

# WHAT IS CROWDFUNDING?

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## **Purpose of this factsheet**

- To give you a broad overview of the topic
- To help you understand definitions and terminology
- To be aware of the key steps
- To know where to access further support and information

This factsheet is aimed at clients accessing Dorset Community Action's free Information and Signposting Service. Further support is detailed at the end of the factsheet.

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## ***What Is Crowdfunding?***

Crowdfunding is a way of raising finance by asking a large number of people each for a small amount of money. Until recently, financing an organisation or project involved asking a few people for large sums of money, completing lengthy grant application forms, using traditional loan financing options or putting in long hours fundraising from bake sales and gala evenings. Crowdfunding switches this idea around, using the internet to talk to lots of potential funders.

Typically, those seeking funds will set up a profile of their project on a crowdfunding platform (website) such as Justgiving, Crowdfunder UK, Kickstarter and Crowdcub etc. They can then use social media, alongside traditional networks of friends, family and work acquaintances, to raise money. There are three different types of crowdfunding: donation, debt and equity.

**Donation/Reward crowdfunding.** People invest simply because they believe in the cause. Rewards can be offered, such as tickets to an event, regular news updates, free gifts and so on. Most voluntary, community and charitable organisations use donation crowdfunding.

**Debt Crowdfunding.** Investors get their money back with interest. It is also known as peer to peer lending and bypasses traditional bank loans. In some cases where small amounts are lent e.g. to very poor people / developing countries no interest is paid on the loan and the investor / lender is rewarded by doing social good.

**Equity Crowdfunding.** In this type of crowdfunding, investors receive shares or a small stake in the project / organisation they are funding. As with other forms of equity finance, if the project / organisation does well, the price of the share / stake goes up. If it performs badly the value falls.

## Benefits of Crowdfunding?

- **Validation** - it proves that people like your idea and will pay or contribute to make it happen.
- **Funding** - You can unlock other funding for charities and community groups this maybe grants.
- **Advocates** - The people who support your idea become a part of it and make good ambassadors for your project in the future.
- **Marketing** - When you create and launch your project you have to think about how you are going to market your idea and in doing so learn marketing

## Creating a successful Campaign.

Crowdfunding can be a valuable new source of finance, but it is not necessarily an easy process. Failure rates on some crowdfunding platforms are high -43% of Kickstarter campaigns succeeded. The key to a successful campaign is in its preparation and planning. The following highlights the key points you need to consider.

**Budget** – People will give you money to see something happen, so be realistic about the costs and charges to make the project succeed and include everything. Make sure you cover the crowdfunding platform fees and charges, the cost of making a video, any reward offered or tax payable. Like other funding sources, if the target to be raised is unrealistic or poorly estimated, people will not invest / donate.

**Online Platforms** – There are lots to choose from and they all offer something slightly different. Crowdfunding platforms vary in terms of the type of finance they offer (reward, equity or debt) and the sector they support. Some platforms are better for creative projects, tech project or academic projects etc. You can expect to pay between 3 – 7% in commission. Most operate on an all or nothing basis where you only get the funds you've raised if you reach your predicted target. There are some, however, that allow you to keep what you have raised even if you don't reach your target. Research the platforms and choose the right one for your project.

To help choose the right platform visit - <http://www.crowdingin.com/>

**Clarity & Transparency** – Be clear about your project and communicate this well. Make sure people understand what your project is, who will benefit, what it is trying to achieve and how much money is needed to make it happen. Also include also information about what you will do and when so people who have contributed can check back to see progress made.

**Tell a compelling story** – Appeal to peoples interests and passion and communicate what will change as a result of the support given. A short video (3 mins) is a powerful way of telling your story e.g. Children in Need, Comic Relief etc. Campaigns with a video have a higher success rate (50% compared to 30% Kickstarter).

**Pre-launch** – Engaging supporters and get people interested before you launch your campaign increases the chance of you meeting your target. Create a buzz, excitement before you launch. Get people to commit to making a donation when your campaign is launched. Project campaigns which have funds coming in look like they are going to be successful and are likely to encourage more people to donate. As the amount of funds pre-raised (pledged before going live) increases, so does the chance of success.

At 0% pre-raised; campaigns have just a 15% chance of success.

At 1% pre-raised; campaigns have a 20% chance of success.

At 5% pre-raised; campaigns have a 80% chance of success.

At 35% pre-raised; campaigns have an almost 100% chance of success.

(source: crowdfundingwebsites.co.uk)

Another benefit of engaging people pre-launch is it gives an indication of the success of your campaign.

**Segment funders** – People tend to look at your pitch once and only once. Many people are only likely to make a donation once others have donated. Therefore you need to target different people at different times throughout your campaign. Contact friends, family and core supporters during the period pre-launch and encourage them to donate in the first few days of the live campaign, then make contact with other potential supporters.

Once a project has raised 50% of its target it is 10 times more likely to succeed.

**Market and Target** – Make the most of social media. Social media and online networks are crucial to the campaign. They give exposure and enable you to engage with more and more people. Encourage your supporters, volunteers, beneficiaries to share the campaign via their social networks. This helps you extend your reach and has the added benefit of having someone they know endorse the project rather than you who they may not know.

Keep posting updates throughout the campaign to keep people interested and keep the lines of communication open throughout. Get someone influential to Tweet!

Don't forget to use other forms of marketing – community radio, flyers etc. not everyone uses social media networks or is online!

**Make the most of the size of pledges** - and the rewards / perks offered. Make it clear what people get back as a result of their pledge and you could tier the reward according to the amount donated. The bigger the donation pledged the better the reward. This may help encourage people to give more and help you reach your target more quickly.

**Stretch Targets** – Setting and achieving targets (funding goals) is one of the driving forces behind Crowdfunding. To be successful you need to achieve the targets (funding goal) you have set. Setting different target levels can improve your chances

of success. You could set a minimum target e.g. the basic amount needed to deliver the project and then set stretch targets that progressively add more value to the project. Make sure you communicate with the “crowd” each time a target is achieved and remind them how further donations can benefit the project.

**Keep engaging and communicating** – You cannot expect to tell a story, leave and then get all the funding you need. Don't leave your followers / supporters hanging – keep them informed, updated and engaged throughout the campaign. Respond to questions, thank contributors, post progress etc.

**Look at other successful campaigns** and see you they did it, learn from others.

There is an American based online tool that can help focus setting up your campaign and give you an indication of its likely success by answering a few simple questions. This is available at <http://crowdfunding.io/>

It is important to know that less than 50% of crowdfunding campaigns reach their funding goal so be realistic.

### **Online Resources**

- Nesta Crowding funding project – <http://www.nesta.org.uk/publications/crowding>
- Institute of Fundraising - 'Make It Rain' crowdfunding guide - [Make It Rain](#)
- UK Crowdfunding Association – <https://www.ukcfa.org.uk/>
- Hints and tips from Crowdfunder UK - [What is Crowdfunding](#)

### **Further Support and Information**

More specific and in depth advice and information can be accessed through DCA's advice and guidance, and consultancy services:

- training courses
- 1 to 1 action planning
- 1 to 1 advice with supported toolkits
- Bespoke services

To access these services please contact: [info@dorsetcommunityaction.org.uk](mailto:info@dorsetcommunityaction.org.uk) or call 01305 250921

Last updated: March 2021 PB