

Crowdfunding: If you start me up I'll never stop ...

How to raise money without getting into debt

When Rob Heyns and his business partner Nzeka Biyela started Sugarbird Gin they did not even consider getting traditional financing, instead going straight to crowdfunding.

It wasn't because they were looking for handouts or because their business idea was part of a charity initiative. It was because they believed it made the best business sense. They raised capital by sharing the profits of pre-sold batches of their fynbos-infused gin to finance its production.

In less than a year they had raised more than R1-million without having to get into debt.

Crowdfunding has fast become a leading alternative way for entrepreneurs and small- and medium-sized enterprises to raise capital.

For a long time access to capital has been a big impediment facing entrepreneurs and SMEs who can't access finance through traditional sources such as banks. But economist Mike Schussler believes crowdfunding gives opportunities to innovative businesses.

"It's not the solution for everyone but it's good for smaller businesses that generate cash within a year or two. It is something that can make a difference to a lot of people and it is an interesting addition to the funding model in South Africa." Heyns said that by launching via a crowdfunding campaign they had been able to stand out from many other products on the market.

"We were able to operate at scale from day one by consolidating these first orders and thus produce great gins at a better price by working with the volumes of more established gin companies. We also were able to access funds upfront before producing batches which provides cash flow which enables growth."

Crowdfunding offers a combination of obtaining finance, gaining media exposure and testing new ideas in a real market. It works through funding a project or venture by raising small amounts of money via the internet from a large number of people who believe in a business idea and are willing to finance it.

A number of new crowdfunding platforms have started up to assist companies looking to use crowdfunding as a way to raise money. According to Nicholas Dilley from crowdfunding platform Thundafund, which has raised over R18-million for businesses, South Africa has seen the most success in crowdfunding come from the food and beverage industry.

Dilley said the two main types of crowdfunding were based on rewards or assets.

"Reward-based crowdfunding allows the project creator/entrepreneur to raise

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your product in exchange for their investment back and return on their investment through a percentage of the profits made.”

Toby Shapshak, editor in chief at Stuff magazine, said that while business crowdfunding was an exciting new idea that “added to the mix”, it would not replace traditional lending.

“I don’t think it will replace banks and investors but it will augment the way small businesses operate,” Shapshak said. “It’s like so much else the internet has made possible. It allows other people to get involved in the process. Ultimately it’s a win-win for companies and those who invest.”

Shapshak believed the people who were investing in businesses through crowdfunding had a willingness to take a risk and “often wanted to get rich quick by finding the next big thing like Facebook”.

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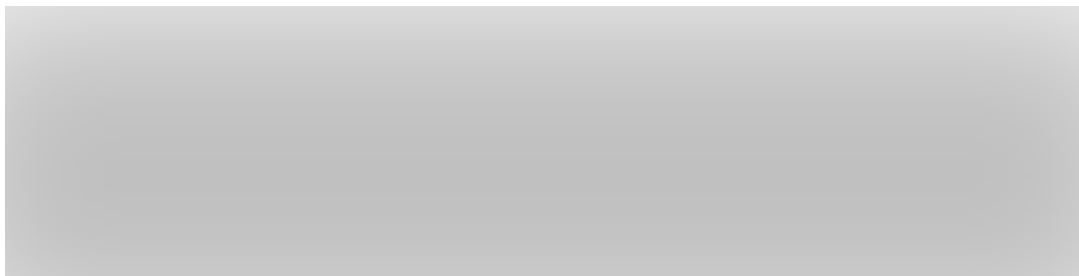
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