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3 very significant trend themes in the world at the moment are, as quoted by the title of the new book by **Andrew McAfee** and **Erik Brynjolfsson**; Machine, Platform, Crowd.



Rob Heyns · Follow

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An Introduction:

Although in my mind, Machine will be the most impactful on our lives, it is still at the bottom of its mammoth rise. However the other 2 collide very nicely in the current trend of #Crowdfunding— a democratization of entrepreneurial funding.

To me Crowdfunding is entrepreneurship at its core — a way to make great, exciting and impactful dreams and projects come to fruition and in a way that is accessible to all, not just *superhumans* or lucky *trustfund-inheritees*.

However I have found that there are a lot of myths and stigma surrounding crowdfunding. Since I am dabbling in it myself right now via [Sugarbird](#) on [Thundafund](#), I thought it might be a very good time to more thoroughly investigate what crowdfunding is all about and why I would recommend giving this pill a go.

In 2015, it was estimated that worldwide over US\$34 billion was raised through crowdfunding and the majority via Reward based crowdfunding, mostly on [Kickstarter](#) and [Indiegogo](#).

It is prolific in the United States but is catching on globally. It may still in its infancy in many countries, but the principles of this model and the international success do point toward further growth and expansion of this trend worldwide into a mainstream, viable source of capital.

But, what is Crowdfunding

As defined by [Wikipedia](#) “Crowdfunding is s the practice of funding a project or venture by raising monetary contributions from a large number of people. Crowdfunding is a form of [crowdsourcing](#) and of [alternative finance](#).”

In Wikipedia 6 types of crowdfunding are included, but in my mind there are only 3 that are of significance:

1. Equity Based Crowdfunding
2. Donation / Charity Based Crowdfunding
3. Reward Based Crowdfunding



Equity Crowdfunding is in essence a mini stock market IPO where a valuation is set and shares are sold publicly, but outside of a listed stock exchange.

This has the feeling of being very fair and has been popularized by trailblazers Brewdog of Scotland.

An article [here](#) delves into the pros and cons of the Brewdog offers. The 2 major problems with Equity based crowd funding in general is that the legal implications of a public offer are vast and complicated and that non-market listed shares are very difficult to trade.

Donation / Charity based Crowdfunding is probably the most well known as it has been run by small groups long before the trend or technology caught up. They can be recognized from the call to action in the form of “Help pay for young Jimmy’s operation” and “Help repair the community centre” or even “Help repair the homes of victims of a natural disaster.”

This is very effective as it links a clear cause to the funds being raised and when the crowd / community being asked for the funds is likely to gain from the projects success or is emotionally attached to the project the funds are likely to come in. This leads me to the real magic of crowdfunding; clear, self-driven incentives.

Reward based Crowdfunding looks very similar the the above 2 but is actually quite different based on the most common, general goals of this type of crowdfunding:

1. Start a business or Launch a project
2. Market Test or validation
3. Pre-sale to manage production minimums and cash flow
4. Build a community of advocates



Hey you, back this!

Rewards based crowdfunding has the potential to be the most widely applicable type of crowdfunding. The rewards (incentives) can be clearly measured in terms of the value of the offer.

Equity value of a non-listed company is a huge guess and charity value is more in the heart than in the pocket.

Rewards based crowdfunding focuses on what the funder gets in exchange for their cash.

A reason that these campaigns are often confused with the first two, as the call to action tends to be a “support us” / “back our campaign.”

In essence it is “pre-buy our product with an early bird offer so that we can scale up and test your demand for it.”

It is largely due to this focus on incentives, that this type of crowdfunding is the most prolific and successful, driven via platforms such as Indiegogo and Kickstarter. It is used by first time entrepreneurs; people with an exciting project.

As well these are used by people with a big worthy cause and even by large corporates such as GE who simply want to validate the demand for a product in a way that their R&D and analytics department could never before achieve.

Rebuttals against crowdfunding:



I have recently come across some negative views regarding crowdfunding. The vast majority of these reviews are attacking invalid points, due mostly to a lack of understanding of how crowdfunding works. More importantly there is a fundamental lack of understanding of the different forms of crowdfunding.

A lot of the criticisms are aimed at Reward based campaigns, but thinking that these are Equity based or Charity based campaigns. For example, a large, well known company may be criticized for asking for donations, when they are in fact just pre-selling and market testing. A goal of this article is to dispel this myth and lack of understanding.

One would not find much harsh criticisms toward Charity based campaigns, but the criticisms around Equity based campaigns tend to be on the technical areas of valuation and liquidity / ability to trade.

Why crowd fund?

This depends of course on your objective.

If you need to raise equity for a broad array of purposes but are not able to list on a *tradeable* exchange and have not been able to convince VC's to back you, Equity based funding may be an alternative.

If you have a purpose-driven charitable cause but nothing tangible to offer in exchange aside from the inner purpose of supporting something larger than one's self, then Charity / Donation Crowdfunding may be a option.

If in line with the above, you want to test demand, manage cash flow for a product or business launch and you have something tangible of value to offer, then this may be the route for you.

If you are looking to get rich quick with some money for nothing and chicks for free, then may need to keep searching on your noble path.

Relating to the trends mentioned at the beginning, it does appear that the future is more and more of a reality to be accessed by us all.

If you are able to harness a trend that allows you to remove the financial barriers of creating entrepreneurial value, then I say it is worth giving it a try, I know I have.

Wish me luck! And well — you know — back my campaign and stuff. We'll make it worth your while ;-)



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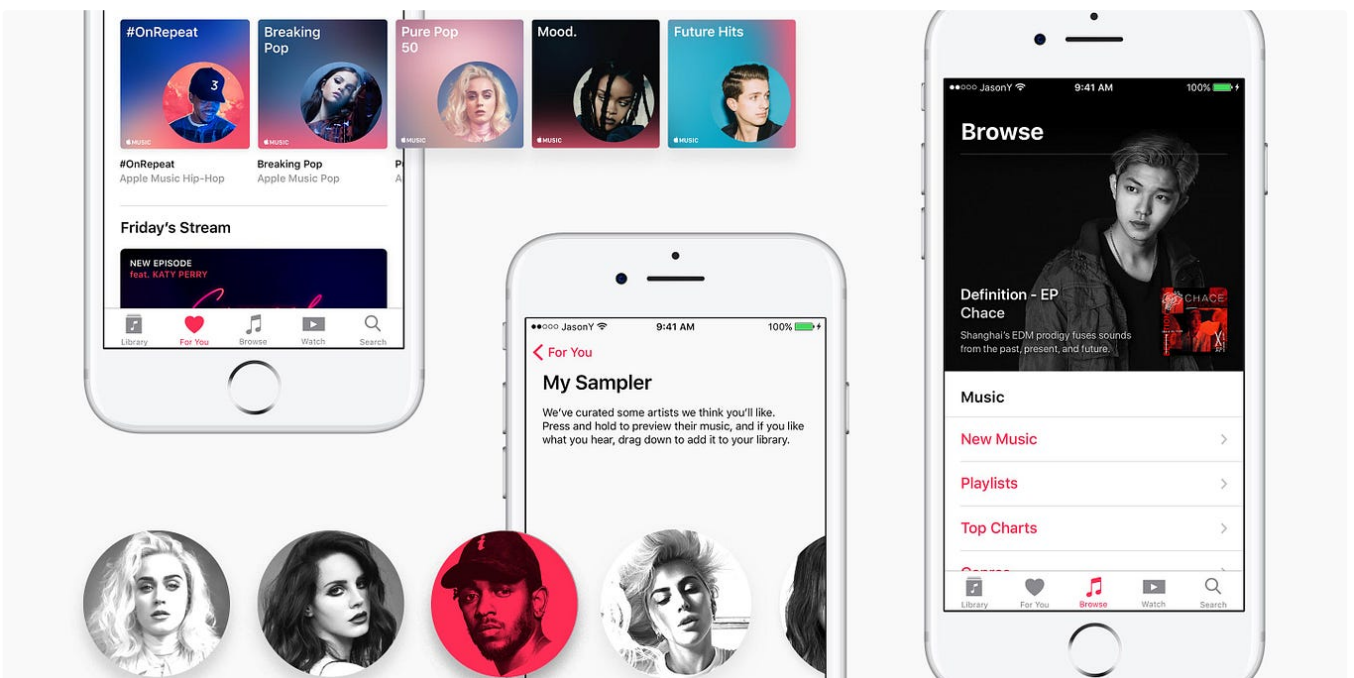
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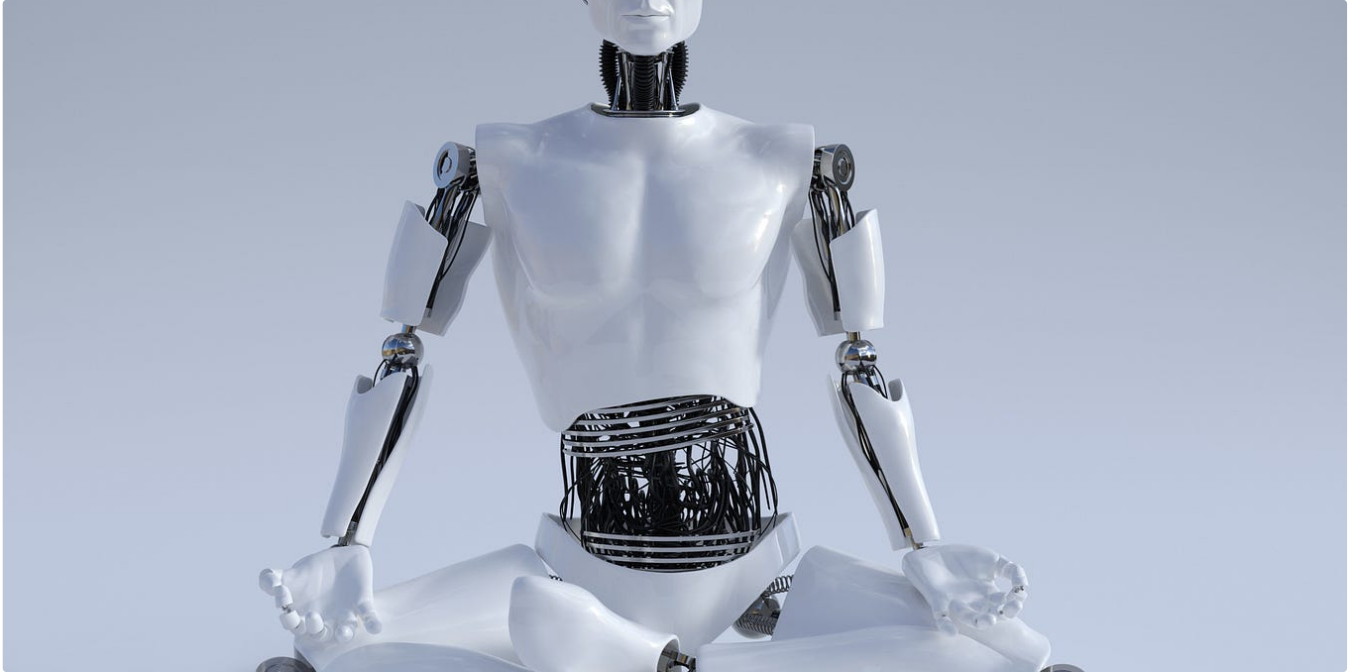
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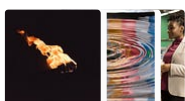
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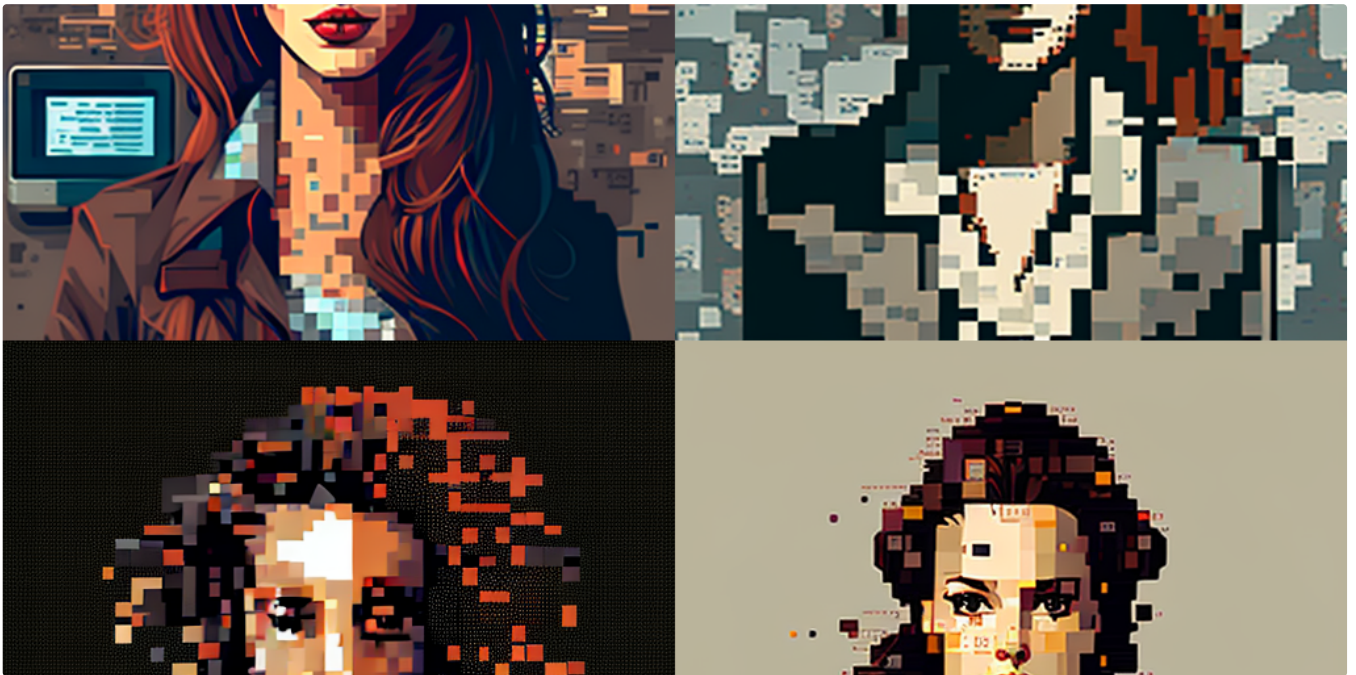
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