

The Crowdfunding Formula

Updated February 2017 by Louis Holder



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 a business, project or venture involved asking a few people for large sums of money. Crowdfunding switches this idea around, using the internet to talk to thousands – if not millions – of potential funders.

Typically, those seeking funds will set up a profile of their project on a website such as those run by our members. 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

Equity

Donation or “Reward” Crowdfunding

People invest simply because they believe in the cause. Rewards can be offered (often called reward crowdfunding), such as acknowledgements on an album cover, tickets to an event, regular news updates, free gifts and so on. Returns are considered intangible. Donors have a social or personal motivation for putting their money in and expect nothing back, except perhaps to feel good about helping the project.

Debt Crowdfunding

Investors receive their money back with interest. Also called peer-to-peer (p2p) lending, it allows for the lending of money while bypassing traditional banks. Returns are financial, but investors also have the benefit of having contributed to the success of an idea they believe in. In the case of microfinance, where very small sums of money are lent to the very poor, most often in developing countries, no interest is paid on the loan and the lender is rewarded by doing social good.

Equity Crowdfunding

People invest in an opportunity in exchange for equity. Money is exchanged for a shares, or a small stake in the business, project or venture. As with other types of shares, apart from community shares, if it is successful the value goes up. If not, the value goes down.

What should you consider?

- The Platforms at a glance, which platform looks more user-friendly and more attractive for the product/cause/event you plan to fund for?
 - Funding Scheme
 - Media and Outreach
 - Payment Processing
 - Video Hosting
 - Platform Fees
 - Payment Processing Fees and other hidden costs (such as platform commission)
 - Remarketing
 - Eligible Countries (all main platforms are available in the UK)
- Number of Campaign Days
- Unique Monthly Visits
- Project registration
- Pledges
- Backer Information
- Customer Support
- Other Options
 - Innovation strategies per platform
 - 'Live' / 'On-Demand' button where backers can fund a project indefinitely (i.e no expiry date! :-)

Kickstarter

- Today, crowdfunding is mostly synonymous with Kickstarter.
- Largest crowdfunding platform there is.
- Combined; Kickstarter campaigns have already raised over US\$2.8bln.
- 118,000 successful projects
- 12 million backers in total (approx. as of Feb 2017)
- Of those 12 million backers, one-third support multiple campaigns.
- Boasts 15 campaign categories;
 - Most Popular: **Film and Video, Music and Publishing Categories.**
 - **However, it's the Games, Technology and Design categories that really excite backers.**

Statistically the optimum time for posting a campaign is Wednesday afternoon.

Write a Compelling Campaign Article!

These impressive stats from Kickstarter only account for 35.76% of Kickstarter campaigners. The rest (over 60%) fail to achieve their goals.

Kickstarter has a reputation for launching whacky and innovative ideas, and the platform gets a fair bit of coverage from the media and bloggers.

One well placed article could get you a place in that top 36% so it's essential you write a compelling campaign article to boost your success chances.

IndieGoGo

- Initially focused exclusively on independent films, IndieGoGo started accepting projects from any category a year after its launch.
- Established to provide more opportunities to backers than Kickstarter, IndieGoGo is usually perceived as a **less strict and more flexible platform**.
- Available in over 200 countries and provides more categories (24 vs K's 15)
- Gives backers control over whether they want fixed (all or nothing) or flexible (creator gets whatever amount they collect) models.
- In 2015, they separated personal and cause campaigns into a new platform called Generosity.

IndieGoGo vs Kickstarter

- Kickstarter reckons around 36% of it's campaigners are successful
- IndieGoGo's success rate between 17-18% (digital approximation)
- IndieGoGo campaigners also say that customer support is second to none (not something Kickstarter campaigners tend to agree with).
- IndieGoGo Pledges are non-refundable, so the creator knows exactly how much they've raised
- Kickstarter campaigns tend to drop 5-7% of backers.



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Funding Scheme

Fixed (All or Nothing)

Fixed and Flexible
(Whatever You Raise)



Media and Blogs

More Credibility and
Coverage



Less Coverage

Payment Partner

Stripe

Stripe, Paypal



Video Hosting

Own Video Hosting

Youtube



Platform Fees

5%

5%

Payment Processor
Fees

3%+0.2c

3%+0.3c

Reward Levels

50+



20

Re-marketing

Not Available

Available



Funding Scheme

Kickstarter

Kickstarter releases funds only after the campaign reaches its funding goal.

As a backer, much less risky to go with Fixed funding (all or nothing). It comes with a lot less risk, so bear that in mind when making your decision.

Kickstarter only offers Fixed Funding.

IndieGoGo

Indiegogo provides you with an opportunity to choose between receiving funding as it comes in or waiting to see if you hit your target.

As a campaigner, much less risky to go with flexible funding (i.e. getting funds immediately), but don't forget you have to deliver on your promises, regardless of what you raise.

IndieGoGo offers both Flexible & Fixed Funding.

Media and Outreach

- The media loves Kickstarter, coverage is much higher than Indiegogo.
 - The reason for this is Kickstarter's strict quality controlled image.
 - They deliver higher quality products so journalists and bloggers don't have to wade through campaign after campaign of rubbish to find a story.
- This means that, on Kickstarter, your campaign has opportunities to garner a bit of press coverage.

Payment Processing

- **IndieGoGo**
 - Credit/Debit Card
 - Apple Pay
 - PayPal
- **Kickstarter**
 - Credit/Debit Card

Video Hosting

- Kickstarter uses its own video hosting service, IndieGoGo uses YouTube and Vimeo.
- Differing pros & cons to having own video hosting service
- YouTube is the second biggest search engine currently and provides great marketing opportunities to attract new users.
 - More views, Higher rankings - while campaign running on IndieGoGo.
 - Also beneficial if you have an audience who will share & comment on your video.
 - Comments & Likes are shown, including all user-to-video interactions shown on your Indiegogo Crowdfunding page.

Platform Fees

Both major platforms have the same flat rate of commission

5%

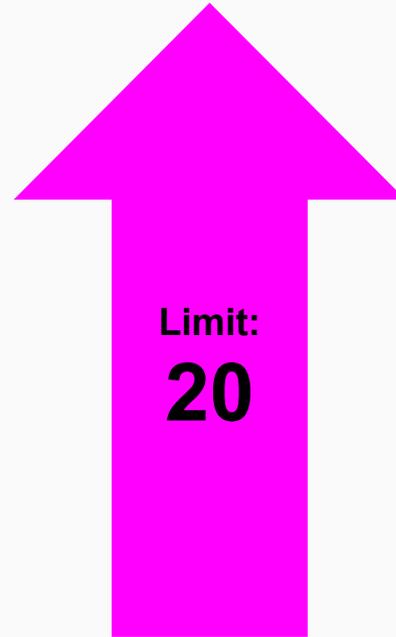
(for personal fundraising projects, Indiegogo has no fees).

Payment Processing Fees

Both major platforms have the same flat rate of commission for payment processing.

3-5%

Reward Levels



Remarketing

- Also known as Retargeting
- A powerful tool to target your ads (e.g. Facebook ads) to visitors who have already visited your website. It works by inserting a pixel code into your webpage, where it detects all the visitors and creates an audience from people, who visited the specified webpage.
- Indiegogo allows campaigners to insert the pixel code and create a Remarketing audience, while Kickstarter doesn't. However, there is a service called Easy Retarget, which helps you benefit from Remarketing for your Kickstarter campaigns as well.



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Countries

US, UK, Can, Aus, NeZ, Neth,
Den, Ire, Nor, Swe, Ger, Fra,
Spa, Ita, Ast, Bel, Swi, Lux

224 Countries



Max # of Days

Up to 60

Up to 60

Unique Mon. Visits

27 mln.



12 mln.

Registration

Staff Review

Automatic



Pledge Charge

End of the Campaign

Instant



Max Reward

10k

No Limits



Backer Information

Only after Survey

Instant



Customer Support

Less Caring

More Caring



Unique Monthly Visits

- Unique Monthly Visits show how much traffic these sites get, and it's an important factor to consider - without visitors, there are no backers.
- Calculated from official figures and estimates, IndieGoGo suggests that they get an average of **12 million** unique visitors a month. By contract, Kickstarter attracts between **27 - 28 million** (around 2.3 times as much).
- Note: Traffic isn't necessarily the best way to go. Each platform has it's own categorical strengths. For example, IndieGoGo has a thriving technology community while Kickstarter's gaming community is formidable.

Project Registration

Kickstarter has stricter rules, and staff who will manually review whether you comply with these or not. So there are three main rules you need to stick to:

1. No personal projects (you should have something to share).
2. No charity. (use IndieGoGo Generosity if for that or GoFundMe/JustGiving)
3. If you have a tangible product, you should have a working prototype.

Pledges

Kickstarter charges all backers at the end of the campaign if the goal is reached, so backers show a pledging intent rather than a pledge and are only charged when the campaign reaches its goal.

This means they can change their mind anytime right up until the end of the campaign and cancel the pledge.

This translates to an average 5-10% drop in backers for most campaigns.

By comparison, **IndieGoGo** charges the backers instantly.

Backer Information

Kickstarter waits until you reach your goal.

You'll have to conduct a survey and ask your backers to provide you with their contact information if you want any feedback before the campaign closes.

IndieGoGo provides contact information for backers the moment they hit the pay button.

Customer Support

Kickstarter is known for its poor support system. If anything goes wrong, both backers and creators are on their own.

IndieGoGo has a reputation for being far more personable and lovely.

Responsive customer support staff available to help you out.

Other Options

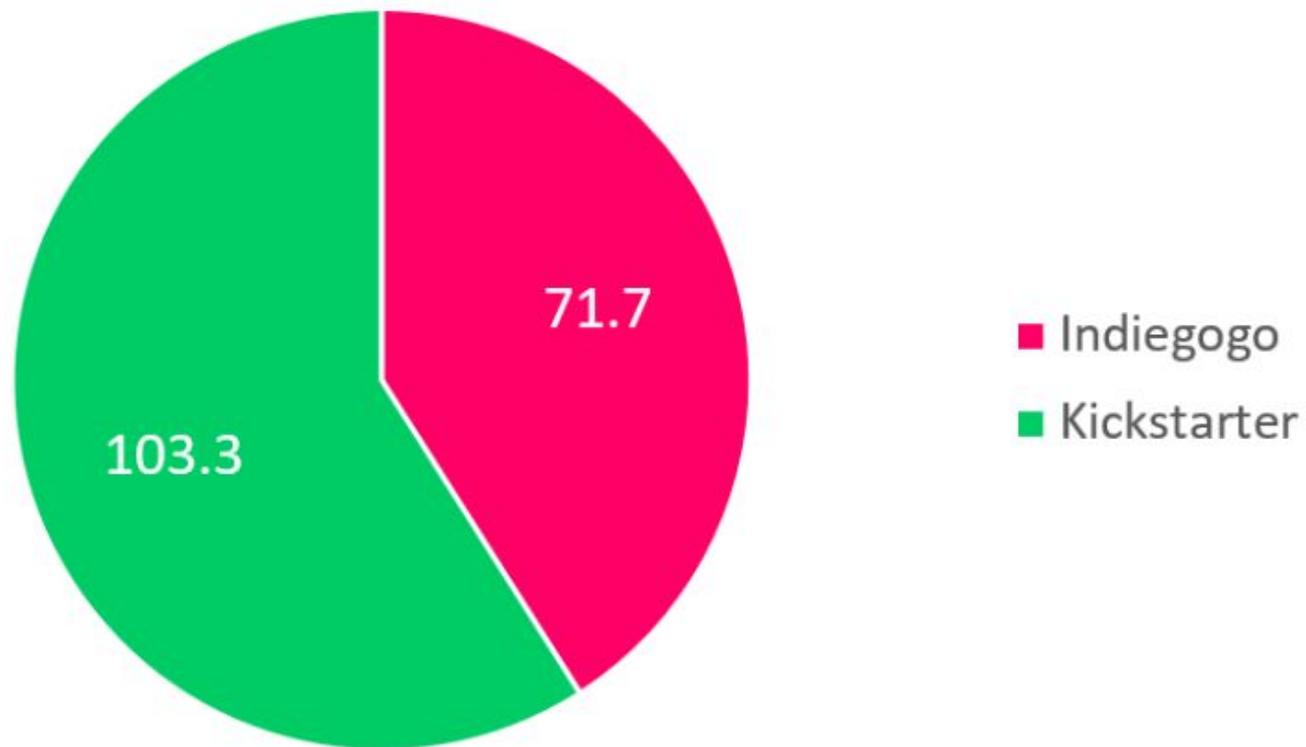
- IndieGoGo's, *In-Demand* option allows campaigns to continue collecting funding after their campaign ends (providing you've achieved your goal).
- It's a move that sees IndieGoGo transformed into a marketplace, where you can have your page and enjoy getting funds for your perks.
- You can also place a project on IndieGoGo's In-Demand after a successful Kickstarter campaign.
- **Secret Perk** feature
 - You can create tailored perks for specific groups of people, which will not be visible to others.
 - Works great if you want to incentivise your subscribers and provide them with additional limited benefits.
- Kickstarter has other features like Projects We Love. Here, staff members manually pick the projects they like, giving more credibility to the project and a boost in views.
- One of the staff picked projects then becomes the Project of the Day and gets featured on the front page, so that's yet more traffic.
- In 2016, Kickstarter introduced a feature called Kickstarter Live where creators can engage with their backers in a real-time video streaming.



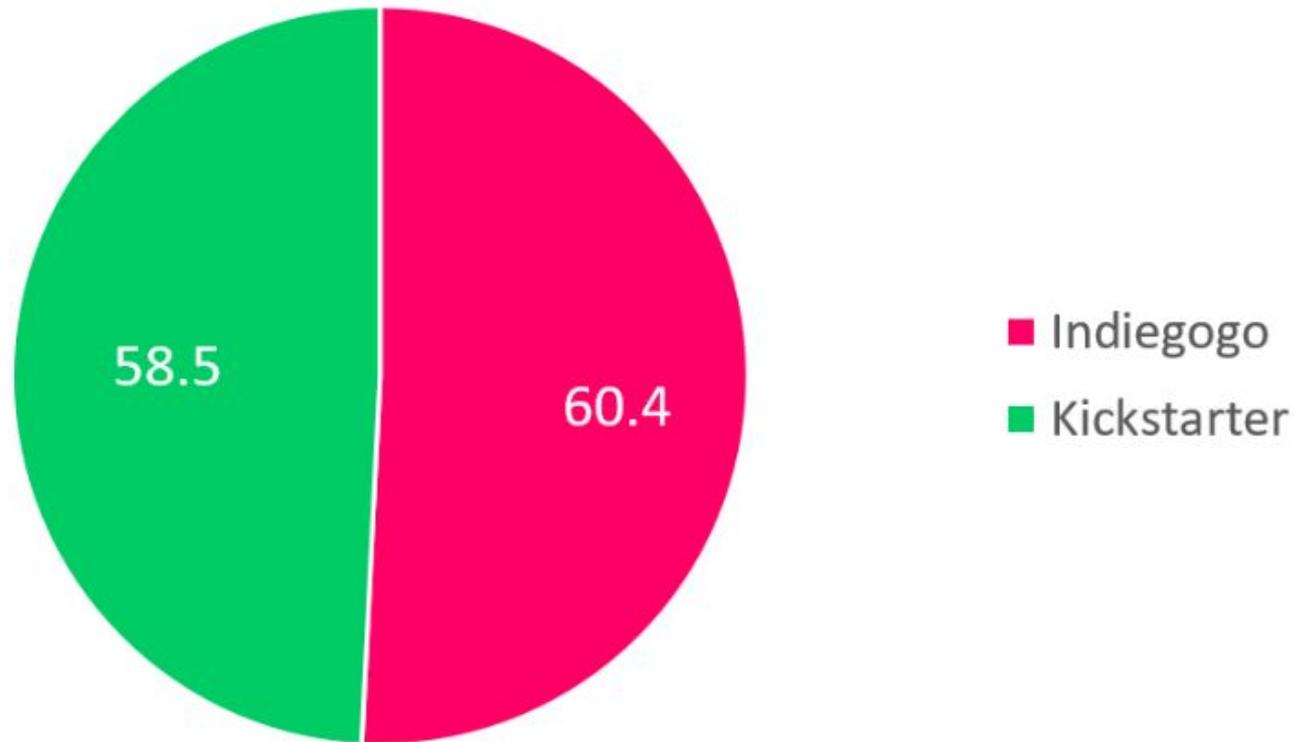
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Total Monthly Funding for the Top 500 Projects



Technology and Design Categories



Useful Platform Resources

- Creators Handbook - Kickstarter

https://www.kickstarter.com/help/handbook?ref=start_handbook

- Our Rules - Kickstarter

https://www.kickstarter.com/rules?ref=start_rules

- How It Works - IndieGoGo

<https://www.indiegogo.com/how-it-works>