

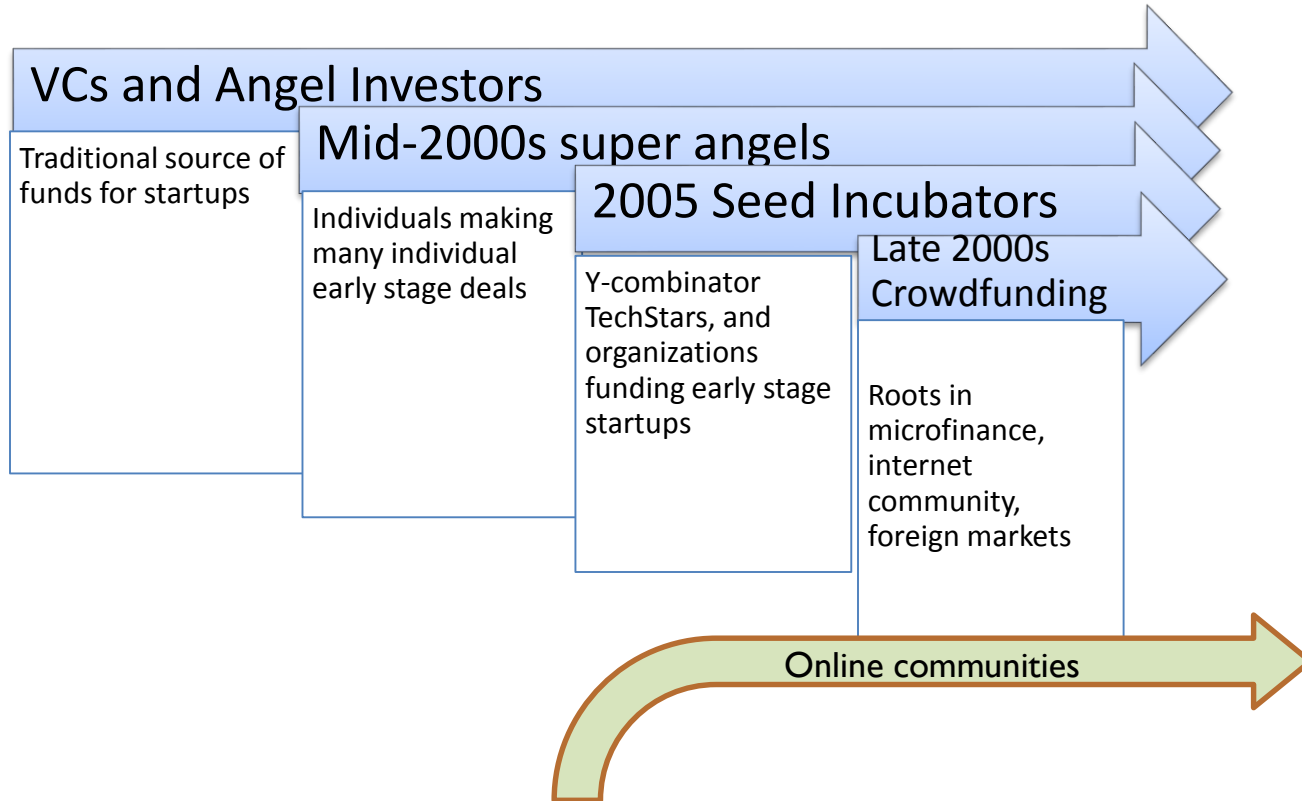
# FINANCING: CROWDFUNDING

Professor Ethan Mollick  
Twitter: @emollick



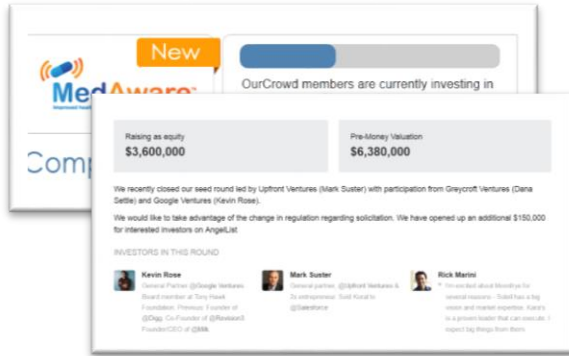
# Crowdfunding as a new way of funding

- As costs of startups fall, new funding mechanisms



# Four kinds of crowdfunding

## Equity



**New**

OurCrowd members are currently investing in

Raising as equity: **\$3,600,000**

Pre-Money Valuation: **\$6,380,000**

We recently closed our seed round led by Uphorn Ventures (Mark Suster) with participation from Greylock Ventures (Dana Settle) and Google Ventures (Kevin Rose).

We would like to take advantage of the change in regulation regarding solicitation. We have opened up an additional \$150,000 for interested investors on AngelList.

INVESTORS IN THIS ROUND

- Kevin Rose**  
General Partner @Google Ventures  
Board member at Tony Hawk  
Founder/President/Co-founder of @Snap Co-Founder of @RevIEWS  
Founder/CEO of @B&B
- Mark Suster**  
General Partner @Uphorn Ventures &  
Co-entrepreneur, Seed & Spark  
@Seed&Spark
- Rick Marini**  
I've invested about \$100k for several reasons - Todd has a big vision and inspired everyone. Marini is a proven leader that can execute. I expect big things from them.

## Peer-to-peer lending



**Household Expenses**  
Listing #1436061

Borrower: [agreement-fa](#)  
Location: **North Carolina**  
Borrower Rate: **6.59%**  
Monthly Payment: **\$460.35**  
Lender Servicing Fee: **1.00%**  
Initial Status: **W**

**Sope Khal Ndidi Maure Group**  
Senegal: Agriculture | Agriculture

LOAN OVERVIEW | REPAYMENT SCHEDULE

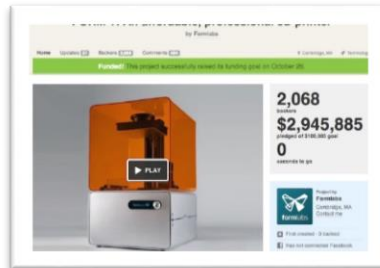
A portion of Sope Khal Ndidi Maure Group's \$2,125 loan helps a member to buy grains and resources for truck farming.

25% raised, \$1,575 to go

Select amount to lend:  **Lend \$25**

Equipment: farm  
Repayment: 12 months  
Due date: Apr 11, 2014  
Loan: Apr 11, 2014  
Currency: US Dollar

## Reward based



**2,068**  
**\$2,945,885**  
raised of \$100,000 goal

0 comments to go

PLAY

Project: 3D Printer  
Category: Technology, 3D Printing

## Patronage/Charity



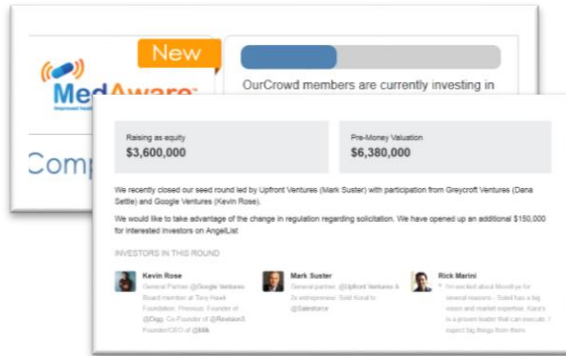
**\$4,225**  
raised by 108 people

**Support A Wrongfully...**

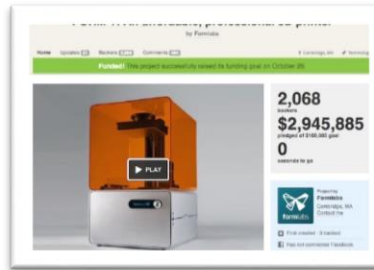
- Accidents & Emergencies
- MAYLENE, AL

# Four kinds of crowdfunding

## Equity

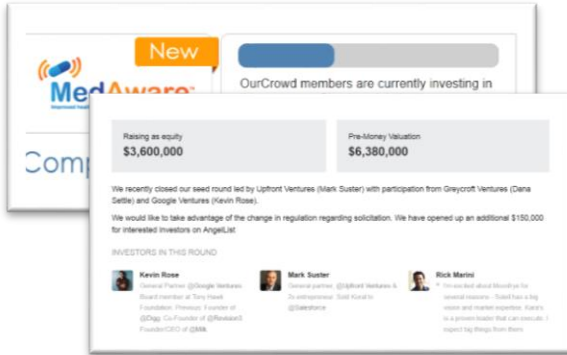


## Reward based



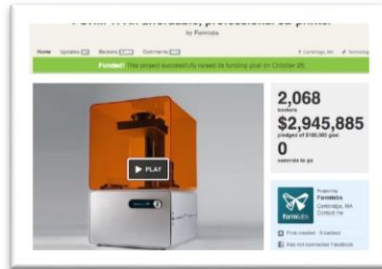
# Four kinds of crowdfunding

## Equity



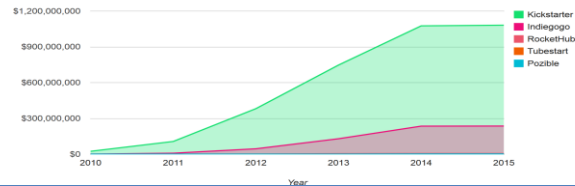
- Lots of flux, nothing looks quite like reward crowdfunding
- Reg A+ non-accredited, but pricey
- Title II, accredited investors
- Title III (Reg CF), \$1M limit, through FINRA
- Lots of curation...

## Reward based

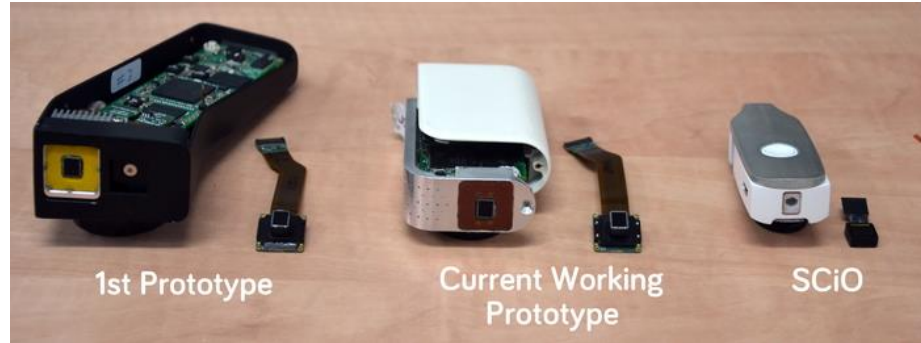
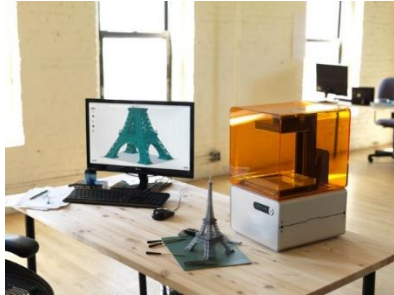


### Cumulative Funding in USD

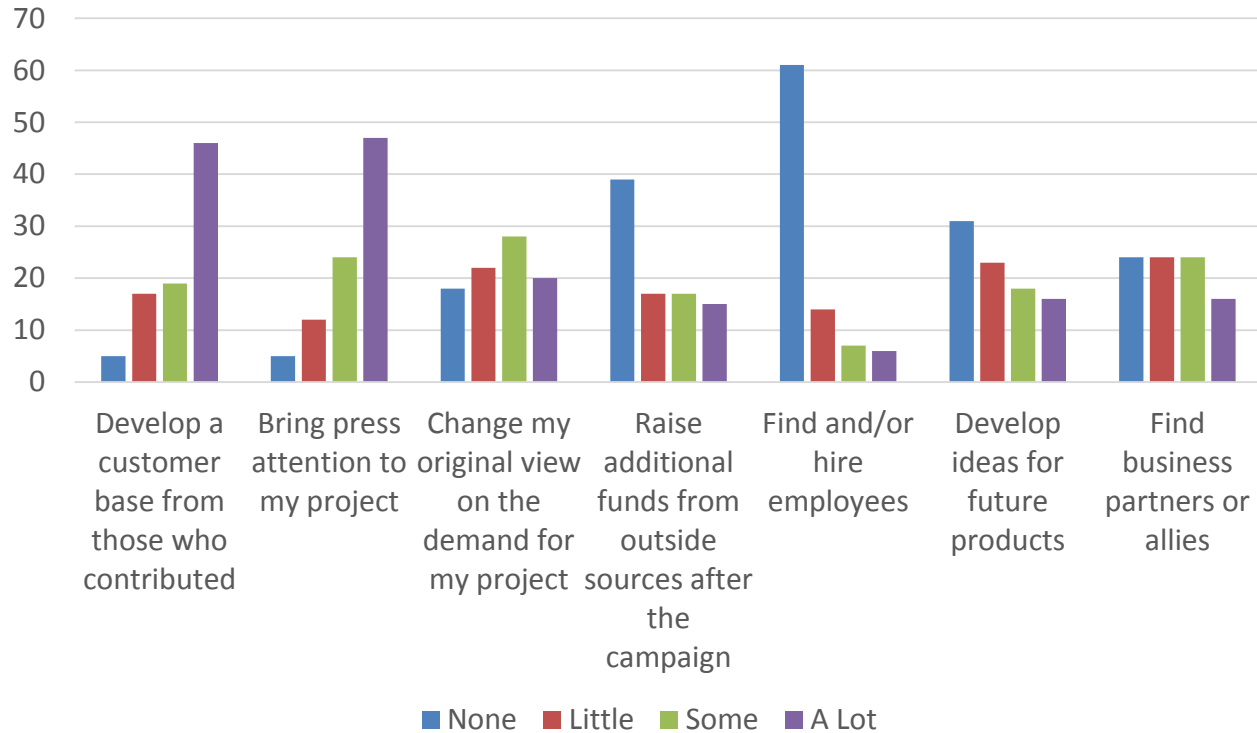
Cumulative amount of funding by platform, across all categories.



# Crowdfunding as a source of innovation & companies



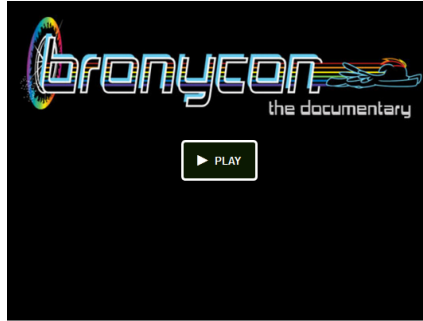
# What does crowdfunding do for you?



**Crowdfunding is how communities support innovation**



# Crowdfunding is how communities support innovation



Share 914 Tweet Embed

A feature length documentary about the unofficial fan convention for aficionados of the show "My Little Pony: Friendship is Magic."



A fantastical short film about a girl who suffers from spontaneous combustion.



Years after a missed opportunity with his hero, Adam Sandler, a determined filmmaker goes on a quest to recapture what could have been.




In the future, public enemy number one isn't a bomb-making terrorist, it's a pot-smoking computer hacker.

# Crowdfunding is how communities support innovation

**BronyCon: The Documentary**  
by Michael Brockhoff

Home Updates Backers 2,621 Comments 1,000 Los Angeles, CA Documentary

**Funded!** This project was successfully funded on Jun 10, 2012.



2,621 backers  
**\$322,022**  
pledged of \$60,000 goal  
0 seconds to go

**Big Poodle Television**  
Project by Michael Brockhoff  
Hollywood, Los Angeles, CA  
Contact me

2 created 0 backed  
Has not connected Facebook  
Website: bigpoodle.com  
See full bio

Pledge \$10 or more


A feature length documentary about the unofficial fan convention for aficionados of the show "My Little Pony: Friendship is Magic."

**WHERE THE RED FOX LIES**  
by Jeff Ray



136 backers  
**\$15,874**  
pledged of \$15,100 goal  
0 seconds to go

**Funded!**  
This project was successfully funded on February 12, 2013.



Everybody has a moment when they wish they could be the next Sandler.

**DAVID SETH COHEN FINDING SANDLER**


Years after a missed opportunity with his hero, Adam Sandler, a determined filmmaker goes on a quest to recapture what could have been.

409 backers  
**\$36,405**  
pledged of \$50,000 goal  
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**Funded!**  
This project was successfully funded on February 2, 2013.

David Seth Cohen  
1 created 0 backed  
finding.sandler.com  
See full bio Contact me

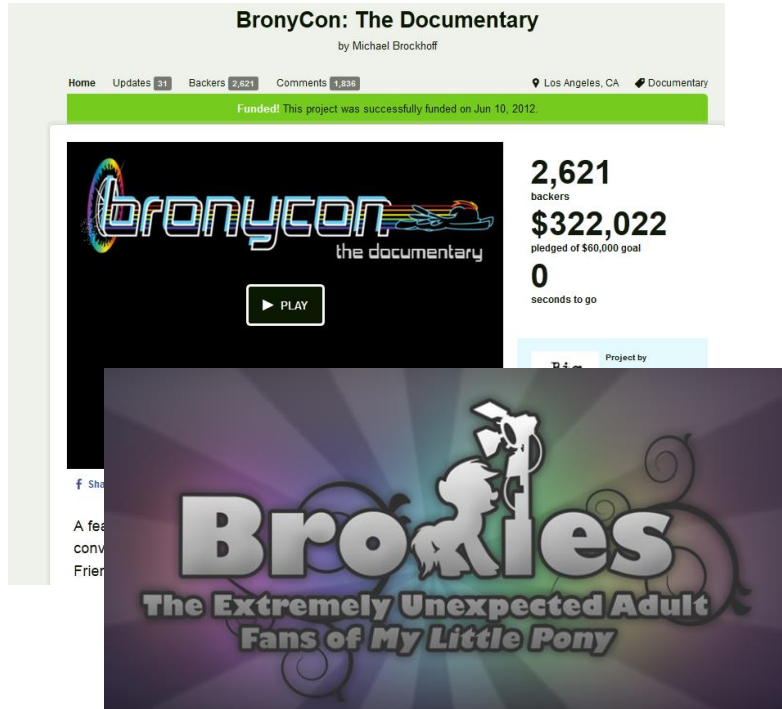
**KING HACKER**  
by Greg Kerrick



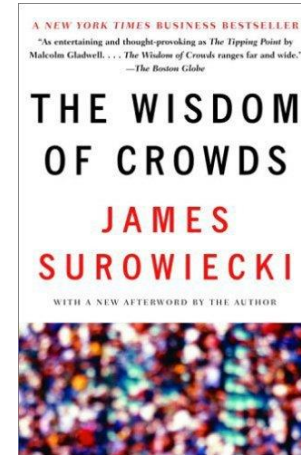
52 backers  
**\$4,196**  
pledged of \$4,000 goal  
0 seconds to go

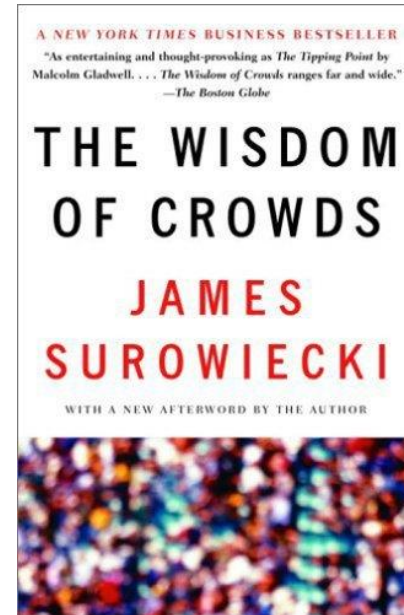
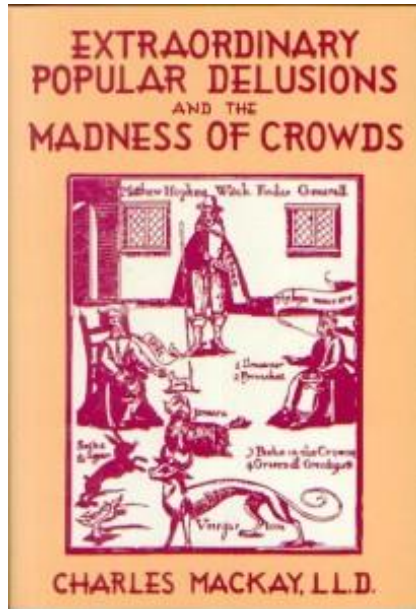
**Funded!**  
This project was successfully funded on February 6, 2013.

# Crowdfunding is how communities support innovation



**The crowd looks for quality,  
just like investors do**









# How do crowds do in filling the job of experts?

(with Ramana Nanda, HBS)

## Experts

- 30 professionals who judge theater grants for the NEA and other national competitions.
- Answered questions derived from NEA criteria about the audience, artistic merit, and feasibility of project pitches
- Judged Kickstarter theater projects selected using stratified sampling

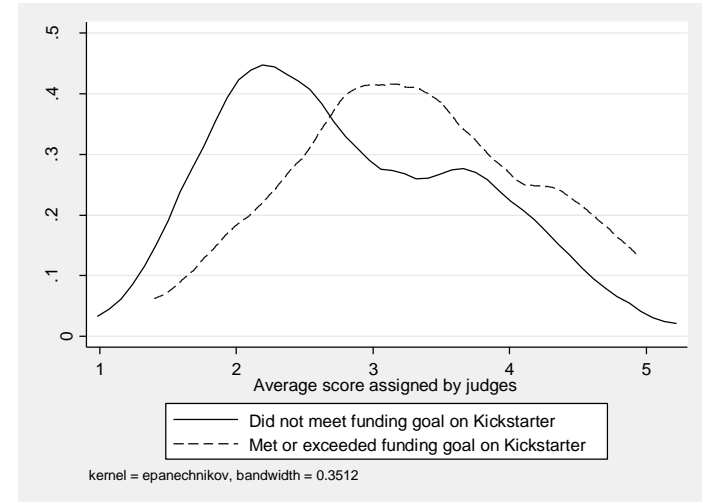
## Kickstarter Backers

- 120 Kickstarter projects in theater (30 failures, 30 partial failures, 30 successes, 30 large successes)
- Surveyed the projects as well to get outcomes



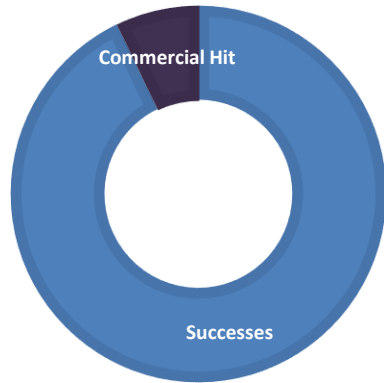
# The crowd and experts seem to agree

- Crowd and Experts agree around 60% of the time, with more successful projects getting more agreement.
- 75% of the time where there is a disagreement, it is the crowd funding something the experts didn't.

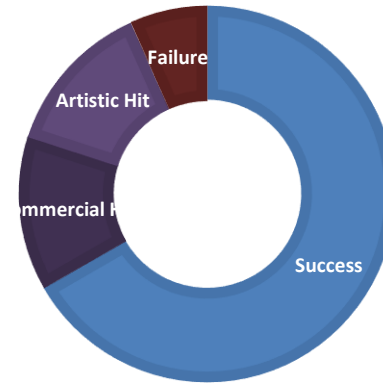


# What happens in the long term

EXPERTS & CROWD









CROWD ONLY







# More evidence from tech, games & design

## Signs of Quality

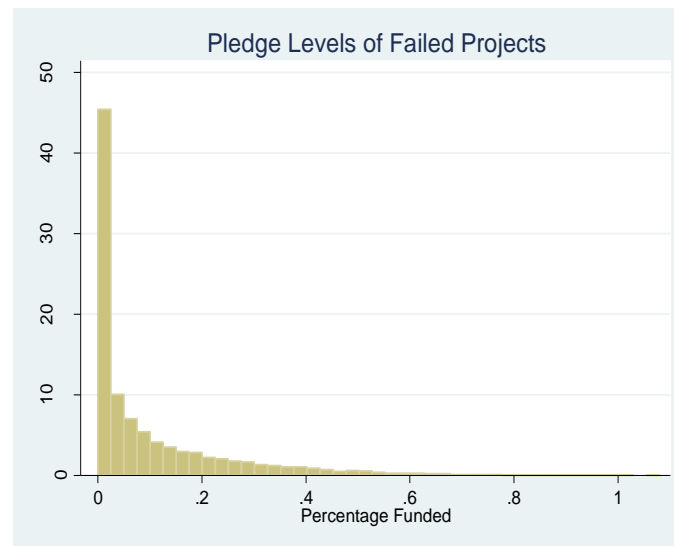
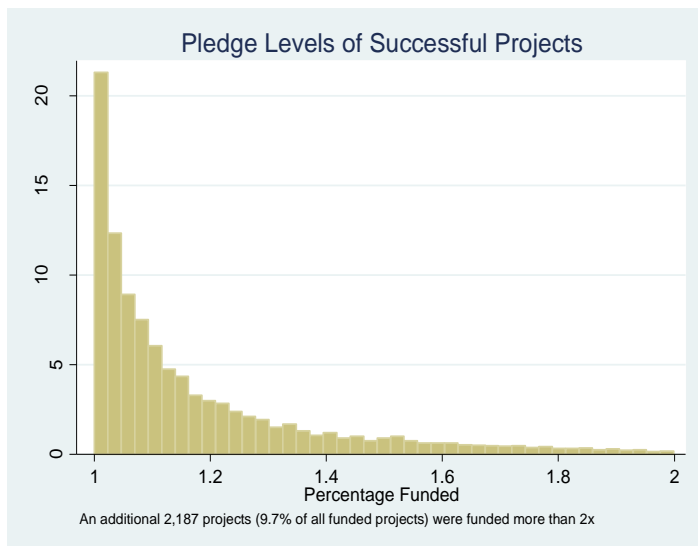
- Endorsements 
- Team with experience 
- Prototypes 
- Detailed plans 
- No spelling errors 
- Frequent updates 

## Signal other than quality

-  • Memes (cats, bacon, etc)
-   • In-group identity (geek, etc)
-  • Pop culture (Star Wars, etc)

# How to do it

# Tips for crowdfunding



- Success happens by small margins, failure by large margins
- Large goal = lower chances of success, more benefits if you succeed, longer delays

# Tips for crowdfunding 1

Remember the value of community!

- Number 1 & 2 reason listed for failure of campaigns in my survey: the target audience was not well understood and marketing was not adequate
- To take an average project in the Film category:
  - 10 Facebook friends = 9% chance of succeeding
  - 100 friends = 20% chance of success
  - 1000 friends = 40% chance
- Large goal = lower chances of success, more benefits if you succeed, longer delays

# Tips for getting the most out of crowdfunding

- People spend 30 hours/week working on campaign, before, during and after
- 2/3 are done with teams
- High quality videos matter
- Community engagement matters
- Hiring outside consultants has limited value

# For Now, Wait and See for Equity Crowdfunding

- 1,000 platforms lined up to compete
- Expect that qualified investors will still do most investing through 2016
- Expect impact on specific areas
  - Real estate
  - Startup funding



# Tips for getting the most from crowdfunding

	Successful Campaign	Funding After Kickstarter	Additional Benefits from Campaign	Delivering Product on Time
Large Goal	-		+	-
Raised more than goal	N/A	+	+	-
Featured by Kickstarter	+		+	
Many Facebook Friends of Founder	+			
Has Appropriate Background	+	+	+	
Has Outside Endorsements	+		+	
More complete initial schedule	N/A			+
More complete initial finance plan	N/A		+	
More complete initial business plan	N/A	+	+	
More complete design	N/A			

Regression analyses of outcomes, controlling for various project factors