then managed repayments back to the investors' accounts.

Equity crowdfunding

This section will take you through the major steps of how to approach equity crowdfunding, and gives you some more detailed tips and pointers. **Please note, that these suggested steps are offered as guidelines only.** You might find each step more or less complicated, depending on your project, the size of your team, and the amount of time you are able to commit.

Preparation

The early days of your crowdfunding campaign should be dedicated to looking into equity crowdfunding and preparing your offer. You should:

- **Research potential crowdfunding platforms** and the features and terms they offer.
- Ensure you **understand the rules and legal requirements** of the platform, and in your area.
- **Create a timeline and a cost plan.**
- **Understand market trends**, by looking at how much is pledged for current crowdfunding campaigns and what is expected in return. This will help give you a benchmark for your campaign.
- **Contact platforms which closely fit your needs.**
- Carefully **prepare and check any financial documents** that are required by the platforms.
- **Start building your crowd on social media.**
- Ensure you **check the disclosure requirements and legal obligations** needed. For high-value campaigns, audited accounts will be requested and these can be very costly. Always check with the platform and your local authority on what exactly is required and how much will it cost.

Tip: If possible always try to find a company that has succeeded. Ask them about their experience and if they would mentor/help you. It will save you a lot of time and their advice could help improve your campaign.

Planning the pitch

If your application to the platform is successful, **you should finalise your business plan and financial offer.** It is important to be prepared; **ensure your figures are accurate and have back up evidence for your statements.** Be sure you can show for instance:

- The valuation of your business and the logic behind it.
- The financial performance and forecasts.
- The amount of equity that you are giving away and why.

Telling your story in a compelling way, with easily understandable descriptions of your product or service and the financials, is essential. A multi-channel approach might be very helpful, including videos, social networks, live presentations. Ask for feedback from friends and potential customers to keep you on track. It's important that you:

- **Consider your audience** and what they are likely to want to know.
- Are succinct but **make sure your knowledge, skills and determination for your business shine through.**
- **Clearly illustrate the financials** with links to where to find more information.
- **Tell your story in a visually pleasing and engaging format.**

Creating the pitch

Ensure that you have a good website: A well-designed, informative and appealing one will go a long way to emphasising to investors that you are serious about your business.

Some of the most **effective campaigns include a very short two-minute (or less) video**. In it you should clearly:

- Say what it is you hope to do and why.
- Introduce yourself and your team.
- Explain the performance of the business.
- Show how you will spend the money.
- Say what the financial returns are.

Early outreach is essential. It has been shown that campaigns that get above 20% of the target in the first few days are much more likely to succeed. You should be active on social media and begin building your crowd by creating and joining conversations.

The Fundraising Period

You should be active with the crowd, online and offline:

- **Motivating the crowd**, encouraging them and sharing it with their friends.
- **Being active on social media** promoting the campaign and making it more visible.
- **Talking to journalists**, conferences, trade fairs etc.
- Responding to questions, suggestions and queries.

***Tip:** There are websites that help you to schedule posts and manage multiple social media accounts at once.*

Post-campaign

Now the campaign is over you should deal with all of the administrative steps, such as registering new ownership and changing the status of a company. In particular you should:

- **Arrange the new set-up of the company.** You have now gained several investors and business partners. This means, most likely, a new governance structure and procedures will need to be put in place. If you have questions ask a professional, a lawyer, or your local chamber of commerce for support.
- **Maintain investor relations.** Depending on the set up, the decision-making process can change, and you should remember to accommodate your new shareholders.
- **Prepare the exit for your investors.** You will have to give back the returns to our investors (profit share, dividends, share buy-back etc).

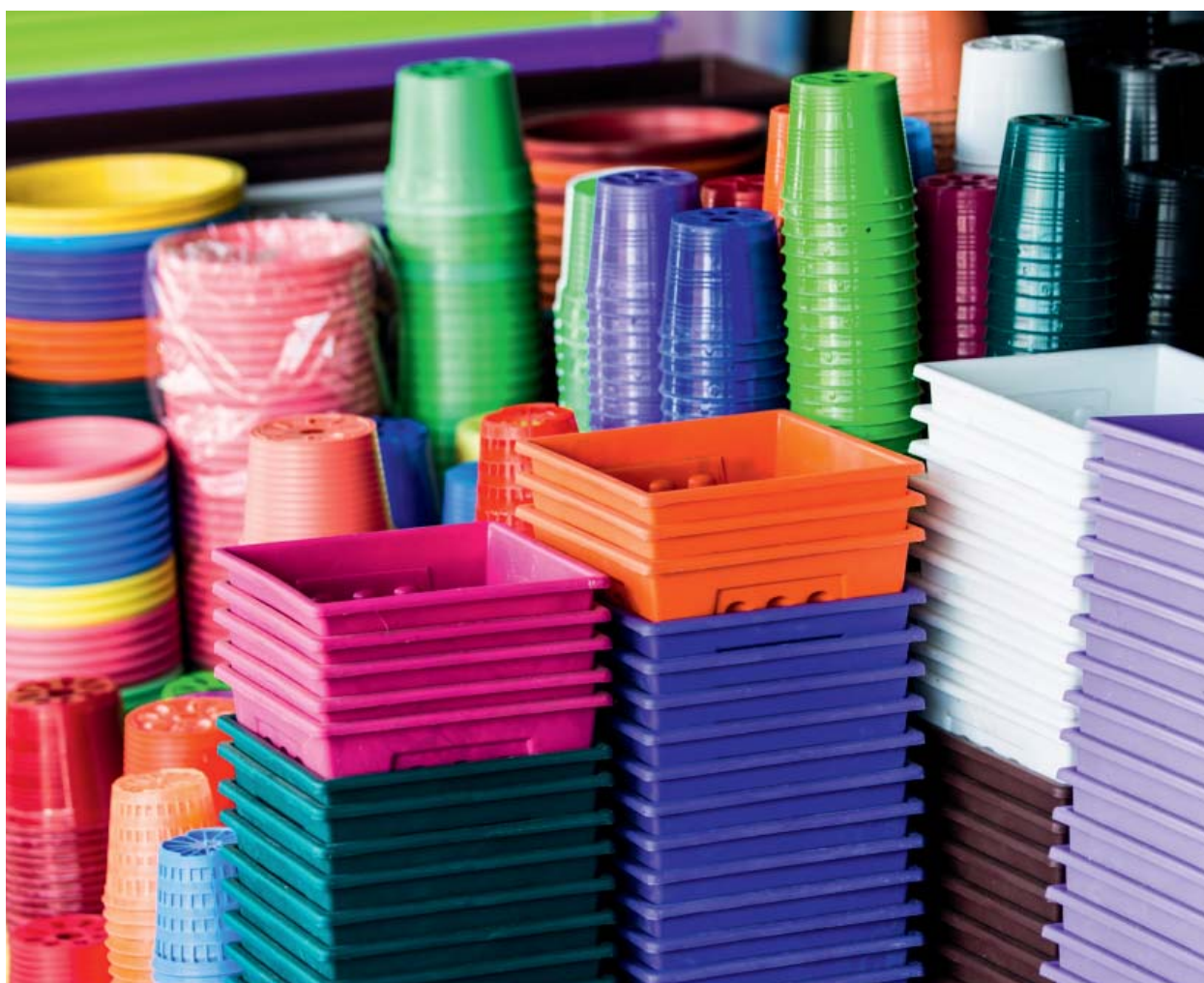
Equity crowdfunding – a case study

This section provides a fictional case study applied to equity crowdfunding

Oscar's Plastics Factory

Setting the scene

Oscar owns a large plastics business in Spain, with 20 full time employees on the factory floor and another 10 in sales and administration. He had been thinking about expanding his operations to other European markets, but in order to do that he needed capital to expand the capacity of the factory and hire more staff to manage the expansion. In total Oscar calculated that he needed about €1.2million. Oscar had approached some private equity and VC funds one or two of which were interested, but wanted a 26% stake in the company and involvement in the strategic decisions, including a very ambitious expansion plan that Oscar felt could put his business at risk. After searching for alternatives, Oscar came across equity crowdfunding and realised it could be a way to raise the necessary capital without the need to relinquish so much control.



Planning the pitch: days 1-10

Oscar began by searching for everything that he could find on equity based crowdfunding, what it was and how it worked. He also researched which sites offered it and under what conditions and fees. He decided to give it a try, aiming to give away less of his company, and less control than expected by the venture capitalists. Oscar chose a crowdfunding platform with a large number of investors already on the platform but in the knowledge that he could not rely on them alone. In order to get their interest and attention he would need to bring his own crowd too – those who knew him and his business would help to raise his profile with other investors. He decided that aiming for a €1.2m target was reasonable, and that based on forward valuation, offering a total of 20% of the company would be fair and sufficient. Oscar knew that the platform would check the accuracy of his underlying numbers, but that it is up to the investors to decide on the valuation itself. He therefore took care to explain the reasoning behind his valuation.

Creating the pitch: days 11-30

Oscar spent a lot of time working out the most direct and relevant way to present the numbers. He worked closely with an advisor, recommended by one of the platforms he spoke to, who was able to give him valuable and objective feedback at each stage in crafting and honing his plan. Oscar realised that he would need to lead with a short, two or three minute, video. He hired professionals and the video was shot in a day with scenes from the factory floor, products and Oscar's commentary. Oscar checked and rechecked his campaign for gaps or inconsistencies. He also got some very good feedback on his campaign from the platform's advisors and they answered his technical and legal questions. Oscar heard from various people on and offline that they were very interested in his proposition. He also had conversations with a few key people keen to invest and when he realised that between them they would be likely to give him a flying start of 20-30% he knew he was ready to launch his campaign.

The fundraising period: days 31-60

Oscar made sure he was active on social media promoting the campaign and making it visible. He found that his crowdfunding quest and the stories around it piqued the interest of local journalists and he was also featured in a national trade journal.

Post-campaign: Days 61 - 80

Oscar quickly reached almost 30% of his target– mostly from those already familiar with him and his business, who knew that his campaign was launching. Within a three weeks or so he reached his target. Rather than commit further equity, an option he had considered and planned for, Oscar decided to finish the campaign early and take it off the platform with a successful outcome. The first thing Oscar did was to thank all the people involved and welcome them as new co-owners of the company. He worked with the platform, which had all the systems in place to issue share certificates and deal with the other formalities.

Rewards-based crowdfunding

This section will take you through the major steps of how to approach rewards-based crowdfunding, and gives you some more detailed tips and pointers. **Please note, that these suggested steps are offered as guidelines only.** You might find each step more or less complicated, depending on your project, the size of your team, and the amount of time you are able to commit.

Preparation

The early days of your crowdfunding campaign should be dedicated to looking into rewards-based crowdfunding and preparing your offer. You should:

- **Research potential platforms** and the features and terms they offer.
- Ensure you **understand the rules and legal requirements** of the platform, and in your area.
- Create a timeline and a cost plan.
- **Understand market trends** by looking at how much is pledged for current crowdfunding campaigns and what is expected in return. This will help give you a benchmark for your campaign.
- Contact platforms which closely fit your needs.
- Carefully **prepare and check any financial documents** that are required by the platform.
- **Start building your crowd** on social media.

Creating the pitch

If your application to the platform is successful, you should be able to **tell your story in a compelling way**, with easily understandable descriptions of your product or service. But this is not easy: you will certainly need feedback from friends and potential customers to keep you on track. It's important that you tell your story in a logical but passionate way, and do it in a visually pleasing, engaging, format.

Some of the most effective campaigns include a very short two-minute (or less) video. In it you should clearly:

- Say what it is you hope to do and why.
- Introduce yourself and your team.
- Say how you will spend the money.
- If you raise more than your target (called a stretch target), show how that additional money will be spent to further enhance the business.

Your rewards need to be exciting; at least one of them should be unique to the crowdfunding campaign, something only your backers will have. Research other campaigns for inspiration. **Don't forget that pre-selling your product is already a good reward for your crowd.** It's more difficult if your business offers a service, rather than a new product, but it's about getting creative and coming up with rewards that your crowd will like and want.

Fundraising period

During the fundraising period you should be active with the crowd, online and offline. A rewards crowdfunding campaign works best if consumers can see the passion behind the project or business. You should approach the project with energy and enthusiasm.

You should:

- **Motivate your crowd**, letting them know that the campaign is live. Encourage them to participate and to share it with their friends.
- **Be active on social media** promoting the campaign and making it more visible.
- **Talk to journalists**, conferences, trade fairs etc.
- Respond to questions, suggestions and queries.

Tip: There are websites that help you to schedule posts and manage multiple social media accounts at once.

Post-campaign

If you have been successful in raising your funds you can't just take the money and move on, there is much more work to be done. If you haven't reached your target, please don't worry. You can learn from your mistakes and try again.

Remember to thank your crowd, and maintain connections with those who were particularly interested in your product. If you were not successful, ask for tips on how to improve.

If you were successful, **ensure that you can deliver on your promises** of rewards to all your backers in the time frame promised by creating a time plan. Finally, **remember to conduct all administrative tasks** such as paying taxes.

Don't forget: If you intend to pre-sell your product, you might have to register as a VAT payer. Check with your local authority.

Rewards-based crowdfunding – a case study

This section provides a fictional case study applied to rewards-based crowdfunding

Carla's Designer Lights

Setting the scene

Carla is a designer based in Prague. She has recently finished building a prototype of her designer lighting system. It is an ultra-modern concept using recycled industrial materials and the system received praise at last year's Milan's Design expo. She has lined up a manufacturer that will develop the main parts as well as a small team to put the lights together, arrange deliveries and installations. In total this means that in order for Carla to start her business she needs to find €41k to cover her costs during the first six months. Given that she wants to sell each of the lights at €200 a piece this means that she needs to sell 205 pieces to cover her costs for the first 6 months. She considered approaching the bank for a loan but given her lack of collateral, outstanding student loan and short time in business, she realised she would not meet the basic qualifications. She decided to try crowdfunding.



Preparation : days 1-10

Carla spent the first week researching crowdfunding websites. She collected and read blogs and articles about rewards crowdfunding, and she identified and investigated interesting examples that were similar to hers and that were successful. By the end of that week she felt she understood what it was and what she needed to do. Carla had her product accredited and ready to go and had already thought through her business concept and financials, so she turned her attention to understanding the crowd, her customers. Via social media, she identified influencers in her field, respected individuals with a solidly engaged following that could help share her message. She spent time talking to these people, joining conversations and making friends and connections, so that when she was ready to launch her campaign she had a strong online crowd to support her. She chose a platform which she knew to be reputable, with the right kind of audience, but on which she could still have high visibility.

Creating the pitch: day 11-25

Carla knew the pitch was crucial to her success so took great care to carefully hone her story. She spent time considering her story and key messages, and the rewards (one of them being the designer light itself, a €200 pledge). Carla knew from her research of other crowdfunding projects that a short video would be essential to help tell her story, demonstrate the quality of her design, and help backers get to know her, her team, and the company ethos. She made a film showing her constructing a light and created a webpage for her business, so she could add her products and describe them further. Carla also arranged a videoconference with the platform's advisor to ask her to review her campaign and suggest improvements, as well as checking for any technical or legal issues applicable in Prague. Carla spent three weeks meeting and speaking to a lot of people, doing her research and creating a crowd around her project. When Carla thought that the buzz was large enough, she launched the campaign.

Fundraising period: day 26-56

As soon as the campaign launched, Carla started to work on the next phase of the crowdfunding process. Carla spent time on her campaign every day, talking to her crowd, letting them know that the campaign was live, encouraging them to participate and to share it with their friends. She talked to journalists and found a lot of interest in her crowdfunding quest as well as her innovative products as a result. Carla received messages from interested people asking questions, and also comments suggesting features she had not thought of and other improvements. She took these on board, and thanked each one of those making suggestions, as part of her efforts to nurture her crowd.

Post-campaign: day 56-70

Carla's campaign worked and she was able to exceed her target, with 145 lights sold! It was a great success, since not only did she have enough to start production, build stock and cover her costs for three months, but also she was also able to sell half of her stock of lights before they even arrived from the factory. The first thing Carla did was to put the production process in motion and thanked all the people involved. She then created a production timetable and informed her crowd when they could expect their lights to be delivered, and began all the admin involved in starting to operate as a business. But Carla did not stop interacting with her crowd. She gave them regular updates on progress and tapped into their expertise when questions arose. Because they became enthusiastic users of her products they also became her best advocates, acting as a marketing and PR platform to spread the word further, helping sell even more of her lights.



Next steps



More information on crowdfunding

- **Crowdfunding in the European Union**
http://europa.eu/rapid/press-release_MEMO-14-240_en.htm
- **Crowdfunding in United Kingdom**
<http://crowdingin.com/what-we-mean-crowdfunding>
<http://www.fca.org.uk/consumers/financial-services-products/investments/...>
- **Crowdfunding in France**
<http://www.amf-france.org/Reglementation/Dossiers-thematiques/Epargne-et...>
- **Crowdfunding in Italy**
<http://www.consob.it/main/trasversale/risparmiatori/investor/crowdfundin...>
- **Overview of crowdfunding**
https://www.vm.fi/vm/en/04_publications_and_documents/01_publications/07...
<http://www.europecrowdfunding.org/category/facts-and-figures/about-crowd...>
<http://www.bruegel.org/publications/publication-detail/publication/844-i...>

More information on crowdfunding platforms

- **Overview of crowdfunding platforms in France**
<http://tousnosprojets.bpifrance.fr/>
- **Overview of crowdfunding platforms in United Kingdom**
<http://crowdingin.com/platforms/all/all#>
- **European Crowdfunding Network**
<http://www.europecrowdfunding.org/>

European Union on crowdfunding

- **European Commission on crowdfunding**
http://ec.europa.eu/finance/general-policy/crowdfunding/index_en.htm
- **European Parliament on crowdfunding**
<http://epthinktank.eu/2014/05/08/crowdfunding-in-the-european-union/>
- **ESMA on crowdfunding**
<http://www.esma.europa.eu/news/Press-Release-Investment-based-crowdfunding-needs-EU-wide-common-approach>

More information on other sources of finance for your business

- **European Commission portal on access to finance**
www.access2finance.eu
- **The Enterprise Europe Network gives you advice on EU programmes and how to find business partners**
<http://een.ec.europa.eu/>

