



## Briefing: Crowdfunding

Crowdfunding appeals to an emergent and growing group of donors who are giving to more specific areas of work. It gives them the more emotional, collaborative engagement and connection they want.

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# 1. Overview

## The crowdfunding concept

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Crowdfunding is a form of community finance, where new or existing groups can solicit for contributions from a large number of stakeholders via an online marketplace.

In most cases, the contribution is in the form of donations (of varying sizes) where there is no expected financial return. However, the donor may receive gifts or rewards in return for their contribution, eg a share of a harvest or resulting produce.

A specific funding target is set and there is generally a specific time frame for funding targets to be reached.

Crowdfunding has been described as 'democratic finance', allowing businesses and projects of all forms and sizes access to money while bypassing traditional banking institutions. It is an attractive route in economically difficult times when sources of income or funds for projects are difficult to find. But it isn't all about the money – the process of crowdfunding is also about building links with the wider community.

The idea is young, but it's rapidly growing in popularity. According to Nesta, crowdfunding raised around £2.7 billion for more than one million projects/ businesses in 2012 (worldwide) and £200 million in the UK alone.

## Top 10 key points

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1. Brings together organisations looking for funds for a specific outcome with people who want to support social causes – therefore not just local people.
2. Usually it's an 'all or nothing' scenario. If you don't reach the target you don't get the cash.
3. The key is to have a manageable project with a simple aim: Tell a good story, make the concept simple, create a buzz.
4. Funders usually give small amounts, but that doesn't rule out finding bigger donations
5. In some cases, crowdfunding is a way of raising loans or equity
6. Donations don't have to be monetary.
7. It's about creating relationships with long-term value – building relationships with the community. Not just a one off.
8. Generally it is done online and attractive to younger generation of givers who like the online networking aspect
9. Crowdfunding doesn't take the effort out of fundraising. The community group must plan, plan, plan. That means having the capacity, organisation and marketing mix to achieve success
10. It doesn't always work – there is no guarantee of reaching target.

## Types of Crowdfunding

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Though there are several forms of crowdfunding, some are more specifically business-based and less suitable for community groups. The two most likely to appeal are donations crowdfunding and reward crowdfunding.

### Donations crowdfunding

- Users create a profile via a crowdfunding website and outline their project. They need to carry out a full assessment to get an accurate target amount and think carefully about the time-frame to raise the money.
- Profiles are generally free, with a charge of between 3-10% for processing donated monies.
- Groups can ask for amounts up to £25,000 on some of the fundraising platforms, but pitching the project at an achievable total will increase its chance of success. (When offering rewards, groups would need to calculate the cost of that into the total).
- Money is not taken from investors' accounts until the total is reached. Many sites have an 'all or nothing' policy, so if you do not raise the full amount of funding, you will receive no money at all. As crowdfunder Sponsume says: "The rule is there to avoid situations in which project creators are committed to completing a project with less funding than they regard as necessary."
- Most sites allow over-subscribing, so you can raise over your target amount.
- Investors can often cancel before the deadline, so groups generally need to add between ten and fifteen per cent onto the target to allow for this.
- Investors do not buy into any rights or intellectual property etc, they are funding production.
- This is a business contract so if successful the group must complete the project, or pay investors back.
- Targets are achieved through a well-planned, sustained and well-executed campaign by the group, including profile-raising, events, community engagement etc.

### Rewards-based crowdfunding

The model is similar to the donations model but, to encourage people to invest, there will be rewards on offer. This could include a share of produce (for example if a group set up an orchard then the investors would get a supply of apple sauce or if a farm decides to buy livestock for meat production a Christmas hamper could be offered).

When offering rewards, groups would need to calculate the extra costs involved in this into the total they wish to raise. Some crowdfunding projects may also offer staggered rewards (such as exclusive access to your first produce or a five-year discount on some services) according to how much people invest.

## Non-monetary crowdfunding

Crowdfunding doesn't just have to be about giving donations of money. Some schemes are set up so that people can donate in a wide range of ways.

For example, the 'crowd' can 'donate' to the group by liking its Facebook page or tweeting about it, by signing an online petition or writing a letter to an MP, by volunteering at a clear the site day etc.

In terms of Growing Together, expertise, skills, tools, seeds and other materials could be crowdfunded in this way.

## Crowdsourcing

Closely related to Non-monetary crowdfunding, but a distinct model in its own right, is crowdsourcing. This is basically utilising the power or knowledge or skills or time of the crowd to create successful outcomes for specific projects.

An example would be getting a crowd of volunteers for a day of action, eg site clearance. One way of doing this could be to use a platform like We Will Gather.

This is a Twitter powered tool that can help you find people to help support a particular community action (You tweet the word 'help' with the hashtag #wewillgather and a postcode and the We Will Gather website will then starts a page for your action, and will Tweet you a link to it. You can then add all the extra details that you need. Once you have done and your page has been approved you are ready to start using it to gather people to help your cause.

Growing Together could consider innovating other crowdsourcing platforms to help find skills, expertise, volunteers, land etc.

## Loans or Revenue Share

Some crowdfunding may be in the form of a loan or other financial arrangement – rather than straight donation. For example:

1. Revenue participation – funders get a share of any future revenue of project
2. Interest Bearing Loan – The venture offers a fixed interest rate on a loan
3. Principal Only – The venture repays the capital after a fixed period

Buzzbnk, another Nesta-backed initiative (also backed by Esmee Fairbairn Foundation and Tudor Trust), is an example of a crowdfunding platform that showcases projects with this sort of set-up.

However, this kind of crowdfunding model tends to be more suited for businesses more attuned to creating higher level incomes, so not suitable for a lot of community groups.

(NB: We are in the process of exploring these options further)

## Wider benefits of crowdfunding

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Results are not just about how much is raised, but about profile raised, new members, new interest, press coverage, major donors contacted etc. It also builds capacity and skills within a group.

The main benefit of crowdfunding is that it creates a strong network of support for the group. Investors are likely to become ambassadors for the project – promoting it among their networks, tracking its progress and becoming returning customers themselves. They may also offer to lend a hand, for example by providing free legal advice or accountancy services.

Crowdfunding can also provide a powerful platform to raise awareness for the group itself. It creates a newsworthy story to pitch to local, and national, press (which may attract further new donations and interest).

Reaching the target also gives a clear message to potential clients, suppliers or future investors that the group has the support of the public behind you.

Furthermore, there are normally no upfront fees, keeping the process simple. Most crowdfunding platforms will look after much of the legal administration as well.

## Reality check

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All this positive information suggests that crowdfunding is a no-brainer. But it is not as simple as that. The reality is that an estimated 60 percent of crowdfunding bids **do not work**. The reasons for this are varied, including:

1. The project is not 'sexy' enough – it may be too complex to grasp or badly thought out or simply not something that attracts people to invest eg funding an administrative post.
2. Not enough planning/preparation – some crowdfunding bids can work without planning, but they are the exception rather than the rule. Most crowdfunding campaigns work because there are planned and sustained promotional efforts behind them.
3. Campaign and marketing is flawed – a few press releases to the local media doesn't cut it with crowdfunding. In the vast majority of cases you need to exploit social media, local media, friends family etc in order to make it work.
4. Mixed Messages – It's vital that you get your key messages clear and that you can explain your project in a few brief sentences, with a clear sense of what the money will be spent and what the benefits are.
5. Forgetting about 'big' donors – Local businesses may be willing to pay a big wedge of your crowdfunding target, but not if you don't go to them and ask.
6. You simply don't have the capacity – unless you are prepared to throw some resources in terms of time and effort into a crowdfunding campaign you won't get the reward.

All this re-emphasises that crowdfunding is not the easy option. Despite tales of people reaching amazing targets within a few days, the reality is that this doesn't happen very often and is usually the result of a really fantastic idea combined with the campaign going viral.

A well-planned and well-executed crowdfunding campaign around a simple-to-explain attractive project will give the best chance of success and if a group cannot commit to that (or doesn't have adequate capacity) then it needs to give serious thought to whether crowdfunding is the right option.

## Legal Issues

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This information is taken from the FSA.

"At present the majority of websites offering crowd-funding service are not FSA authorised and as such provide little or no protection for the investor with no recourse to the Financial Ombudsman or the Compensation scheme.

Recent guidance published by the FSA stated that crowdfunding should only be targeted at 'sophisticated investors who know how to value a start-up business, understand the risks involved and that investors could lose all of their money.'

The dangers to a naive investor or an unlucky hosting site remain high. Crowdfunding firms may be mixing client and investor money without FSA authorisation, removing any protection for the investor. The FSA has yet to prosecute any site offering crowdfunding, yet that does not mean it will change this in the future.

It remains to be seen whether legislation in the UK will legitimise crowd-funding, forcing Companies to take the Seedrs line or follow the US JOBS Act and deregulate passing responsibility to individual investors.

Obviously this is likely to be less of an issue for the very small scale investors likely to be attracted to funding projects by community growing group, but it is worth monitoring the situation with the FSA."

## And don't forget...

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"It is as important to raise the crowd as it is to raise the money to create a sustainable and successful future" - Buzzbnk.

The money doesn't just roll in – you have to put in the legwork. It requires careful planning, a co-ordinated and sustained strategy during fundraising and the understanding that having created a 'crowd' or community, you need to work to keep them even after the project is over. Therefore it is not suitable to all groups simply because they do not have the capacity or the right project

Projects do fail and not all projects are suitable – therefore there is risk involved and that risk has to be assessed before anything goes ahead.

There will be costs involved eg extra admin or IT resources, costs of putting on events, potential advertising costs etc.

These are all important areas where Growing Together partners could help in order to pass on expertise through training etc to grass roots groups and local networks.

## 2. Tips and advice from the experts

This information is extracted from a Guardian newspaper live discussion on Crowdfunding.

### Phil Geraghty, Peoplefund.it

Crowdfunding is a great alternative to high street fundraising. It offers a great opportunity for charities to re-connect with the people that support them. It can particularly work if charities offer a new level of transparency to supporters through it, showing where money is going.

Warm supporters are essential: We work with campaigns for a 30 - 60 day warm-up period, before they launch their crowdfunding campaign.

Work out how many supporters you might get: Start small and pick a project which is easy for everyone to understand. We have an average pledge of £40 on projects, so a £4000 project will require 100 people to pledge. It will always vary, but that is a good place to start.

The crowd can be more important than the funding: If you can start to leverage the time, skills and marketing power of the crowd, then you actually have less need for money. Money is the catalyst that makes today's society move, but in tomorrow's world I hope there is a lot more emphasis placed on time and skills.

### Danae Ringelmann, Indiegogo

Videos and perks really work: Campaigns with a video raise 114% more on average. And, 92% of all campaigns that reach their funding target offer perks. Check out our Insights for more data on what drives success. See our guide to campaign basics, [here](#).

There are five main reasons why people get involved: We call these the five Ps and they don't just apply to crowdfunding. They're Passion; Participation – because while they are busy and might not be able to devote their jobs to what they care about, this is a way to do something good; Perks – particularly for artistic and product campaigns; Pride – people like to feel they've been part of discovering something new; and, Profit (only available on equity crowdfunding platforms).

Maintain engagement: Have discussions online, use updates to poll funders and get their input and ideas on efforts.

### Bret Conkin, FundRazr

This could really be the future for charities: The charity sector that adopts this method in their mix will find it a powerful and empowering method to overcome donor fatigue, marshal evangelists and create deep connection.

Set a realistic goal: Under £10k is a good first ask.

Be creative with media: Feature the beneficiaries (not the charity) in an inspirational way - images, video and story-telling. Operation Sharecraft 2012 was a video game challenge for Save the Children in response to the Kony 2012 backlash. Through it, we were able to engage a whole new class of donor. DC Entertainment matched every \$ raised and more than \$1m came in 84 days.

You don't need to offer big rewards: We've seen an amazing response to charity campaigns without the requirement for physical rewards. Virtual rewards like shout-outs on social media often work well. Make it fun.

Share widely: Across charity and personal campaigns, successful campaign teams recently reported that 27% of donations came from “people they didn’t know”. This in turn can increase the friend base. We find that at 40% of a goal, entirely new supporters get engaged as momentum has been created.

Learn from others and existing resources: Research other successful charity campaigns and look for a model that worked.

Enjoy yourself along the way: Be creative, innovate and enjoy the process. Your supporters will notice. Show some personality and laugh.

## Jonathan Waddingham, JustGiving

Campaign time pressures do focus the mind: The fact that it’s often all or nothing within a given period of time for crowd-funding, drives people to really push their campaign and filters out the people who aren’t sufficiently engaged to make an effort.

Activism campaigns can be crowdfunded: It’s easier conceptually to think about crowdfunding a new roof for a school. Having said that, I remember the time Amnesty crowdfunded an advert in a newspaper against Shell.

Facebook is often essential: On JustGiving, the biggest source of traffic is from Facebook, so we do a lot of work on making sure our Facebook integration is top class.

## Charlotte Beckett, The Good Agency

Consider whether to offer a ‘perk’ or an investment: Nesta identifies four distinct crowdfunding models in its Crowding In report. These are donation-based, reward-based, lending-based and equity-based. I believe the first one is where we should positioning ourselves as a sector.

There are a number of practical considerations: Do you set up your own platform or use a white label version of one of the existing platforms, or post it straight onto one of the commercial sites? How do you allocate the funds raised (can you restrict them?). What appetite is there for risk and failure internally? (The vast majority of crowdfunding projects don’t hit target). How motivated is your current supporter base for this type of fundraising? Would crowdfunding decrease income from other sources (so same donors, different platform)?

Crowdfunding could well be a big way to bring in money: NESTA estimates that within three to five years, crowdfunding could provide around £15 billion of finance a year in the UK, of which £4.7 billion could be the charity sector’s share.

## Ayan Mitra, CrowdBnk

It’s an opportunity to reach new supporters: One of the benefits for charities is the ability to reach out to new supporters who you wouldn’t necessarily talk to and who are drawn into the project aspect in the first instance and subsequently become supporters of the charity.

Traditional donor behaviour could get impacted: When you’re giving rewards to crowdfunders, the messaging of the raise in relation to your loyal donor base needs to be managed carefully.

Make sure you do enough planning: Some don't plan enough or actively mobilise their social networks, and then fail. Sometimes they leave it to one person emailing a database when the whole team needs to get involved. It's hard work, but all fundraising is.

Plug in to your existing supporters: At least 40% of crowdfunding money comes from these immediate networks, before those distant from the project donate.

### **Amy Cameron, 10:10 Solar Schools project**

Make the most of your friends: Close friends can act as ambassadors, taking ownership of the cause and spreading it on your behalf, they then reach out in to their networks,

Have a strategy for keeping new supporters: Don't miss a chance to bring all those enthused new people along with you and your project long-term. Map out an ideal journey you'd like to take them on, what else they could contribute, what else you're up to that they could get involved in, etc.

Communication is so important: If you want people to stay on board, they have to feel this is as much their project, and their success, as yours, and that only happens if you involve them in the whole journey.

Crowdfunding is great for smaller charities: Some smaller community charities have high social capital and often have a large volunteer base which can be mobilised. Smaller targets can have a huge impact on their delivery.

Make sure your campaign looks immediately popular: Campaigns should launch with at least 20% pledged immediately before wider publicity. If people visit your landing page and no-one has donated then they will be wary.

# 3. Further Information

## Websites & Publications

Through the Growing Together Initiative, FCFCG has produced two useful documents in addition to this briefing sheet (available on request):

1. Questions To Ask Yourself When Considering Crowdfunding
2. Top Dozen Tips For Crowdfunding

The innovation charity Nesta has created various pieces of information on crowdfunding, including a general overview, available from: [www.nesta.org.uk/library/documents/Working\\_the\\_crowd.pdf](http://www.nesta.org.uk/library/documents/Working_the_crowd.pdf)

Nesta has also created a site where groups can find the right crowdfunding platform for them at [www.crowdingin.com](http://www.crowdingin.com)

Buzzbnk have created a useful crowdfunding support pack – including a template campaign planner at: <http://ateamchallenge.buzzbnk.org/resources/4580373726>

Some relevant crowdfunding websites and portals

- Spacehive: <http://spacehive.com>
- Buzzbnk: [www.buzzbnk.org](http://www.buzzbnk.org)
- Crowdfunder: [www.crowdfunder.co.uk](http://www.crowdfunder.co.uk)
- Pleasefund.us: [www.pleasefund.us](http://www.pleasefund.us)

## Useful Links & Media

- Guardian article on crowdfunding community projects
- Guardian article on the need for a proper crowdfunding strategy
- Telegraph article on best British crowdfunding sites
- Independent article on peer-to-peer lending
- US video about crowdfunding

## Other websites of interest

- Crowdfunding Help - blog giving useful how-to information on crowdfunding
- Crowdfunding Today - blog about crowdfunding in general

## Examples & Case Studies

Examples of crowdfunding:

- Stockwell Urban Oasis - [spacehive.com/stockwellurbanoasis](http://spacehive.com/stockwellurbanoasis)
- Briardale community Grafters - [spacehive.com/grafters](http://spacehive.com/grafters)
- Community Space Challenge - [spacehive.com/communityspacechallenge](http://spacehive.com/communityspacechallenge)
- Goldsmith Community Garden - [spacehive.com/goldsmithscommunitygarden](http://spacehive.com/goldsmithscommunitygarden)

A range of case studies will be available on request or via the Growing Together webpage at [www.growing2gether.org.uk](http://www.growing2gether.org.uk)