2013

Towards an ecosystem for early-stage finance and innovation through crowdfunding

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INTRODUCTION

We held our first International ECN Crowdfunding Convention in Vienna at the head offices of the Austrian Chambers of Commerce. After the event we asked speakers if they were interested in providing us a short article on some of the main issues that they are looking at within crowdfunding in 2013. This paper is the result of this and aimed to broaden the views on crowdfunding while remaining accessible to the widest possible audience. We believe that the contributions give a varied view on the opportunities that crowdfunding can deliver.

The short essays in this paper include an insider view – not to be mistaken with an official statement – from within the European Commission, a call to re-examine our perception of money, a take on innovative aspects of crowdlending to SMEs, two views from entrepreneurs who successfully raised equity crowdfunding, the potential impact of crowdfunding on employment and work, innovation in peer-to-peer lending, crowdfunding as form of open innovation and crowdfunding as a blue ocean strategy – but first we present views from our network.

The contributors may express similar or different opinions on crowdfunding, they may also change their views in due course. These are their views at the time of writing and not those of the European Crowdfunding Network, but we believe in open discourse in order to foster an innovative and transparent crowdfunding sector.

Brussels, December 2013

European Crowdfunding Network

BUILDING A EUROPEAN CROWDFUNDING ECOSYSTEM – OLIVER GAJDA & RADHA DILIP BANHATTI

OLIVER GAJDA, CHAIRMAN & CO-FOUNDER, EUROPEAN CROWDFUNDING NETWORK,
WITH ANALYSIS BY RADHA DILIP BANHATTI, GISELA TECHNOLOGIE ASSISTENZ, GERMANY

We are witnessing the on-going digitization of processes and communication in our society without yet understanding the profound impact it will have on our lives, but we can learn from how this phenomenon has already changed industries such as media and music, how it has changed education and communication. Apart from speed and scalability, we also experience attempts to shift power relations within industry sectors. Today, we see these first changes happening within the financial services industry. In this context crowdfunding has recently been moved to the forefront in the discussion on access to finance and innovation.

The European Commission and few national institutions have taken a leap by addressing this topic openly and willingly at a time where even industry insiders can no more but guess market volumes. Still, the wrong national or EU wide decisions could destroy the momentum this sector has and therefore the potential benefits that it can bring. Over the year we went out to gather some input from our wider network, including investors, entrepreneurs and other stakeholders. We also asked our network the question if a specific crowdfunding regulation would be needed on European level: more than 70% believe that some form of regulatory action is needed, of which some 50% want a specific approach and some 20% hope for an exemption.

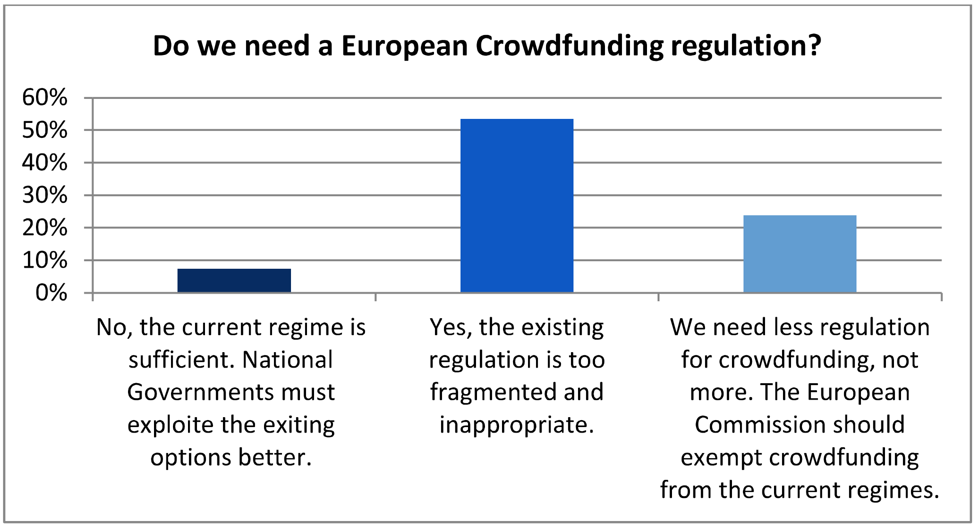

Figure 1. Do we need a European Crowdfunding regulation? Open survey on the European Crowdfunding Network website, closed October 2013. N=92.

When asking European Crowdfunding Network stakeholders, we received a less clear picture than with regulatory issues, while more than 35% of respondents believe there is enough information on crowdfunding platform to make an educated investment (though they need to register with each individual platform to access this information), 35% do not think the information provided adequate. One quarter, or 25% of the respondents, feels happy with the level of information provided.

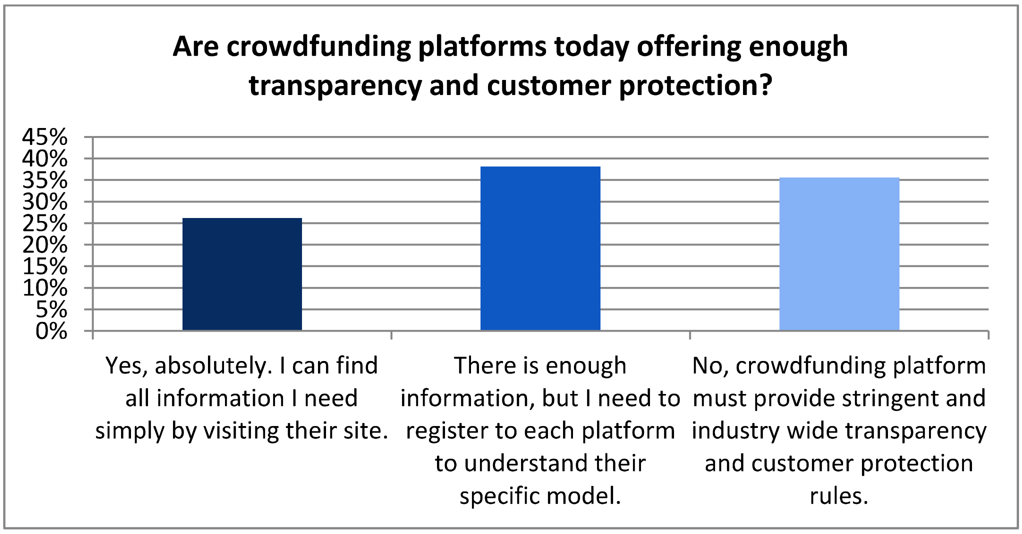

Figure 2. Are crowdfunding platforms today offering enough transparency and customer protection? Open survey on the European Crowdfunding Network website, closed December 2013. N=118.

In a different survey[1], we asked crowdfunding platforms and individuals (entrepreneurs and investors) what they believed are the most pressing issues around self-organised professionalization and transparency. Crowdfunding platforms (N=52) stated client protection guidelines (82%) and corporate governance guidelines (77%). The also stressed the need for knowledge exchange amongst each other (78%) and cooperation with regulatory authorities (80%). Individual respondents, such as entrepreneurs and investors (N=102) also ranked client protection guidelines (78%) on top. However, transparency measures were also in strong demand with reporting guidelines (76%), and the request of a public directory of crowdfunding platforms (75%).

We also asked investors and entrepreneurs about the competences they would expect from a good crowdfunding platform, to ensure we can match their needs and expectations. More than 70% of all respondents agreed that – apart from the main function of a crowdfunding platform: being a market place for projects and funders – compliance with financial and banking regulations, a good understanding of financial modelling, the ability to develop innovative strategies and to be open to innovation in crowdfunding where the most important aspects in this regard.

When considering the backgrounds of the respondents – with expertise in consulting, marketing and sales as well as investing from within a broad range of industries – we may be so bold to deduct that both conservative competences and lateral-thinking reflect standards of their own professional line of work. A preference toward these more traditional sets of core competences might well be meant to assure the stability of crowdfunding platforms.

But, of course, crowdfunding platforms have their own business to worry about and a slightly different set of priorities. Building a sustainable crowdfunding operation requires adequate reach and scale - and thus projects and funders. We asked platforms about the dominant challenges they see for their own companies, which are marketing, deal sourcing and new opportunities. A negative correlation to engaging third party expertise or staff as well as worrying about competition is supporting this focus.

1 The raw survey data was analysed by Radha Dilip Banhatti of GISELA Technologie Assistenz, Germany.

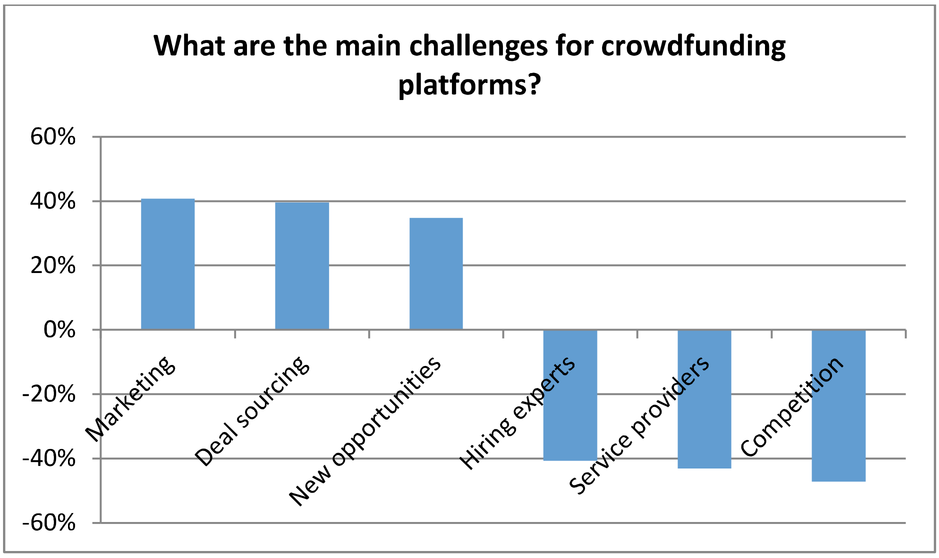

Figure 3. What are the main challenges for crowdfunding platforms? Open survey on the European Crowdfunding Network website, closed April 2013. Crowdfunding platforms N=52.

We believe that the crowdfunding sector requires professional standards, best behaviours and open data provision as well as on-going evaluation and monitoring on European level in order to build a basis for analysis and trust. We also believe that the crowdfunding sector requires local and national politicians and regulators to understand and act in a European context. Based on our interactions so far across Europe, we are positive about the developments within a number of institutions with regard to the discourse of crowdfunding. With regard to regulatory actions, we are positive about the overall lack of restrictive measures and welcome the open consultations by the regulators in Italy, France and the UK as well as by the European Commission.

While there are concerns about individual national interpretations that might result in forthcoming regulation, we feel assured that at least on European Commission level no premature actions will take place. The Commission has already indicated it will issue soft measures rather than regulation in 2014. We hope that the its measures will be strong enough to avoid a further fragmentation of the European regulation impacting crowdfunding[2] – and thus enabling a harmonised market in the future – and those national regulators and policy makers for once can see a European economic problem rather than a national issue that is related to its electorate voting behaviour.

[2] For an overview of the state of regulation please see ‘Review of Crowdfunding Regulation 2013. Interpretations of existing regulation concerning crowdfunding in Europe, North America and Israel. European Crowdfunding Network (October 2013) http://www.europecrowdfunding.org/2013/10/review-crowdfunding-regulation-2013/

HOW TO MAKE CROWDFUNDING A SUCCESS – JOACHIM SCHWERIN

JOACHIM SCHWERIN[3], DIRECTORATE GENERAL ENTERPRISE AND INDUSTRY, EUROPEAN COMMISSION – SPEECH DELIVERED ON 14 MAY 2013 DURING THE 1ST INTERNATIONAL ECN CROWDFUNDING CONVENTION, VIENNA.

The Vienna Crowdfunding Convention is the right event at the right moment in time. The program will add an important dimension to the Austrian discussion on crowdfunding by bringing together experts from other countries to exchange views with their Austrian counterparts on opportunities and risks. As a result, it will promote best practice across national borders. I congratulate the organisers for having chosen such an open minded approach, which I fully support!

At the European Commission, we have discussed crowdfunding at various events and will continue to do so in the near future. Our next step will be to host a conference on crowdfunding in Brussels on the 3rd of June. The title emphasises the main goals:

“Crowdfunding: Untapping its potential, reducing the risks”. In other words, we take a balanced approach that supports crowdfunding wherever possible without overlooking potential risks. Ultimately, we wish to understand if there is a need for specific policy action, and if so, how and when. For the time being, though, we are in learning mode. I invite you to participate in our conference and share your experiences with us!

The perspective on crowdfunding I will discuss today are those the of small- and medium-sized enterprises’ access to finance, which is my policy field in the Directorate-General Enterprise and Industry. Let me start with some reflections on our host country, Austria.

As you all are aware, when it comes to SME policy, including SME access to finance, Austria is one of the best performing EU countries. It has a vibrant SME community. Its decision makers have implemented SME policy at the core of policy making. The scope and depth of SME policy related exchanges of views between SME stakeholders and government representatives are impressive.

[3] The views expressed are the author’s own and do not necessarily represent those of the European Commission as a whole. The text is based on a speech given on the 14th of May 2013 during the 1st International Crowdcon in Vienna, organised by the European Crowdfunding Network and the Austrian Chambers of Commerce.

Austria also benefits from a stable macroeconomic environment. While fiscal constraints are becoming more visible, they are relatively mild compared to many other EU countries. This means that political efforts do not exclusively need to focus on short term fixes of the most pressing problems. Instead, decision makers in politics and business can take a longer term perspective: They can – and should! – reflect on issues that can be further improved and grasp opportunities. Crowdfunding is such an opportunity, and getting it quickly off the ground in Austria is important for the reasons I will now turn to.

Although Austria has no general problem as regards SME access to finance, parts of the spectrum of available sources of finance are underdeveloped, notably on the equity side. For example, venture capital is comparatively scarce. There is an urgent need to proactively open up new opportunities on both sides of the market: new business ideas need to become more visible to potential investors, and the supply of funds should be further improved. While the business angels segment shows improvements, access to innovative forms of early stage financing for SMEs as a whole remains too limited. This includes at one end of the spectrum exchanges specifically targeted at small and midcaps. At the other end, it includes crowdfunding.

Regarding debt financing, for the time being Austria does not show signs of a credit crunch. Its banking sector is comparatively stable, with few exceptions. And yet, there is an increase in problems flagged by SMEs when asking for loans. Moreover, it cannot be assumed that banks will be willing to continue providing the same volume of loans to SMEs as before. Any innovative development that helps SMEs to find viable alternatives to traditional forms of finance therefore needs to be welcomed and supported from an SME access to finance perspective.

This brings me to crowdfunding in greater detail. Crowdfunding is not new. In historical times there have been many grassroots initiatives that would today be labelled as forms of crowdfunding. That being said, there exists one big difference between historical times and now: the communication channels at those earlier days were profoundly different.

While potential investors or donors have always engaged at local level to finance small-scale projects with relatively minor contributions, this was cumbersome, time consuming and not very transparent. Raising money by using internet services is new and has the potential to overcome these difficulties.

Although the everyday use of the internet has now been with us for about two decades, financial services on the internet have remained remarkably old-fashioned. While we transfer money electronically instead of actually going to our local bank and use new services to fine-tune how we govern our investment portfolios, none of this has truly affected any core business model. The marriage between financial services and the internet has remained surprisingly uninspiring.

This certainly prevails when small private firms wish to raise money publicly without losing flexibility and time. In theory, the story is simple: There is an abundance of private money and a willingness to lend if convincing ideas can be properly explained. The "only" problem is to match both sides of the market. In practice, this is where a multitude of problems starts. Some intermediaries help SMEs to overcome some of the practical problems, but the question remains if this current situation is not at most second best.

In principle, all elements needed to get truly innovative channels for finance and investment off the ground already exist. Individuals and organisations interact with a crowd of followers online on all sorts of platforms. Especially in the creative industries, in sports and in some local communities, small scale sponsoring of projects is established practice. Entrepreneurs that wish to attract funding can reach a huge community at very limited cost by uploading information, advertisements or movies on the web.

And yet, in Germany the average funding volume per completed crowdfunding project was below € 4,000 in 2012, and the aggregate volume of crowdfunding remained below € 2 million. On the other hand, increases in market volume and average funding per project are huge in percentage terms. So how should we interpret the current situation?

Are we at the point in time where an amazing new way of financing ever larger projects is kicking off? Or do we face a hype that will remain locked into a small niche for the foreseeable future? I am of the opinion that it is not productive to focus the discussion too much on this fundamental question. Instead, I refer to the observations above, namely that crowdfunding does play a useful role – alongside other market developments – to broaden the spectrum of accessible finance for SMEs. This must be welcomed regardless of the overall impact. If this view is accepted, the more productive question is: How can all players that take an interest in crowdfunding contribute to its success? This involves all of us. It includes presenting examples, promoting best practice and reconsidering the environment in which crowdfunding operates.

In Austria, we are currently observing a very important initiative to improve the legal environment for crowdfunding. My view – which I see taken up in Austria – is that it is well advised not to consider any element in isolation. Instead, we have to reflect on how best to kick start crowdfunding through well-targeted and limited changes of applicable laws that can be adopted quickly. In Austria, such a proposal has recently been tabled, and it will be of great importance for SMEs to swiftly implement this reform. In addition, there is merit in fuelling a public debate that makes clear that crowdfunding is not another opaque financial innovation that has potential to trigger crises. Instead, it is a form of finance that can serve small businesses well if properly implemented.

It is with reference to this last point that I conclude. I trust that our discussions today will usefully contribute and further enlighten the discussion in Austria – and beyond – on crowdfunding. It will be inspiring to hear what works well, and it will be instructive to learn what does not work well. I wish all of us a productive day here at the Vienna Crowdfunding Convention!

CHANGING THE PERCEPTION OF MONEY – STEFAN LIMBERGER

STEFAN LIMBERGER, CHIEF EVANGELIST, FINMAR

We live in a wealthy and aging society, which provides the opportunity to spend our own money on a self-authorized base. A society of people taking their financial planning in their own hands – in a responsible and sustainable way.

Crowdfunding, equity-based as well as lending-based, is the perfect opportunity to provide the people with opportunities, which have been reserved to the rich in the past. There are three main impacts created by crowdfunding, the first one relates to the investors, the second to entrepreneurs and the third changes the communication about money.

First of all investors on crowdfunding platforms are taking independent financial decisions. You don't need to be rich to invest via crowdfunding. Investors start by investing small amounts and learn by experience. This goes hand in hand with re-learning the process of taking financial decisions. First to trust your gut-feeling and only second taking in concern the facts and numbers. Feeling comes first, especially about the funded entrepreneur. Hard facts, about the business´s numbers come second.

The second main impact is related to crowdfunding, as an additional approach to fund your business. It broadens the entrepreneurs´ scope of opportunities. In the past, business plans had to be written, banks had to be approached and their employees to be convinced. The process of acquiring funds changes dramatically through the rising of crowdfunding. Marketing the crowdfunding campaign goes hand in hand with marketing the product, the entrepreneur and the business itself. Decisions are taken by many, the crowd, and will be based on all available information. Decisions on bank loans, taken by few – the bankers – will be overruled. According to this, more precise decisions from the crowd will be made and will lead to wiser and different investments.

Communication about money changes dramatically and is seen as the third impact of crowdfunding. Entrepreneurs communicate their wants and needs in terms of money to a broader audience, starting with family and friends through online marketing tools like social media , blogs and newsletters. Taking into account that their business, products and work are worth funding and talking about. This message is spread to all levels of the crowd – not just to this one bank's employee. As for Investors, they share their decisions with their peers, setting an example for others to inspire and maybe follow.

Crowdfunding is allowing people to invest their own money, cutting out the middlemen like banks or venture capitalist. People investing their money can be trusted in taking wiser decisions, than people investing other peoples' money. Less gambling will lead towards a more sustainable and robust financial system in Europe. This leads to the conclusion that the crowdfunding movement is going to challenge the existing financial system. At this point, it is too early to forecast the precise impact of crowdfunding on higher level. This process of disintermediation is just in the beginning. We do hope for a big change. Regardless the outcome of this process, we believe to be moving towards the right direction. We believe crowdfunding to be an important change agent. Change will create disruption and motion in the financial industry and system. An opportunity for growth will be created by disruption. And growth is what a prospering society needs.

CROWDLENDING FOR SMES : THOUGHTS ABOUT TRUST AND FLEXIBILITY – BENOIT VANDEVIVERE

BENOIT VANDEVIVERE, DIRECTOR, SECURED ASSETS

Crowdlending and Crowdfunding represent a new wave of financing innovation, an area where the Internet played a limited role till today and hopefully will come in to stay and bring all the benefits it has demonstrated in many fields: from ecommerce to e-travel, from collaboration to e-learning and the limited e-banking of today.

As of the early days of ecommerce, the natural tendency will refer a lot to the banking terminology. In ecommerce we keep talking of "cart", in travel of "e-ticket", and in hotels of "gallery". However, those usual terms quickly started to cohabit with the added value internet brings: "one click purchase", recommendations based on past purchases, online reviews by other customers, tools to compare prices of flights, hotels, delivery timings, with all the benefits we know. Where can we innovate in Crowdfunding and Crowlending?

The traditional way of financing by Banks.

In a simplified view, banks finance assets they can easily control, often in guaranteed assets such as securities. Assets such as cars, mortgaged offices/real estate, and other assets where they can protect their interest and retrieve in cash the loan they made, even though the company to whom they lent would go bankrupt.

When a bank lends money, it thinks worst case scenario and what would happen to that money in that specific case…

In Europe, the laws for securities, bankruptcy, mortgage, asset financing are different in every country. And even if in a remote future they would be the same laws all over Europe, most banks refuse to lend on assets that are in another European state. Additionally there is little financial benefits of lending to SMEs, when ultimately banks have been able to make a lot of profits lending to governments with low-rate money provided by the ECB.

Finally, banks look at the financial statements of the SMEs without real knowledge of the underneath business, they rely on assets to guarantee the loans… where most guaranteed assets are non-priorities for the entrepreneurs' business: buying a company car or being the owner of the office space is absolutely non-strategic and non-business generating assets, but the ones preferred by banks as they have the most solid legal guarantees.

In conclusion, there is a large trust problem and center-of-interest-misfits with banks, made even more severe with the economy low or negative growth, the bankruptcy and non-payment rates going up… The law could greatly contribute to create more trust by giving more weapons to retrieve assets and the money lent…but who would approve of giving more power to bankers given the recent history? And we all know that in innovation… the law follows the business practice… as it has been demonstrated by the initial steps of the crowdfunding and crowdlending industry: it started to exist and now we start talking of specific laws surrounding it…

A more proactive and specialized approach can solve financing issues.

One of the most important priority for SMEs is to finance their working capital. These are not long term infrastructure: it is to finance merchandise stock, to finance pending payments from large clients. Stocks are liquid, are traceable… but are mostly not financed by the banking industry as they do not have their usual legal tools to guarantee the loan and they end up relying only on the SME financial statements, something they are not comfortable with.

Therefore, a banker does not have a sufficient knowledge and is not thought for special financing like warehouse stock. Historically, there were and there are financing institutions dedicated to financing warehouse stock, but it is insignificant in size compared to the real market needs.

In parallel, Crowdlending can be specialized and tailored-made. Meaning that a Crowdlending institution can be dedicated not only to business, not only to lending, but it can be also dedicated to specific industries, specific financing categories – working capital, and even further, within that segment, to specific type of stocks. Crowdlending can bring more than banking by creating its own legal toolbox through contracts with the companies to which it lends, know-how through an expertise in lending very specific segments and thus talking the language of the entrepreneur.

Indeed stocks have multiple issues: how fast they lose value (price volatility), how quick can they be sold (liquidity), where they are stored and who owns them (ownership). While a bank does not look at those items, a Crowlending company can look at those, and can specialize in those criteria and build know-how. It can take ownership of the stock as collateral, the strongest guarantee ever, even in case of bankruptcy and manage the deliveries of the stock it holds in custody –as by definition stock is generally for future use. And this improves transparency as we not only go much further than analyzing a financial statement, but becoming expert in a very specific type of loan and type of assets of that financial statement and building the tools to make the loan totally independent of the health of that company receiving the loan by focusing on the healthiness, worth, volatility of the stock, of the assets which required the loan, allowing even hedging.

Additionally these types of loan can be short terms, as stock loans can be recurring 3 months, 6 months loans matching the projects and operations of the company… In that setting a company can create its track record of working capital loans and build trust that can be seen and shown to all through the crowdlending site. It also educates investors in the inside workings of the company and allows for diversified investment strategy by the investor: a same investor not only can loan to various companies or invest in capital, but the crowdfunding industry should also propose various type of loans and capital investments, allowing therefore a real, safe diversification strategy for the safety of the investor.

Another quick example is the usual structure of loans. Most loans have linear instalments and amortization, when most businesses have non-linear revenues and margins throughout the years. If one looks at a ski resort and a sea resort, it is common sense that their months of January and the month of August are very different in term of revenues and profits… yet in most cases their monthly payments to the bank for their infrastructure investments will be the same in any given month. Again here, Crowdlending can show its smartness taking into account those business realties, and a smart pooling, fully managed by the crowdfunding entity or only "assisted" through explanations of seasonality to investors, would allow setting up non-linear, business-aligned loan payments.

Like democracy at its birth, Crowdlending is opening the eyes of the investors that before were left trusting their bankers with their not so clear strategies and through many intermediaries. Crowdlending put at the heart of the system the investor. Therefore, new forms of lending that involve closer the investor in reading and understanding the risk factors and business mechanics can be brought to market: the crowdlending sites that will help read and analyze those tools by being experts in specific types of loans, and by having created legal tools to limit those risks while keeping the freedom of the entrepreneurs to do business, will attract both investors and entrepreneurs. And as in democracy, it will create a common knowledge of dos and don’ts, of mistakes, and will contribute to the evolution of analysis criteria and legal tools, through the post-mortem analysis of our common mistakes and wrong assumptions, contributing to an ever more efficient crowdfunding system. Finally it contributes to a transparent diversity of investment vehicles, lowering risks of market bubbles like we have seen in the past in the banking industry. Hopefully, many entrepreneurs in the crowdlending industry, helped by innovative investors, entrepreneurs and lawmakers, will help to create the ecosystem, which will thus really make a difference with the old-way of doing lending, bringing thanks to this new channel the same added-value we have seen in other industries revolutionized by internet.

CROWDINVESTING – TWO BEST PRACTICE FROM THE STARTUPS EPORTRAIT AND PLUGSURFING

HANS CHRISTIAN HEINEMEYER, MANAGING DIRECTOR, EPORTRAIT AND ADAM WOOLWAY, CEO, PLUGSURFING

Equity Crowdfunding, better known as Crowdinvesting, is still a new phenomenon. A new financial instrument companies can use to raise money from a number of individual investors via platforms that function as marketplaces for capital-seeker and potential investors. The trend is positive, more and more startups as well as SMEs are using this new financing alternative. Two of these Crowdinvesting pioneers share their experiences with us:

EPORTRAIT – HANS CHRISTIAN HEINEMEYER

Hans Christian Heinemeyer, co-founder and managing director, about their crowdinvesting round at companisto.de

ePortrait enables everybody to take ID pictures themselves easily. In addition, ePortrait offers its virtual photobooth as a SaaS solution to business clients, which need to acquire dozens or millions of digital ID pictures, but want to avoid digitalization of photographies.

We came across crowdinvesting when we were checking various alternatives for financing growth of ePortrait after having acquired our first business customers. We had done some PR and a crowdinvesting platform called us and asked if we might be interested in being of the first startups to be launched after the platform would go online mid-2012.

The whole process was quite straightforward. We provided our business plan and met a couple of times with the platform founders. After having concluded the terms, we started searching for crowd-campaigns we liked (in order to learn), wrote a time plan, contacted a couple of directors to produce a nice video, and compiled all the information needed for the campaign. As the platform had launched their own funding campaign just before, they advised us on Do's and Don’ts.

In total, ePortrait raised 100.000 EUR from 391 investors within just 21 days. The minimum investment was 5 EUR, five people invested 5.000 EUR, then the maximum amount to be invested via this crowdinvesting platform.

Our key insight from crowd investing is that it is definitely worth the experience, especially if your product means something to the crowd. A pleasant experience was the positive response of crowd-investors to small problems, e.g. on our website, for which couple of them offered support. An unexpected result was that we were contacted by some business angels and family offices, who wanted to be put on our list for future financing rounds.

Personally, I don't think that crowdinvesting is a solution for each and every startup out there. In addition, I am curious how the crowd will respond when the first hyped case becomes insolvent - I hope it will not stop the positive momentum! However, I have experienced myself several times that bank and bankers do hardly and seldom understand startups and new business ideas. Crowdinvesting is therefore a promising approach for financing risky early stage ventures. Hence, I am convinced that crowdinvesting will outgrow the financing of startups by traditional banks.

PLUGSURFING – ADAM WOOLWAY

Adam Woolway, CEO and co-founder, about their crowdinvesting round at innovestment.de

PlugSurfing GmbH is an emobility startup from Berlin. We develop Europe's biggest database and community for eMobility. We did a crowdinvesting round at the end of 2012 and there were several reasons why this was the correct option for us.

Firstly, as a relatively inexperienced founder in a new city and without the network of contacts I would have liked, a crowdinvesting platform gave us instant exposure to a group of angels who may otherwise have been outside of our reach. Secondly, the emobility market is still emerging and crowdinvesting allowed us to sell smaller tickets to a group of investors who, as a result, would have been less risk-adverse than a traditional venture capitalist.

The process for us was instrumental in shaping our outlook as a company because, as a first-time founder, the platform we chose not only scrutinised our processes and financials but also, crucially, offered support and guidance in how to improve. Once started, the process was hard work but worth every minute for the money we raised and the 28 new contacts and angels that we now speak to on a monthly basis.

I would recommend crowdinvesting to any startup that is looking to quickly expand its investor network and is able to work intensely over a short period of time to raise funds. Any startup doing so should consider how crowdinvesting fits in with their current strategy as it can create certain strategic issues, such as with matching and complications with exits, but these issues are being considered as crowdinvesting platforms begin attracting bigger investors, offering larger sums of money and creating pooling mechanisms. Rather than a mere fashion, crowdinvesting is proving that it is here to stay.

NEW FORMS OF WORK AND NEW EMPLOYMENT OPPORTUNITIES – IVANA PAIS & DANIELA CASTRATARO

IVANA PAIS, DEPARTMENT OF SOCIOLOGY, UNIVERSITÀ CATTOLICA DEL SACRO CUORE, MILAN AND DANIELA CASTRATARO, TWINTANGIBLES AND ITALIAN CROWDFUNDING NETWORK

The arrival of crowdfunding brought with it a series of new work dynamics and new jobs. Especially, it has been observed an increase in forms of free work done within crowdfunding related activities.

This could be due to the fact that crowdfunding was born in an online setting, product of the same dynamics and mindset that are at the basis of all the social media revolution. This means that there is a series of expectations of return that are different from the traditional ones: relationships and exchanges are not only based on money. Acknowledgement, mentions, reputation are the new currency, sometime just as valuable as money. This is believed to be encouraging the birth of many “free jobs” and to have an impact on the outcome of crowdfunding campaigns, as well as on the functioning of the crowdfunding ecosystem in general.

There are three main actors in the crowdfunding ecosystem: platform operators, project holders and backers. As far as free work is concerned, its role and meaning is different from actor to actor. We carried out a research to gain a deeper understanding of the several forms of free work, focusing on platform operators and project holders. More specifically, we tried to understand if the several forms of free work done within crowdfunding are seen as a gift, exploitation, or investment.

The research was carried out through semi-structured interviews with Italian platforms and with a sample of project holders.

As far as crowdfunding platforms are concerned, the main problem for them is to find a business model that is able to pay them back for the significant amount of work involved in running a portal. Crowdfunding platforms charge a fee on successful projects, however the typical success rate of crowdfunding campaigns run on a platform, and their average raised sums, are generally quite low. This often means that crowdfunding platforms don’t earn enough money to maintain a business in the long run. For example, if a platform is successful in funding €1 million/year (which is - at the moment - far from the average), considering that the average success fee is 7%, the income for that platform would be equal to €70,000/year. Platform owners, therefore, are looking for more sophisticated and innovative models that involve, for example, e-commerce and consultancy services.

When it comes to project holders, the situation is more complex. In most cases, project holders start a campaign without realising all the work involved in it. This is due both to a poor knowledge of crowdfunding in general, but also because all the work involved in a campaign is a mixture of many different specialisations that are not immediately apparent from the outside.

Ideally, a crowdfunding project would require a variegated set of skills and specialisations that could be associated to different job positions. Here's a list of the ones we identified so far:

- Computer Literacy
- Decision-making
- Networking
- Time Management
- Presentation
- Self-management
- Teamwork
- Written communication/Content Editing (incl. blogging)
- Project managing
- Business planning
- Marketing/Communication (viral/social marketing)
- Community building and managing
- Crowdfunding expertise (knowledge of models, platforms, dynamics; basics of fundraising)
- Video editing

It's very unlikely to find all the above skills and specialisations in a single person/team, especially when the sector they work in is not traditionally active in a web 2.0 environment. This often results in the practice of asking friends and acquaintances to help with a part of the job, often for free. In fact, generally who turns to crowdfunding has no money available, i.e. the project holder hasn't got enough funds to pay a team to work on a crowdfunding project.

However, we also observed the emergence of some new jobs that are more recognised as such, and often remunerated in the context of a crowdfunding campaign.

In the specific, the “crowdfunding consultant” is appearing more and more often in the design and planning phase of a crowdfunding project, as a person who is expert in the sector, has had some direct experiences and has a perspective of the whole picture. The crowdfunding video editor is another job position that is becoming fundamental in a crowdfunding project. As far as the work carried out by the project holders is concerned, it is seen as an investment and, in most cases, project holders do not give themselves a retribution for all the hours spent on the campaign.

A better recognition of all the forms of work that are originating from crowdfunding, as well as of all the specialisations and skills needed to run a campaign, would be useful for many reasons. First of all, the general lack of awareness of all these new forms of work and the low recognition of them also on a retribution level could be the cause for many campaign failures. Whereas the passion and the high commitment in the project holder(s) always represents a significant driving force, they could lack some required skills that cannot be acquired overnight, as observed before. This means that the presence of a skilled person is required. However, that person won’t necessarily be emotionally involved in the project and, especially if the work they do is carried out for free, there is a high risk that they would consider it as a ‘gift’. This could result in low commitment and, eventually, in a failure of the campaign.

Furthermore, since the viral aspect of crowdfunding campaigns is prominent and there is a high stress on the marketing/communication side of things, there is a risk of reducing crowdfunding to a marketing campaign, thus spoiling the essence and meaning of crowdfunding itself.

Finally, having a better awareness of what are the jobs involved in crowdfunding could allow for the creation of new job opportunities. For example, video editors could specialise in crowdfunding services, offering better quality videos, more relevant to the context.

INNOVATION IN CONSUMER AND BUSINESS LENDING THROUGH PEER-TO-PEER APPROACHES – TIM WRIGHT

TIM WRIGHT, TWINTANGIBLES

With so much of the publicity around crowdfunding focused on the seemingly interminable debate about enabling the JOBS Act in the USA, or the hype of some exceptional funding totals achieved for a game or film on a reward based platform like Kickstarter, it is easy to forget that the largest part of the $2.7 billion, the recent Massolution report tells us was raised through crowdfunding in 2012, is to be found in the lending based crowdfunding sector. Drawing again on the Massolution report it suggests that lending based crowdfunding grew 111% to a value of $1.2 billion in 2012 and, if we accept their predictions, this sum is set to reach $2.1 billion in 2013.

The realisation of the importance of the lending based model to crowdfunding globally is reason enough to warrant it a little further consideration. But it is worthy of examination for other reasons too. It is also the sector that is perhaps most diverse in its application. It may represent the model with the greatest possibility of sustained impact. It almost certainly enjoys the widest ranging of establishment endorsement, and it is full of innovation. With these things in mind - and as we may well find ourselves directly engaged with it, either as a lender or as a borrower - then considering how we can make the most of this opportunity is worthy of debate.

Let us consider then what I will refer to as P2P, for reasons of brevity, a little more closely. The sector includes both consumer and business lending. It also encompasses lending that has no expectation of financial return alongside investment with a highly considered and calculated expectation of return. As such it brings together the two hemispheres of finance, those being traditional investment thinking and motivation and novel and non-traditional investment behaviour, the latter being one of the fundamental propositions of crowdfunding.

It is also the area where we can see growing engagement from civic and Governmental institutions which implies a level of comfort with the model and a tacit endorsement of it at the highest levels. For example in the UK the Department of Business Innovation and

Skills, the Government department responsible for fostering business growth, has invested a sum of £30 million from the Business Finance Partnership into two P2P platforms. This is to be used to underpin 20% of most business loan requests approved on those auction sites. This has the effect of bringing a level of liquidity to the market, it builds confidence and so leverages other investment from small investors. As Amy Cortese points out in her book Locavesting - if we are able to encourage individual savers to liberate just 1% of their long term investments into low risk liquid investment then the size of funds available would be extraordinary. Her calculations for the US alone suggests that a $30 trillion fund would be available. With this public and private partnership model being explored by the tentative early investment by the Department of Business Innovation and Skills are we perhaps seeing a small step towards making at least part of that happen?

This spring a first P2P buy-to-let mortgage product was launched. The Breedon Recommendations - a UK report on methods to increase the availability of business finance post the 2008 crash - suggested that there was scope to create tax efficient investment instruments that would encourage personal investment into P2P platforms.

Looking at developments in the USA the extremely popular P2P lending platform Kiva – founded to offer development funding to the emerging world - has turned its gaze toward home launching US city focused campaign with its Kiva City initiative. This partnership based model seeks to use the platform to facilitate collaboration between civic leaders, community groups and financial institutions to create microfinance opportunities to assist SMEs and re invigorate the locality. This model has attracted the high profile endorsement of former President Jimmy Carter once again demonstrating a level of tacit acceptance of this model amongst senior and respected institutional figures.

Many of the P2P platforms run auction based systems which some feel make the transaction valuations more balanced than, say, equity based crowdfunding models that can get accused of hype and over valuation of investment opportunities. The secondary market used to trade loan parts on many of these platforms also brings a level of liquidity of investment which is unusual for the crowdfunding sector.

Some bodies, like regional Councils and Universities are seeing their participation in these platforms as mechanisms to provide rapid and highly targeted support to a locality or sector and, in some cases, as a filter mechanism that can help identify opportunities for further intervention and support other than finance, or even opportunities for value adding collaboration.

In the wake of the financial collapse of 2008 and the impact this has had on business and particularly SME lending it is perhaps inevitable that alternative finance methods are increasingly popular. Couple this with historically low interest rates common in many geographies and the resulting desire for individual investors to seek out better returns for their funds, it represents a coming together of supply and demand side factors that offers a potential benefit for all concerned.

As established funding bodies increasingly see this as a mechanism they can match fund alongside, and as a valid market partner to create finance packages with, what implications and opportunities at a pan European level does this present? Could some of the European investment vehicles leverage their funds by attracting further investment by matching against P2P platforms? Would a pan European platform be viable or desirable?

CROWDFUNDING AS AN IMPULSE FOR INNOVATION – MARIA SERRA

MARIA SERRA, FOUNDER, ONCLAUDE

Is innovation the product of one single genius? Or do innovative ideas rather build upon the multiple ideas of others? There are several common myths around innovation that have been recently debunked and this is a key one: there are no lone inventors and innovation is far from being a single event.

American author Scott Berkun, a previous manager at Microsoft and Wordpress, has tackled this issue in a book called The Myths of Innovation where he points out those innovations today are often bound to innovations in the past. Innovation often demands prerequisite knowledge and this certainly narrows the number of people who can actually innovate. However, he argues, innovators hardly work alone. What about all of the other stakeholders involved in the process, in many different ways?

Innovations are the result of a process of exploration and require a network of people to be recognised, developed, validated, tweaked and turned into meaningful projects that produce significant positive change. Nonetheless, the processes of exploration matter more than any result that these processes ever produce (most of the time), which is especially true for social innovation but also for the industry.

Reward-based crowdfunding has an excellent potential, yet not utterly exploited, to work as a network catalyst and an incubator of ideas, where ideas are shared and tested. These ideas might prove their value or not, depending on many factors (inherent value, how they are perceived and communicated, historical circumstances) but once a relevant exploration process has started it might actually lead to new unexpected directions or connect with processes started by someone else, as taught by the history of innovation.

Working as a form of early stage fundraising, both reward-based and equity crowdfunding can also be, in some cases, a better option than the traditional venture capital because they enable long-term innovation while investors are increasingly short-term oriented. Tech-startups are benefiting in particular from this aspect, especially those working on open-source solutions, including but not limited to software, as well as independent researchers and labs in the science and healthcare sectors whose research cannot guarantee a quick return of investment. Their projects cannot translate into a tangible product that cannot be shipped to contributors neither. However, an increasing number of scientists are now succeeding in building an audience that passionately cares about their research, mainly thanks to outreach and media exposure. Ethan Perlstein, an evolutionary pharmacologist who raised more than $25,000 for his scientific research on amphetamines is now regarded as a model in those parts of the scientific community who have understood the potential of crowdfunding.

Perlstein's story also says much about how crowdfunding is evolving in terms of attention given to reputation and trust: whether it will work or not as a viable alternative source of funding will depend more and more on how well entrepreneurs and innovators can inspire trust in online communities.

Design-driven tech startups are also profiting much from crowdfunding, using it not necessarily to fund early stage innovations but for supporting incremental innovation: validate their product idea, test their current prototypes,recruit a unique user base and focus on solving their problems.

An interesting example coming from Europe is Wattio, a Basque startup whose founder is a serial entrepreneur in the fields of green energy. They came out with a powerful, flexible and cost-effective domotic solution which is all about making savings on energy bills and carbon footprint through controlling home appliances. Can we actually say it is a disruptive, breakthrough innovation? Some might argue that it is not, because there are already several similar products in the market. Nonetheless, Wattio's campaign raised $113,756 and the startup has been recently selected by Cleantech Group to show the product to investors from all over the world at the ninth edition of the “Cleantech Forum Europe”, last April in Bilbao. Again, this case history shows that innovation does not necessarily imply “invention” but has often more to do with a process of exploration and openness. Even if an idea has been around for years, Wattio's supporters/customers have perceived the product as innovative, something that produces a positive change for them (probably thanks to its user-friendly design, simpleness and affordability).

Service-oriented startups in the design and fashion industry are also starting to experiment with crowdfunding successfully, as well as product oriented companies that might be considered “early adopters”. An innovator in this field is constrVct.com, a collaborative fashion label and open design studio that crowdfunded the launch of its online website which allows users to create their own clothing designs from their photos using their 3D design interface. Users can then order any of their designs to be custom made in their size and CostrVct print the fabric with digital printing, sew and cut the clothes and ship them. They also sell a collection of unique pieces online designed by emerging digital artists and designers such as Nervous System.

Crowdfunding seems to effective fulfill the needs of social ventures as well, including those that have developed new forms of service design projects enabling social change, which also require a long-term innovation process and traditionally do not suit early stage equity financing methods used by the venture capital industry. An excellent example is The Social Coin, a Spanish NGO which designed a symbolic coin to be shared among people and initiate chains of random acts of kindness. These acts can be followed online on the NGO's website and measured as each coin is provided with a unique code. Coins are biodegradable and contain a seed that can be planted at the end of the chain. The NGO has used the crowdfunding campaign not only to raise funds but also for recruiting beta testers for their service and big companies with a solid social strategy interested in launching a pilot project among their employees at a low cost.

If you start an innovation process, you know where you start, but you cannot foresee exactly where you'll get. To be open means to accept that.

CROWDFUNDING'S PROMISING BLUE OCEANS – DAN MAROM

DAN MAROM, THE HEBREW UNIVERSITY, ISRAEL

In 2011, crowdfunding platforms raised $1.5 billion. In 2012, that number jumped to $2.7 billion, underscoring the emergence of a powerful fundraising mechanism for businesses around the globe. Massolution's 2013 Crowdfunding Industry Report predicts 2013 will witness crowdfunding platforms raise $5.1 billion and further asserts crowdfunding "has now emerged as a viable, scalable alternative to public and private finance." With those projections in mind, crowdfunding will simultaneously change the way we do business. I've taken the opportunity to showcase a sampling of those larger trends and paradigm shifts below.

Where many businesses utilize social media outlets to engage with current and potential customers, crowdfunding offers a more active form of engagement. In the past, customers may click "Like" on Facebook to show their support of a product, company, or specific service. Crowdfunding transcends this form of engagement by creating conversations between entrepreneurs and their investors. This creates a new kind of model whereby the investor has not only a financial stake in the success of the idea, but an intrinsic one as well. Crowdfunding transcends this form of engagement by getting customers to show support through funding a product and actively becoming part of the business's ecosystem.

In the coming months, we will witness the consolidation and specialization of crowdfunding platforms, based on perhaps vertical industries or geographical region. Consider the example of social networking and the current landscape: we have Facebook, Linkedin, Twitter, and Pinterest; each of these platforms serve a different purpose and cater different interests. Niche crowdfunding platforms like MedStartr allow doctors, patients, and companies to participate in disease research and healthcare innovation through donation-based crowdfunding while SoFi is transforming the student loan business by allowing university alumni to lend to student and graduate borrowers.

In addition to niche platforms, we will see the rise of new financing models. Where entrepreneurs may have had difficulty in securing funding from Angel Investors or venture capital, a successful crowdfunding campaign lends credibility and legitimacy to the entrepreneur, signalling to the investor of a potential opportunity that already has market validation. Hybrid models, where old and new financing models unite to offer a wider spectrum of financing options and ask sizes, while increasing the level of visibility. For the VC, using the crowd's affinity groups, prediction market capacity, price discovery, risk sharing, and social networking is a very efficient early phase funding mechanism, and is a cost-effective way to source great investment opportunities.

Third party service providers will play an important role in crowdfunding, particularly when it comes to establishing an infrastructure for crowdfunding platforms. Issues like fraud detection and prevention, customer service, and connection between the front-end operations with the back-end will provide third parties immense opportunities to become involved in crowdfunding development. While Amazon Payments and PayPal are excellent resources for some of the current platforms, they are not available on a global scale, and third parties will be called upon to provide payment and customer service infrastructure for crowdfunding sites. Moreover, for platforms with global ambitions, service oriented architecture (SOA) will be required for sites to work between countries.

Civic crowdfunding initiatives will play an important role in the public sector, allowing individuals to work with municipalities and support civic engagement. For example, in the United Kingdom last year, we witnessed citizens raise £792,021 for the construction of a community center in Glyncoch via the Spacehive crowdfunding portal. Not only were the necessary funds raised to help reinvigorate a community characterized by deprivation, but citizens will be volunteering their services during the construction of the center and will be responsible for helping it run once construction is finished.

The future may also witness the rise of disintermediated, open source crowdfunding. For example, Selfstarter.us, after being rejected by Kickstarter, created an open source crowdfunding site offering entrepreneurs a generic skeleton and use of Amazon Payments to get their campaigns off the ground. Selfstarter.us is crowdfunding at its most basic level: it frees entrepreneurs from paying the commission required by most platforms, serves as a pre-ordering payment gateway, and collects multi-use tokens from customers.

In 2013 Chrysler started utilizing donation-based crowdfunding by affording customers the opportunity to crowdfund the new Dart. Structured like to a wedding registry or wish list, aspiring car owners log on to DodgeDartRegistry.com, configure a Dart to their own liking, and then appeal to friends, family, acquaintances and strangers via social media to fund different parts of the car. This financial model is largely accessible for companies selling big ticket items ranging from cars, real estate, vacations, property, technology...and the list goes on.

Finally, although crowdfunding sounds and feels global and totally virtual, there is a need and opportunity to synergize with the local community at large. in the synergy with physical & local community events. The best example of this model is One Spark, a four day event which physically brings together artists, entrepreneurs, and inventors to showcase their ideas, products, and services with potential investors. This model allows for the benefits of business networking and collaboration, but in an offline setting.

Never before has there been such potential to bridge the collective creative and productive capacity with capital and other resources which are required to translate that capacity into social and economic activities. What we witnessed in 2012 was only the tip of the iceberg of what is to come.


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