



Crowdfunding – A Modern Way of Acquiring Funding PART 1

In the previous publication “A Brief Introduction To Crowdfunding” we discussed the basic concept of crowdfunding, its importance as an alternative for (especially) startups to obtain funding, how it works and the difference between crowdfunding and other funding methods. Now let us have a look at some successful crowdfunding “platforms/types”. It’s important to inform that the mentioning of the crowdfunding platforms in this publication must not be interpreted as a favorite choice or promotion of one platform above any other platform by the DCSX, they are merely informative with the intention to provide some examples. Other similar platforms can be easily researched on the web.

First, let us remember what crowdfunding stands for. Crowdfunding refers to acquiring funding from a large pool of people. The way it works from an operational point of view is through an online platform that allows a business or “project” to present their idea to hundreds and thousands of people such as friends, family members, individual investors, and customers online. Using the same platform, these people are then able to express their interest in the business or project and help them in acquiring the funding it requires to launch or sustain.

Successful Crowdfunding Platforms

There are multiple formats of crowdfunding via which a startup or other project can acquire capital. Some of the well-known formats include Donation-based, Rewards-based, Equity-based, and Debt-based crowdfunding. In this publication we will highlight some successful platforms of two of these four crowdfunding categories: Donation-based crowdfunding and Rewards-based crowdfunding.

Donation-Based Crowdfunding

Any investment that does not promise a return to the investor is typically known as donation-based funding. In some cases, the investor might receive their actual investment back in the end. However, this often may take a long time, and there are mostly no contracts that bind the business to return the original investment. It is typical for such funding to help raise money for non-profits, social causes, and art activities. Both -the investor and the business/project- are clear about the purposes, which makes this funding a lot less complicated in contrast to the rest of the categories.

There are numerous donation-based funding examples in the market. While many crowdfunding platforms are available and able to help in the completion of a project, there are others that go as far as to offer students an interest-free loan to complete their education. Examples of some of these platforms are for example EdAid in European Union, GoFundMe in the United States, and 51Give in China.

GoFundMe, for instance, is a typical example of a platform that helps in raising money for social causes. Since its inception in 2010, it has helped in raising over \$4 billion in donations. Any user or business can use the platform to create a campaign to address a specific cause. They can input the details of the campaign and the amount they require to address the cause, and anyone can donate using the platform.

To give another example, in recent times, Brazil has become an important player in the crowdfunding space in South America. One of its biggest platforms is Catarse, which has been able to raise over 10 Million USD for social and cultural projects. “The boy and the world,” a famous animated film was able to acquire its funding through this platform. Eventually, it led on to become a 2016 Oscar nominee for Best Animated Movie.

Africa is another region where crowdfunding is at its peak. Start-ups in Kenya can raise funds with relative ease, and most of these businesses in the country are a result of self-funding or crowdfunding. M-Changa and Babandu are two platforms that have paved the way for different start-ups to acquire funding from international angel networks.

Kiva.org is another generally well-known example of donation-based crowdfunding. It works with local partners in different countries to help various businesses, multiple local donors, to acquire the funding they need. These donors can easily donate a low amount as \$25, and they often receive the loan back in some years.

Rewards-Based Crowdfunding

Rewards-Based crowdfunding is funding in which an investor is promised to receive a reward in return for the amount that they invest in the business. These rewards can range from discount coupons to early access to a launching-soon product.

Although this funding offers a reward in return for the investment, it is still considered to be a sub-category of donation-based funding, mainly because the return is a simple reward and not a financial-asset return.

Next to being used as a donation-based platform, GoFundMe can also be used for a reward-based model platform. But for instance, Kickstarter is also a well-known reward-based crowdfunding platform. It is known for helping mostly tech and creative entrepreneurs fund their projects before getting a loan or raising money from venture capital. For each level of money raised per individual, you (the project) determine and offer a small gift or personal experience for your donor. Kickstarter is a so called “all or nothing” platform, which means that you don’t get your funds unless you complete your campaign/raise the full amount you intended to raise. Indiegogo works similarly to Kickstarter, except it doesn’t have an exclusively “all or nothing” fundraising model.

Causes is another example of reward-based crowdfunding focused on social, political, and cultural issues. It brands itself as a social network for people who want to make a difference in those aspects, in a faster and more effective way.

Guanxi Invest is an online platform that enables different businesses and investors to come together and form an online community. It allows different seekers and lenders to use two-way communication and work together on various projects.

Patreon is another fairly specialized platform that is very popular among “digital creatives”, such as YouTubers, podcasters, and bloggers. It is slightly different from other platforms that offer one-off donation campaigns because they offer a subscription model where patrons (the contributors) regularly contribute a set amount of money every month or per creation.

Zhongchou.com is another reward-based crowdfunding platform in China. It has enabled numerous businesses to connect with the right investors and follow an “all or nothing” philosophy, which means that if the project is not able to obtain the required funding, all the investment accumulated is returned to the investors. Sort of the same as explained above for Kickstarter.

Final Thoughts

Crowdfunding offers an alternative to small businesses and projects of all sorts to obtain the funding they need to invest in their idea or their business growth. Donation-based and Rewards based are very popular; but of course, there are two other crowdfunding formats or types that are even more interesting for those who want to invest with an end goal of getting a certain return for their investment. And those are: Equity-Based Crowdfunding and Debt-Based Crowdfunding. In the next publication we will discuss some examples of these two crowdfunding methods.

IMPORTANT NOTE: the mentioning of the platforms in this publication is by no means to be interpreted as a favorite choice or promotion of one platform above any other platform by the DCSX and simply intends to give some examples. Other similar platforms can be easily researched on the web.

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