



Crowdfunding

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Crowdfunding

Crowdfunding is the process of soliciting financial contributions from a large number of people, referred to as backers, through social media and the internet. The financial contributions are used for a wide variety of projects including business ventures, social causes, and support for individuals with a special need. By using social media, projects can gain access to funds outside of traditional sources such as banks or capital markets. A number of organizations, referred to as platforms, have developed to connect someone seeking funds with those who have an interest in contributing.

Crowdfunding Projects

Crowdfunding projects fall under several categories. Some common types are:

| Funding type | Feature |
|------------------|--|
| Rewards-based | The donor is rewarded with a discount or other incentive for something new that is produced. |
| Equity | The donor receives an equity interest in the company producing the product or service. |
| Debt-based | The donor invests money to be lent out to borrowers. |
| Donation-based | Appeals to the charitableness of the donor. However, donations may not be tax-deductible. |
| Digital security | Donors use cryptocurrency to receive a digital security. |

Project initiator. The individual or organization, referred to as a project initiator, seeking to fund a project determines the funding need and deadline, selects the platform most suited to the project, and creates a presentation to attract backers.

Platform. The platform makes the presentation available to a large number of backers via social media and may provide other services to the project.

Backers and pledges. Interested backers are able to make pledges using a credit card. The organization serving as the platform will typically use a digital payment company to collect and release the funds. The release of funds may be based on either the All or Nothing or Keep it All method.

All or Nothing. Funds are released to project and backer credit cards are charged only if the funding goal is met by the deadline.

Keep it All. In this case, funds are released to the project and credit cards are charged when the deadline occurs. The project initiator decides whether to proceed with the project with partial funding or return the pledges.

Crowdfunding Platforms

There are hundreds of platforms available to project initiators. Due diligence on the part of the project initiator is necessary to find the platform most suited to a particular project and avoid scams or other issues. Some of the larger or more well-known platforms are:

| Platform | Project Focus |
|--------------|--|
| Kickstarter | Creative projects |
| Indiegogo | All types |
| CircleUp | Equity |
| Causes | Social, political, and cultural causes |
| GoFundMe | Personal fundraising and charitable causes |
| Lending Club | Business loans |
| Patreon | Music and video |

Fees. The platform will typically receive 3% to 5% of the funds raised. The company holding and paying out the funds will typically charge a percentage of the funds raised.