

# Crowdfunding

by Bethany Caskey

If you have a project or passion you think others might be interested in supporting and need to raise funds, selling candy bars, holding a raffle or applying for a bank loan is old school. There are more ways than ever to raise money thanks to the Internet. A huge market of do-it-yourself funding websites has made fundraising easier and more effective.

Known as crowdfunding or crowdsourcing, these financial pleas can replace the need for grant applications or other traditional fundraising techniques with a more casual, yet powerful, approach based on crowd participation.

The word crowdfunding can be thought of as an umbrella term that describes multiple different funding relationships between individuals and organizations connected via the Internet. An example of the basic principle of crowdfunding can be seen in Cooperatives (co-ops) around the world. Today, the Internet can provide new approaches to imitate the co-op model for financial backing or disaster relief.

Crowdfunding is a term used to incorporate the act of informally generating and distributing funds, usually online, by groups of people for specific social, personal, entertainment or other purposes. Crowdfunding is used to raise non-equity capital for creative projects and/or causes in exchange for perks like early access to a product or service, public recognition or a feeling of helping something worthwhile. This activity is does not involve the sale of securities.

If you have ever borrowed money from a friend, at some point, you pay your friend back because they were

lending you something. Crowdfunding is different. Someone gives you money (a donation, a purchase, or just because) with no obligation on your part of paying it back. You could pay it back, but the premise is, you are using their money to successfully complete a project they support. This is viral philanthropy, through which users of online communities, such as Reddit, Facebook, Twitter and other platforms, help spread awareness and raise money for those who need it.

By the end of this year, there will be an estimated 500-plus crowdfunding websites worldwide, which is up 60% from 2011. Most of this growth was driven by the explosion of equity-based web portals after the passage of the JOBS Act. However, the JOBS Act is

likely to require equity-based funding websites to register with the Financial Industry Regulatory Authority (FINRA) as broker dealers. Becoming a broker-dealer is a major process and not all of the new funding websites will survive. Instead, a select few crowdfunding websites will attract the highest quality deal flow and attract a higher

quantity and quality of investors.

It is essential to remember that existing regulations prohibit startup companies from raising money via crowdsourcing. Consequently, payouts for crowdfunded, non-qualified investors must be tangible returns, like DVDs, posters, or t-shirts. Crowdfunding money donated must basically represent the pre-ordering of future products or services. Donating to restore a historical landmark, for instance, might get the donor a plaque of recognition on the landmark site.

Joshua King, vice president of Business Development and General Counsel at Avvo, has news for individuals looking to get started: "For individuals doing straightforward projects (i.e., not non-profit/campaign

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*This last year, Redditor Max Sidorov, saw the video of Karen Klein, the school bus monitor bullied by students. The students' cruel conduct reminded him of his own experiences with bullying. He decided to spread the word and guided people to the crowdfunding site Indiegogo to raise money for a vacation for Klein. Sidorov met the \$5,000 goal within five hours and reached over \$680,000 when the campaign ended.*

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fundraising or business investment) there's not a need for a lot of legalese. It's really just a matter of being clear about what you're doing with the money and then following through."

This last year, Redditor Max Sidorov, saw the video of Karen Klein, the school bus monitor bullied by students. The students' cruel conduct reminded him of his own experiences with bullying. He decided to spread the word and guided people to the crowdfunding site Indiegogo to raise money for a vacation for Klein. Sidorov met the \$5,000 goal within five hours and reached over \$680,000 when the campaign ended. The "Let's Give Karen - The bus monitor - H Klein A Vacation!" crusade demonstrates the power of influencing online communities for good causes.

The Klein campaign was not an official non-profit, so the donors won't be able to write-off their donation. But, unless Klein invests some of the money raised and benefits from those investments, and as long as no one donor gave more than \$13,000, she will not be taxed for receiving it. It was determined that the money raised was a gift and not income. Other money funding projects may not be so lucky. The physical items given as perks are seen as goods sold and are subject to any

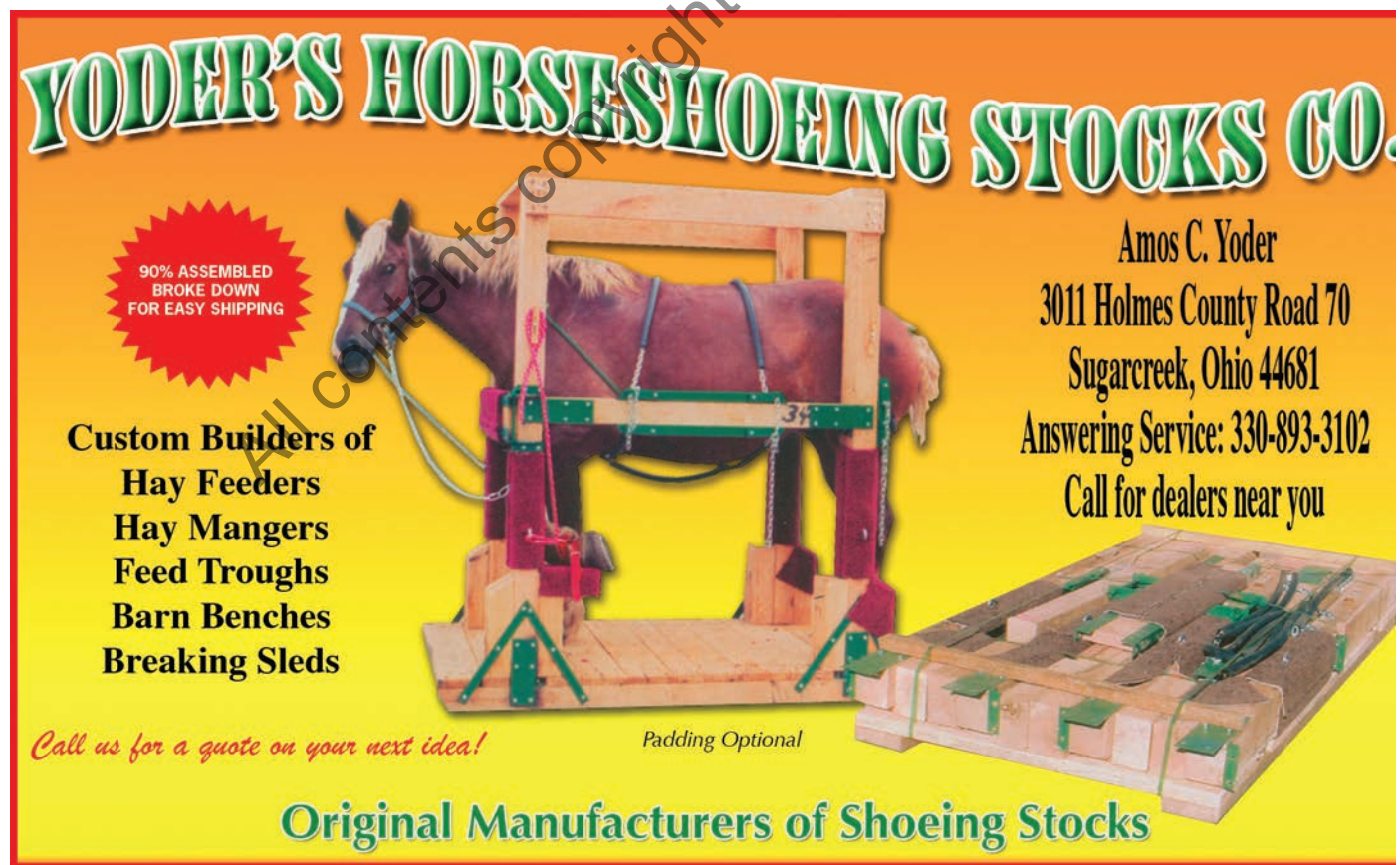
sales tax that is applicable, and other funds raised may be considered income. There may be exceptions for colleges and nonprofits using crowdfunding, so it is best to ask an expert when unsure.

Under contemporary business models, entrepreneurs are limited to educated guesses of what consumers will buy and in what numbers. By allowing potential shoppers to fund only the ideas they like, a project originator knows precisely what to create, and in what quantities. Crowdsourcing allows delivery of a high-quality product that essentially sold itself. Pre-orders provide working capital to fuel production, and donors feel more emotionally invested in the end result.

The project creator sets a goal amount and a deadline for reaching that goal. In an all-or-nothing funding model, if they receive enough pledges to meet the goal, then they keep the money. But if they don't meet the goal, they don't get any money and the donors are not charged. Some crowdfunding sites use a "keep what you raise" model with higher use fees.

While it may seem easy to promote a campaign online, crowdfunding takes hard work and dedication in order to generate donors. Research in marketing is essential.

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Die is a book by brothers Chip and Dan Heath published in 2007. The book's outline follows the acronym "SUCCEs" (with the last s omitted). Each letter refers to a characteristic that can help make an idea "sticky":

**Simple** — find the core of any idea

**Unexpected** — grab people's attention by surprising them

**Concrete** — make sure an idea can be grasped and remembered later

**Credible** — give an idea believability

**Emotional** — help people see the importance of an idea

**Stories** — empower people to use an idea through narrative

Just as important as pre-production and marketing is defining the required funding levels. The project owner sets rewards for various pledge levels and this encourages the community to sponsor various amounts based on the reward they want. Payouts can be tangible, for example: \$50 gives the donor a copy of the film on DVD and signed poster. Or personal: \$500 earns you an executive producer credit and an invitation to the premier showing.

Studies have shown that campaigns with videos will raise 114% more money than those without. Additionally,

## Crowdfunding Fundamentals

- The project owner creates a budget for his idea and determines a reasonable request for the funds to complete the project.
- The project owner sets rewards for various pledge levels to encourage the community to sponsor various amounts based on the reward they desire.
- Usually, the project owner creates a short video to present their project to potential sponsors and posts it online.
- The project owner must include updates throughout the project to keep their investors posted on progress.
- If the project owner meets or exceeds their goal, they receive all the funds minus a small percentage to the hosting website.



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project owners who update their campaign pages every five days or less raise significantly more money than if they update every 20 days or more. Additionally, if a campaign has four or more people on its team, it will raise 70% more money than a crew of one.

Not everyone will give you money, but people who like and trust you will. If you fail in earning the public trust, your project won't go anywhere, and you won't be able to raise funds. To rely on your users to financially support your product, then earning their trust is paramount. They're not going to back you if they don't trust you, regardless of the quality of your project.

Some recent successful crowdfunding projects may give you some crowdfunding ideas of your own:

### Wood Prairie Farm

Jim Gerritsen and family have been growing organic seed and organic food on Wood Prairie Farm in Northern Maine for 36 years and needed financial help to build an on-farm repair shop for maintaining their vintage farm equipment.

The organic seed and food crops they grow require specialized older equipment. Lots of time is spent repairing farm equipment, keeping the tractors running and fabricating new machines. Peter and Caleb, the two oldest children, are accomplished mechanics and have earned the responsibility of doing most of the equipment repairs.

The Gerritsen's needed help to purchase the necessary building materials for a 30' x 70' metal and concrete radiant floor-wood-heated repair shop so the boys could do repair work in all weather and especially in the long Maine winters. They worked out a budget and determined they needed to raise \$32,000 to buy the materials for the repair shop. They would complete their own construction work. In the end, they raised \$32,000 in 45 days. Perks included: \$10 Wood Prairie Farm Cider Label, \$25 Wood Prairie Potato Postcards, \$50 Organic v. Monsanto T-Shirt, up to \$5,000.00 for a keynote speech by Jim Gerritsen.

#### **Dancing Bee Gardens**

This proposal focused on benefiting all beekeepers and, by extension, all gardeners, farmers and consumers that rely on bees for pollination. The trial was designed to help clear up the controversy surrounding the use of small cell comb for varroa mite control. The goal was to help prevent many beekeepers from resorting to the use of chemicals, or save many hives from dying from not receiving some type of care for mites. Dancing Bee raised \$870 of their \$852 project goal.

#### **Jared Flesher**

Jared met his goal of \$2000.00 to finish his rough-cut documentary film, *The Farmer and the Horse*, and raised enough money to finish the film and start distributing it – on television, at film festivals and on DVD. Backers received a DVD copy of the finished film at \$20 each.

#### **Brian Smith**

One of my favorites is Brian Smith's Horse-drawn Farm Delivery project. One of the biggest reasons Brian heard from people about their resistance to buy locally produced food was that it is inconvenient. By establishing Oyster River Farm Express in downtown Rockland, Maine, Brian delivers a weekly box of mixed products from local farms and producers like himself to homes and business from November to March by horse-drawn wagon. He delivers a box to 90 subscribed customers each week, adding to the local flavor of the

### **List of the better-known Crowd-Funding sites**

Research several sites to find the best provider to showcase your project. Some sites specialize while others are open to almost anything.

- [indiegogo.com](http://indiegogo.com)
- [kickstarter.com](http://kickstarter.com)
- [rockethub.com](http://rockethub.com)
- [gofundme.com](http://gofundme.com)
- [microryza.com](http://microryza.com)
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- [Fundable.com](http://Fundable.com)
- [Citizeneffect.org](http://Citizeneffect.org)
- [Ulele.com](http://Ulele.com)
- [Cofundos.org](http://Cofundos.org)
- [Biracy.com](http://Biracy.com)

town and endorsing those who share a similar vision of environmental and economic sustainability. The \$10,000.00 goal purchased a delivery wagon, wooden boxes for delivery, a horse trailer to transport the horse into town and some marketing and promotional materials.

Anyone can launch a fundraising effort over the web. The good news is that you don't have to be a computer guru to take advantage of all these great resources. Even the most computer illiterate can get online and start raising money.

Of course, not every idea will meet its funding goals. As with all things, luck -- as well as effort and the quality of the idea -- will eventually play a part in what succeeds and what doesn't.

*Bethany Caskey lives in Albia, Iowa.*