

CROWDFUNDING

IS IT RIGHT FOR YOUR BUSINESS?
WHERE DO YOU START?

by Caron Beesley



Heard the **BUZZ** about crowdfunding but not sure how it can help you finance your business? Is crowdfunding even right for you? Here's some information and tips that will help explain crowdfunding concepts and how you can take advantage of them to fund your business.



WHAT IS CROWDFUNDING

Crowdfunding is a collective cooperation of people who network and pool their money and resources together, usually via the Internet, to support efforts initiated by other organizations. Unlike angel investments, in which an investor takes a large state in a small business, with crowdfunding, you can literally attract a "crowd" of people – each of whom takes a small stake in a business idea by contributing towards an online funding target.



This spreads the risk among backers and creates a strong network of support for your business. If you offer equity as part of your package, your investors can also become ambassadors for your brand.

With the tough economic climate, crowdfunding has become a popular and alternative method of raising finance for a business, real estate investments, projects or ideas and has become popularized online by sites such as **Kickstarter, Wefunder, crowdfunder and RockthePost.**



IMPORTANT: Large crowdfunding investments are currently limited to SEC-accredited investors. Change is coming, however, and soon the investors like you and I will be able to enter the crowdfunding market. Currently, the amount an un-accredited investor can invest is capped at 5-10 percent of your income. More on this on the next page

CROWDFUNDING TO BECOME A LOT EASIER FOR SMALL BUSINESSES



Following up on from my last point above, it will soon become a lot easier for small businesses to raise money online via crowdfunding thanks to the signing into law of the JOBS Act by President Obama in April 2012. However, the SEC is still in the rule-making process and is due to publish final regulations before non-SEC-accredited investors can start financing small businesses. Final rulings are expected this summer.

What does the JOBS Act enable? Well, businesses seeking crowdfunding will be able to raise as much as \$1 million a year without having to do a public offering – a step requiring state-by-state regulations.

Previously, small businesses were also limited to seeking investment from SEC-accredited investors only; non non-accredited investors (you and I) can invest in start-ups.

HOW TO PREPARE YOUR BUSINESS FOR CROWDFUNDING

While the JOBS Act should be implemented soon, here are a few things you can do to get ahead while you wait.

Incorporate your business	It's possible that only C corporations will be in a position to take advantage of crowdfunding opportunities. This is because S corporations have a 100-shareholder limit, effectively precluding the use of crowdfunding. Talk to a lawyer or a local small business organization like your SBA District Office or SCORE to help you explore and select the right entity.
Start writing or refining your business plan	This will help you determine the amounts of financing you are looking to raise. It can also help you outline your business expectations and alleviate any concerns potential investors may have about how valid your venture is and how serious you are about it. SBA's Build a Business Plan tool can help you walk through these steps. It's an easy-to-use interactive online template that you can work on, save anytime and download when you're finished.
Get your accounting records in order	Part of the new JOBS Act will require entrepreneurs to follow SEC-compliant guidelines in regard to providing accurate, transparent and up-to-date financial statements and due diligence reports. Balance sheets, cash flow statements, financial projects and more will help you build your credibility with potential investors and are required before you even launch your fundraising campaign, so be prepared.
Get your CPA or accountant involved	Be sure to consult with a qualified CPA to stay on top of legislation. If you're seeking between \$100,000 and \$499,000, then then you'll need to have your financial statements reviewed by an independent public accountant. Over \$500k? Then you'll need to have those statements audited. It's never too early to get started with this process.

TIPS FOR SUCCESSFUL CROWDFUNDING



One key to getting what you want from crowdfunding is understanding the commitment it entails. This means having a careful strategy. Start by perfecting your pitch. Keep it simple. If your pitch doesn't connect with your target investors, then crowdfunding may not be for you.



Next, make sure you have the resources in place to promote your pitch daily (and keep it simple – you want to make it easy for prospective investors to connect with your idea). Create and maintain momentum by being responsive; take calls, answer emails, use social media or an email list to help you meet your target.



Think about ways to create a buzz around your business. Find out who your potential investors are well in advance of your listing and find out what entices them to invest.



Be prepared for questions from investors now. How do you plan to spend the money? Do you have an exit strategy? What are your short- and long-term goals? What insurance protection do you have in place for your business and investors? Have you completed the due diligence process? Do you have trademarks, patents or copyright in place?

SOME TIPS ABOUT CROWDFUNDING SITES



Existing crowdfunding sites are probably your best option when it comes to raising funds. If you want to set up your own crowdfunding portal, you'll need to get SEC approval.



Remember, third party sites are essentially middlemen; they make points of fees by matching up companies or individuals to raise funds. To ensure you are doing the right due diligence, it's well worth consulting both an accountant and a lawyer to protect your interests.

MORE INFORMATION

For more tips, check out SBA's Introduction to Crowdfunding for Entrepreneurs, an online, self-paced overview of the topic that also includes some useful next steps for those interested in the process of crowdfunding.

Caron Beesley is a small business owner, a writer, and marketing communications consultant. Caron works with the SBA.gov team to promote essential government resources that help entrepreneurs and small business owners start-up, grow and succeed. You can learn more about Caron by visiting www.april-marketing.com