Hippocampus.io
consulting ventures

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CrowdFunding is …

The Basics

Crowd Funding is….

the practice of funding a project or venture by raising small amounts of money from a large number of individuals, typically via the Internet.

Crowdfunding is a form of ***crowdsourcing*** and ***alternative finance***.

Although similar concepts can also be executed through mail-order subscriptions, benefit events, and other methods, the term crowdfunding refers to ***Internet-mediated*** registries.

The crowdfunding model is generally based on three types of actors:

The ***project initiator*** who proposes the ***idea*** or project to be funded, ***individuals*** or groups who support the idea, and a moderating organization (the "***platform***") that brings the parties together to launch the idea.

Crowdfunding has been used to fund a wide range of for-profit, entrepreneurial ventures such as artistic and creative projects, medical expenses, travel, and community-oriented social entrepreneurship projects.

5 distinctive Types of Crowdfunding

Equity CF is a Marketplace Business Model

Key Partnerships

Depending on the market, regulations and strategy, these are the key Partner avenues:

Investor Networks
Having the 'right' investors is key to ensuring that companies see an advantage to using a platform

Incubators/ Acceleratos
These are used to help source exciting cos.

Legal & Regulatory
Many platforms need to create bespoke legal/compliance documents, require ongoing assistance

Key Resources

Brand, Relationships

- Becoming a trusted brand for both companies and investors is key
- Ongoing relationships on both sides helps to drive referrals and new business

Key Activities

- Creating a base of investors and dealflow pipeline of new companies
- Develop technology to automate all legal/regulatory processes
- Marketing campaigns, building buzz in press

Value Proposition

Raise equity funds from a distributed group of prof. & retail investors through an automated platform

- Compliance, regulatory and legal guidance
- Tap into new investor networks, aggregate current networks
- Ongoing IR and compliance

Equity Crowdfunding

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Customer Relationships

Account Managers, Social Media

- Most cos. have a dedicated Account Manager for their companies
- Social media is used to engage with community

Channels

Digital & Physical

- To find great companies, a physical presence is required in markets
- Digital channels are used to market campaigns, reach new customers

Customer Segments

Companies / Investors

- **Companies** - most successful platforms find 'hot' deals that you can't find elsewhere and are marketable to the public. ie Fintech startups
- **/ Investors**- if investors do not have to be accredited, 'Armchair' retail investors are a prime segment of these platforms
- **/ Investors** - accredited/ institutional investors help build brand and gravitas

Cost Structure

Regulatory, Compliance, Legal - equity crowdfunding firms must continuously manage these avenues with regulators

Technology Platform - ongoing feature development

Sales & Marketing - cont. finding companies and investors

Revenue Streams

%Commission of Funds Raised: each time an equity fundraising campaign is successful, platforms take ~7-10% of funds (including payment processing fees)

Bundled Services: Many platforms offer additional, bespoke services to companies at an additional fee or %

Developed by Alex Osterwalder et al

This Canvas by LumosBusiness

What should <u>founders</u> look for in an Equity CF platform?

1. Number of active investors
2. Types of investors (average ticket size, type of deals)
3. Total amount of capital raised
4. Average amount raised per campaign
5. Number of campaigns (active vs inactive, success vs failures)
6. Types of companies on the platform(niche or local offerings vs. more broadly-appealing businesses)
7. Platform fees
8. Discounts on fees
9. Due Diligence process
10. Securities offered (e.g. SAFE, Equity, etc.)
11. Valuation ranges
12. Cap table structure (i.e. single cap table line-item vs. many)
13. Experience of the platform’s team
14. Funding history (of the platform itself)
15. Overall fit (company to platform

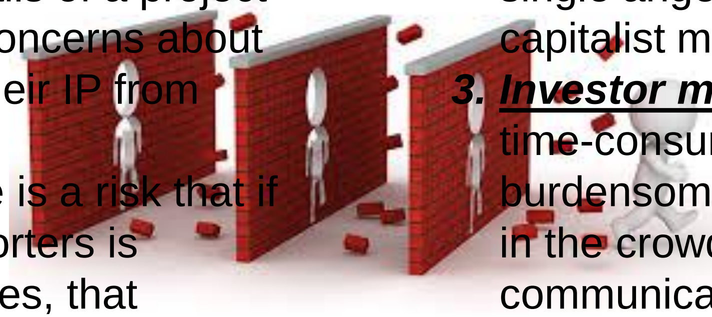
What should <u>investors</u> look for in an Equity CF platform?

Investors should be investing on platforms that best align with the types of deals and investment opportunities that they are looking for. Areas that every investor should consider to determine what is the best funding portal includes:

1. Types of companies and deals
2. Quality of deals
3. Quantity of deals
4. Early-stage vs. Later-stage startups
5. Investor fees
6. Due diligence processes and deal curation done by the platform
7. Types of securities offered (e.g. Common Stock vs. SAFEs)
8. Secondary Market options (for increased liquidity)
9. Payment forms accepted (credit card vs. Fund transfer)
10. Portfolio management

The Risks and Barriers for the Founder

1. ***Reputation*** – failure to meet campaign goals or to generate interest results in a public failure.
2. ***Intellectual property (IP) protection*** – many Interactive Digital Media developers and content producers are reluctant to publicly announce the details of a project before production due to concerns about idea theft and protecting their IP from plagiarism
3. ***Donor exhaustion*** – there is a risk that if the same network of supporters is reached out to multiple times, that network will eventually cease to supply necessary support.
4. ***Public fear of abuse*** – concern among supporters that without a regulatory framework, the likelihood of a scam or an abuse of funds is high.



1. Lack of ***participation*** - It is seen that some stories are more likely to get picked up than others based on the story. It is easy to get support if you "just tell a story.
2. Lack of ***support and value*** – of that a single angel investor or venture capitalist might offer.
3. ***Investor management*** - This can be time-consuming and financially burdensome as the number of investors in the crowd rises. Managing communications with many possibly disappointed investors and supporters can be a substantial, and potentially diverting, task.

The Risks and Benefits the Investor

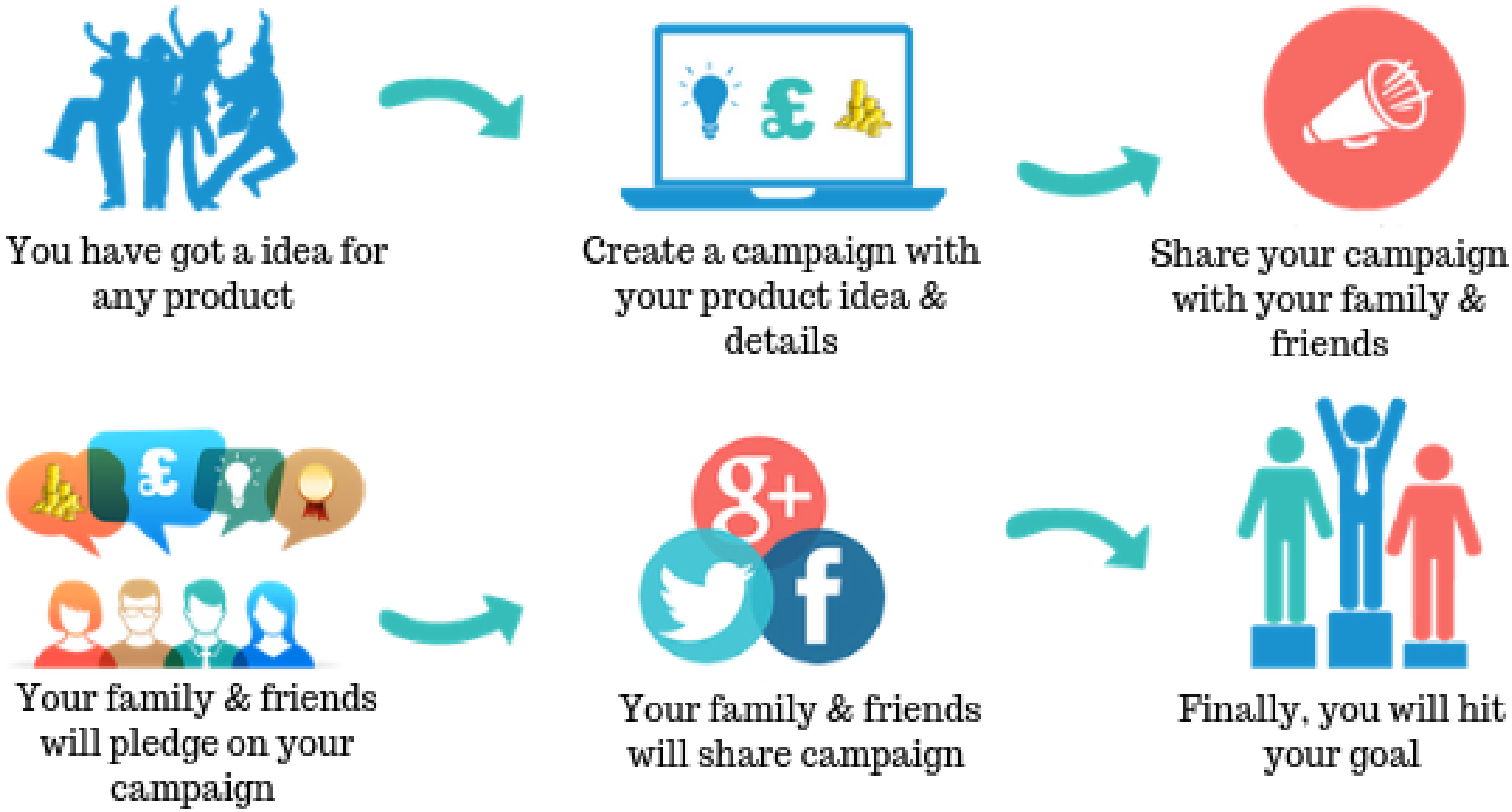
Benefits

- Crowdfunding ***reduces costs*** CF platforms reduce search costs and transaction costs, which allows higher participation in the market.
- Current early-stage investing is ***not efficient***. Crowdfunding opens up some of these neglected markets to individual investor, like the consumer sector.
- ***Value of new investors -*** Investors add value to companies when they act as brand advocates and they can even be used as a focus group. Crowdfunding allows individual investors to be a part of the company they invest in.

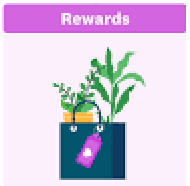
Risks

- ***Information asymmetry*** - due to the reduced ability of the investor to conduct due diligence.
- Early-stage investing is typically localized- these CF platforms are ***not geographically constrained*** and bring in investors from around the world.
- On reward-based platforms, investors try to mitigate this risk by using the ***amount of capital raised*** as a signal of performance or quality.
- On equity-based platforms, crowdfunding syndicates reduce information asymmetry through a) ***portfolio diversification*** and better due diligence and b) by allowing ***lead investors*** with more information and better networks to lead *crowds* of backers to make investment decisions.

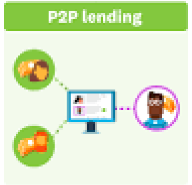
From Idea to Campaign



What is Important in Crowdfunding?



1. money
2. marketing
3. new challenge
4. validation
5. **community**



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What's the **bonus** with crowdfunding;

a. you can become a **company to a day**
b. you are put **directly to the market**
c. you have to be ready, the community/people who bought the product need support
d. constant updates are necessary

community = make feel people they are part of the product
the more you make them feel part of it the more tolerant they are going to be with you
(the same with mentors and investors)

A typical Timeline for a Rewards Campaign

Pre-campaign: 2-4 months

- Prepare and refine crowdfunding page
- Build and warm up your crowd
- Plan your messages
- Prep video
- Get project approved by the platform

Campaign live: 4-6 weeks

- Launch campaign
- Engage with crowd
- Execute plan
- Get to 100% ASAP
- Overfund!

Post-campaign: 2 months

- Collect money
- Deliver rewards

Take away messages

1. 25-30% of funds must be committed at private launch
2. Must achieve 70-80% of total ask in the first 48 hours (especially for product)
3. Don't take fees from your community, in equity crowdfunding
4. Onboard your community either asn pre-orders or investors for your Startup

1. Select the best platform
2. Engage with your existing community.
3. How long is your email list?

Ask yourself:

1. What they know about you
2. What do you want them to know about you
3. Be aware of your actions

How to raise money:

1. Brand
2. Product
3. Work with the right people