UNDERSTANDING CROWDFUNDING
FOR ENTREPRENEURS & INVESTORS

CHRISTOPHER MIRABILE
MANAGING DIRECTOR
LAUNCHPAD VENTURE GROUP
@CMirabile
SCRATCHPAPER BLOG.COM

DAN SULLIVAN
CEO
CROWDLY
@DanielMSullivan
CROWDLY.COM
**Key Distinction:**

**Product Crowdfunding vs. Equity Crowdfunding**

- **Product Crowdfunding** is **live & thriving** - Kickstarter, Indiegogo, etc.

- **Equity Crowdfunding** is still **not fully live & legal** yet.
  - Until **JOBS Act**, it was a violation of **SEC** rules.
  - **JOBS Act** allows it with restrictions but still waiting for SEC rule-making to spell out restrictions.
PRODUCT CROWDFUNDING

PROS:
- Access to capital
- Marketing buzz built-in if you tell story well & understand social media
- Have your market validation before you launch
- No risk - don't have to pursue if market interest insufficient

CONS:
- Competitors alerted to your market & its demographics
- Competitors know your price point
- Competitors know your design and feature list
- Competitors know your exact timing & can spread FUD & launch alternatives
Product Crowdfunding

Makes sense for:

- Usually physical products (a minority)
- Consumer-oriented products
- Niche markets
- Smaller budget & more buzz-dependent

Doesn't make sense for:

- Looking to build a big, long-lasting multi-product company
- Complex products which take sales to explain
- B2B/Enterprise where customers cannot be reached through crowdfunding
- Products which do not prototype well and cannot be made in small initial batches
Equity Crowdfunding Pros:

**General Advantages**

- Could lower the cost of capital for companies
- Could democratize funding & returns from early-stage
- Could be good for national innovation & competitiveness
- More liquidity & efficiency in economy - redeploy resources faster
- Anti-globalism; helps the small guy compete better
- Freedom & individual empowerment
- Environmental benefits - productive work can happen anywhere
- Good for small, local one-off projects
Equity Crowdfunding Pros:

Company-Specific Advantages:

- Potentially quickest source of capital - focus on product, not fundraising
- Raise small amounts quickly to hit early milestones - make next raise easier
- Build a large pool of advocates - ecosystem of support & ideas
- Built-in customer validation & feedback
- Extra buzz for early crowdfunding pioneers
- More data points than with one crazy billionaire investor
Equity Crowdfunding - Cons

- Increased potential for fraud (can happen elsewhere too)
- Potential for waste - competition for scarce funding does weed out some bad ideas
- Mismatch of goals, lack of understanding = failed expectations: disaster could bring regulatory boom down on professional angels
- Bubble thinking - Tulip craze; buzz & momentum over substance - dot.com meltdown 2.0
- Lack of value add from micro investors who hinder more than help
- Management distraction
- Shareholder tensions - less attractive to professional investors
- One shot deal - next round is still an issue
- Limited funding - better for prototype than go to market
- Could be legal pitfalls that make the company hard to run
- Shallow, walk-away level of investor commitment
Equity Crowdfunding Makes Sense For:

- Companies needing funding at product/project level
- Companies in regions where capital is hard to form
- First-time entrepreneurs who can't raise from larger investors
- Companies with hyper local projects (neighborhood/small business)
- Companies where the buzz is esp. valuable or strong, cost validation key gating item
- Projects requiring a broad, engaged fan base
- Entrepreneurs looking to float an idea
Equity Crowdfunding

Doesn't Make Sense for:

- Entrepreneurs who need value-added investors, mentors & advice to succeed
- Entrepreneurs who need industry expertise from investors to open doors & navigate opportunities
- Companies chasing capital-intensive opportunities
- B2B companies focused on enterprise
- Experienced "bankable" entrepreneurs who can raise conventionally