FINANCING: CROWDFUNDING

Professor Ethan Mollick
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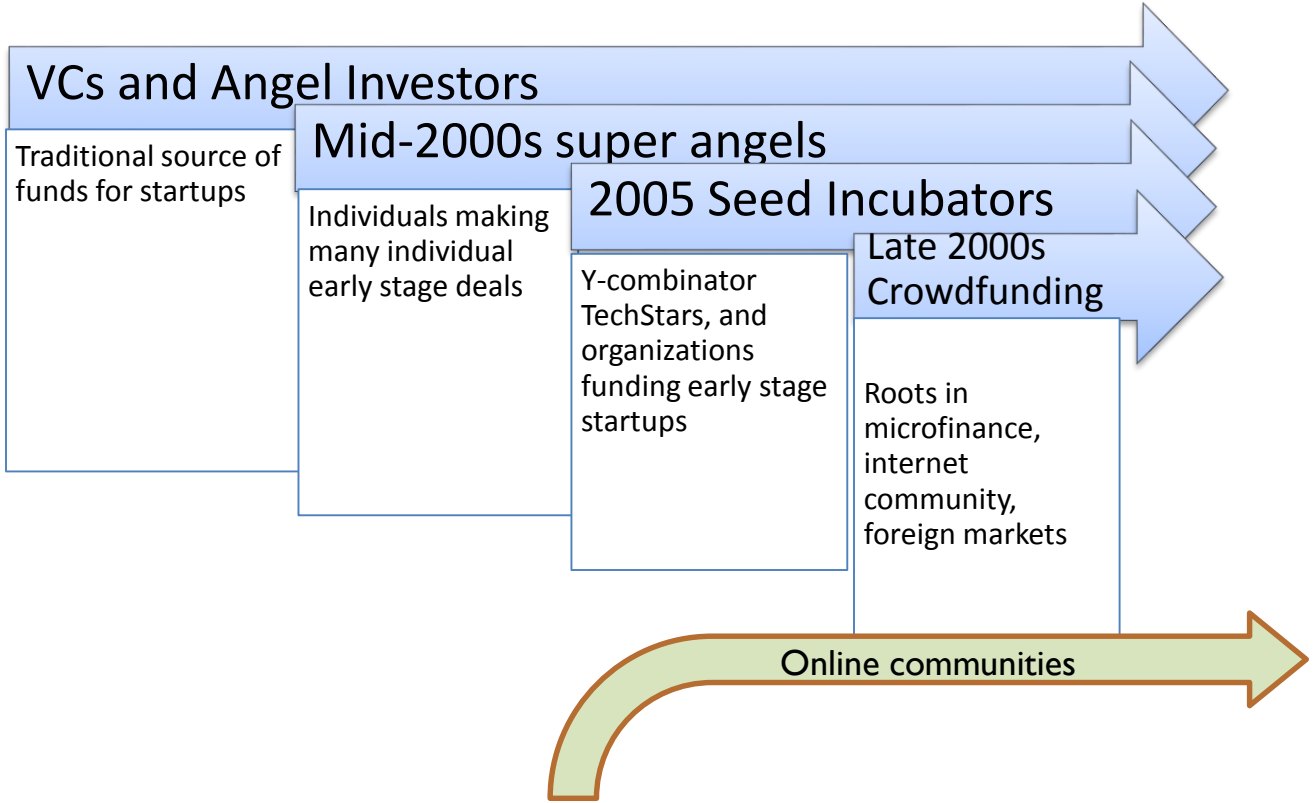
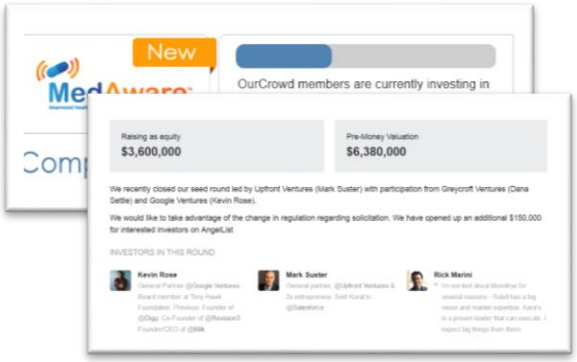
Crowdfunding as a new way of funding

- As costs of startups fall, new funding mechanisms



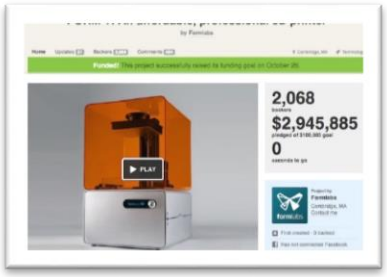
Four kinds of crowdfunding

Equity



Peer-to-peer lending

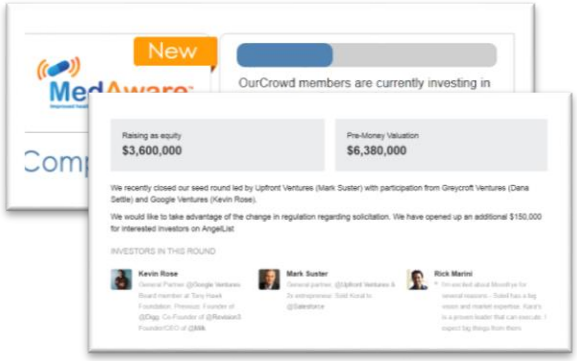
Reward based



Patronage/Charity

Four kinds of crowdfunding

Equity



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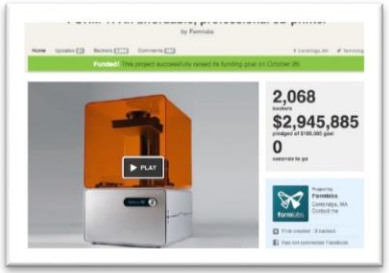

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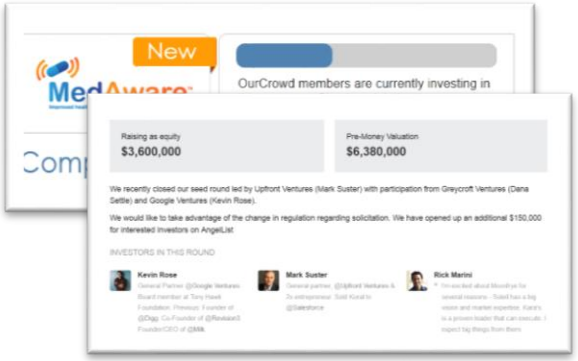
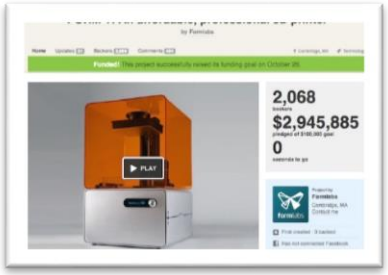
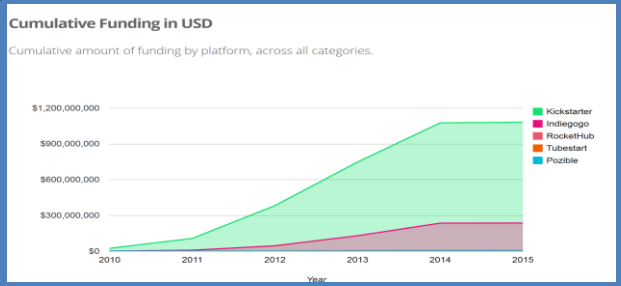


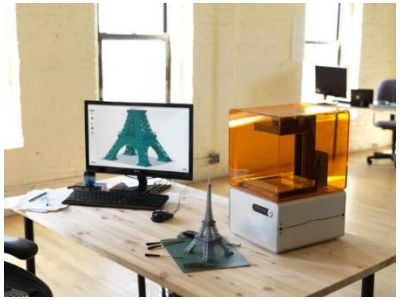
- Lots of flux, nothing looks quite like reward crowdfunding
- Reg A+ non-accredited, but pricey
- Title II, accredited invesotrs
- Title III (Reg CF), $1M limit, through FINRA
- Lots of curation…

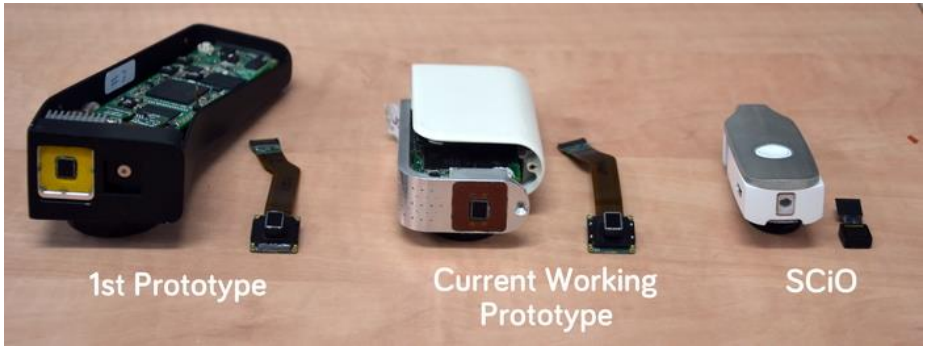
Reward based



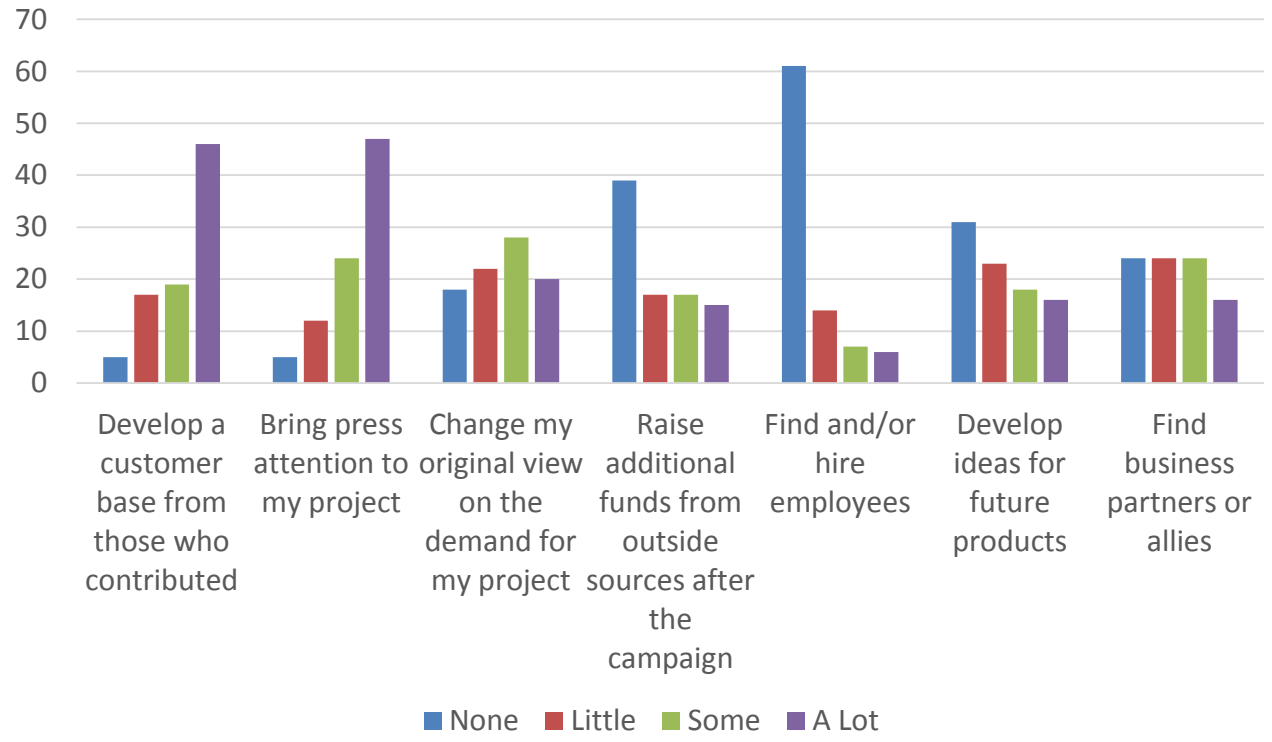


Crowdfunding as a source of innovation & companies





What does crowdfunding do for you?



Crowdfunding is how communities support innovation

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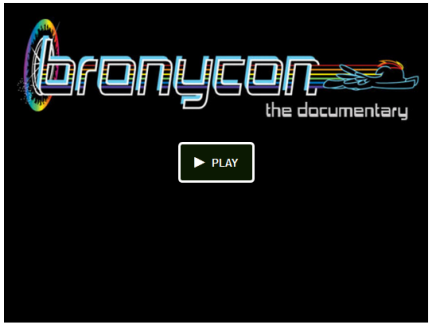


Share 914 Tweet Embed

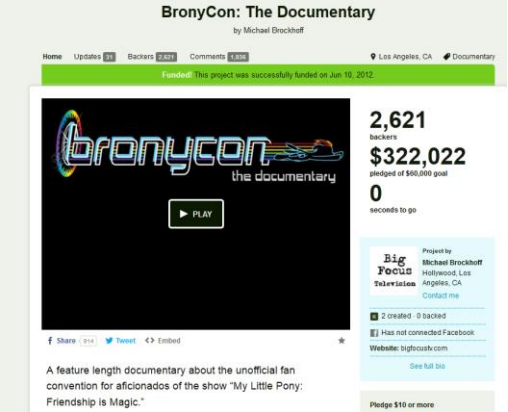
A feature length documentary about the unofficial fan convention for aficionados of the show "My Little Pony: Friendship is Magic."

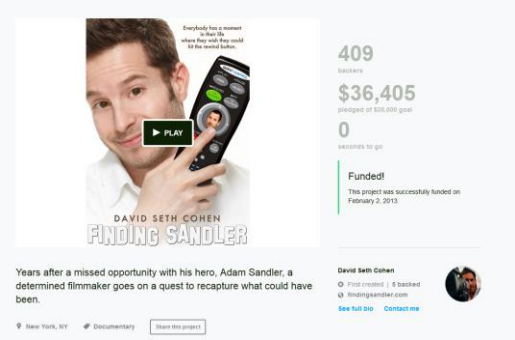
A fantastical short film about a girl who suffers from spontaneous combustion.

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





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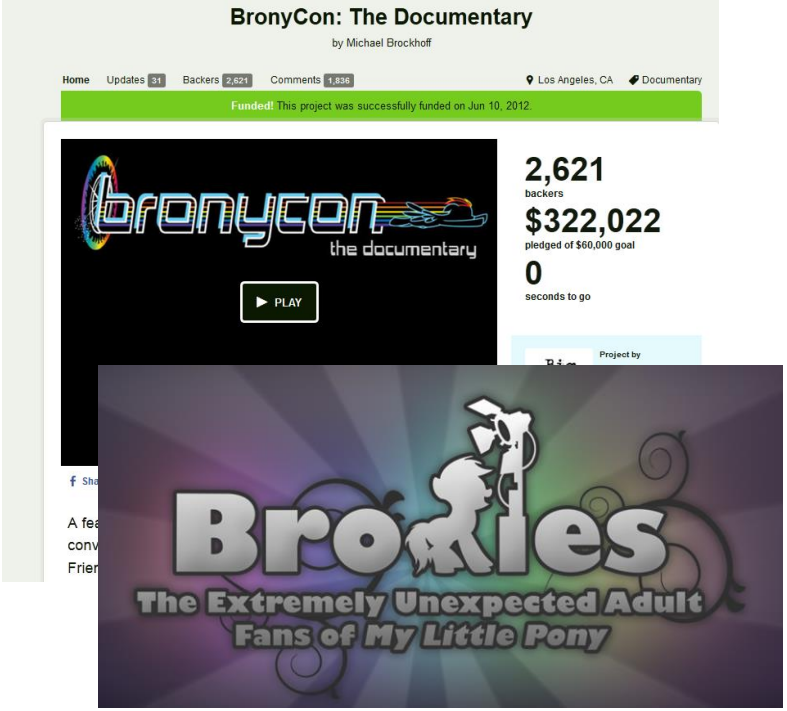
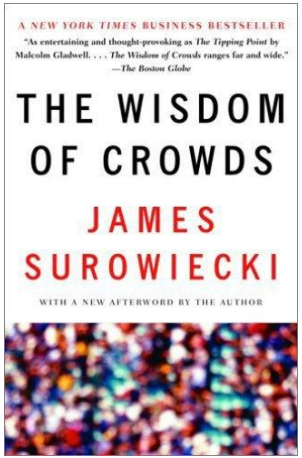
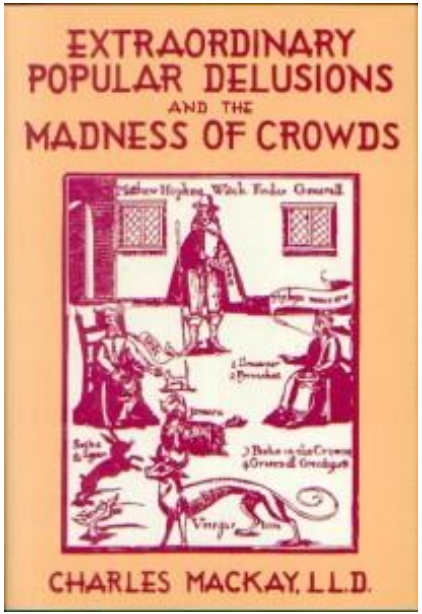
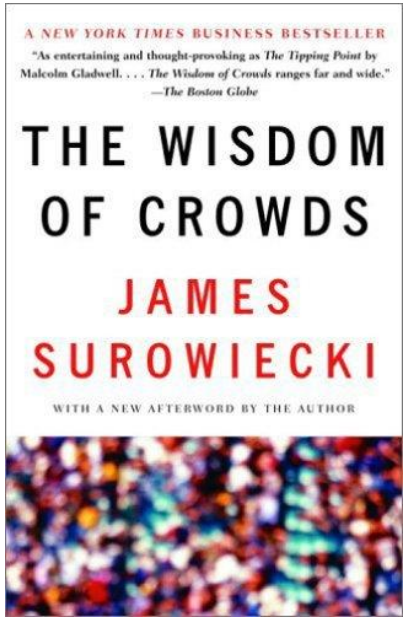


The crowd looks for quality, just like investors do


A NEW YORK TIMES BUSINESS BESTSELLER
"As entertaining and thought-provoking as The Tipping Point by Malcolm Gladwell. . . . The Wisdom of Crowds ranges far and wide."
—The Boston Globe
THE WISDOM OF CROWDS
JAMES SUROWIECKI
WITH A NEW AFTERWORD BY THE AUTHOR


EXTRAORDINARY
POPULAR DELUSIONS
AND THE
MADNESS OF CROWDS
CHARLES MACKAY, L.L.D.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How do crowds do in filling the job of experts?

(with Ramana Nanda, HBS)

Experts

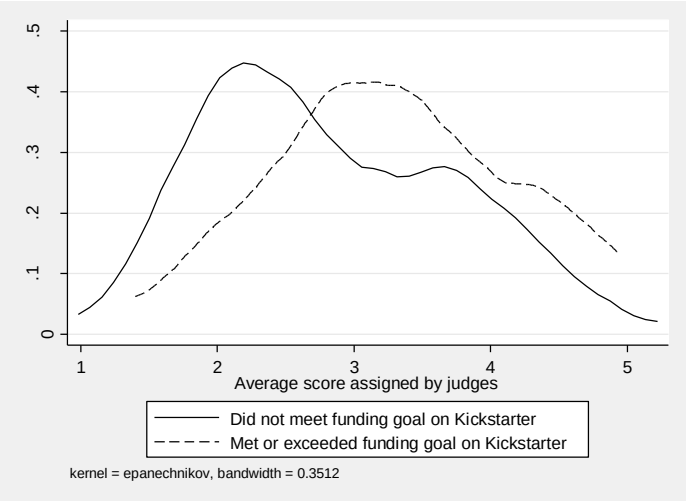
- 30 professionals who judge theater grants for the NEA and other national competitions.
- Answered questions derived from NEA criteria about the audience, artistic merit, and feasibility of project pitches
- Judged Kickstarter theater projects selected using stratified sampling

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

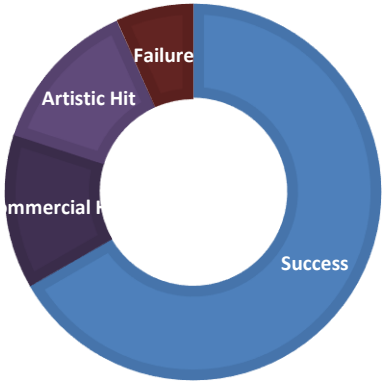
- Crowd and Experts agree around 60% of the time, with more successful projects getting more agreement.
- 75% of the time where there is a disagreement, it is the crowd funding something the experts didn't.



What happens in the long term

EXPERTS & CROWD

CROWD ONLY



More evidence from tech, games & design

Signs of Quality

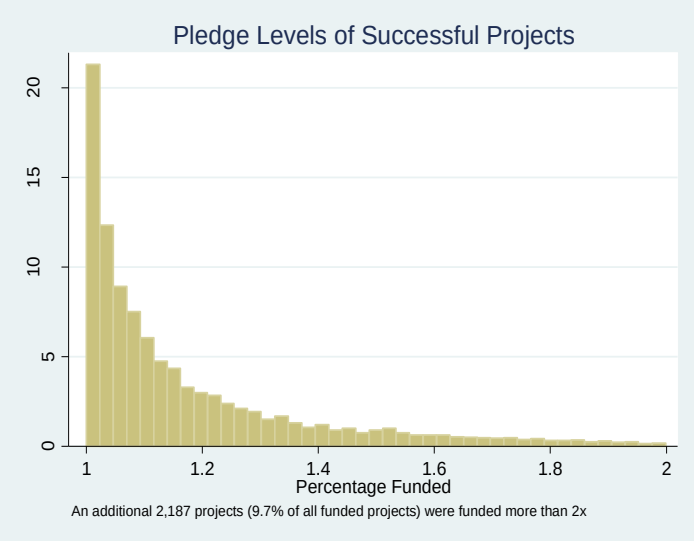
- Endorsements
- Team with experience
- Prototypes
- Detailed plans
- No spelling errors
- Frequent updates

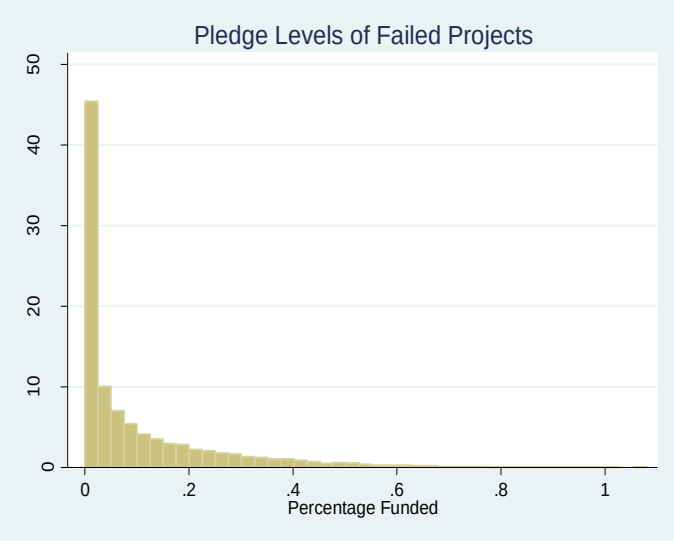
Signal other than quality

- 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