

BUSINESS TECHNICAL BRIEF

SUCCESSFUL CROWDFUNDING CAMPAIGNS

As of May 6, 2021

HIGHLIGHTS

- Crowdfunding is an option for businesses who either can not or choose not to take on debt.
- Create a strong story that connects emotionally with the viewer.
- User your marketing assets to build traction.
- Be specific in your target amount.
- Plan your campaign well in advance of when the funds are needed.
- Make sure the reasons and timeline for your ask are legitimate.
- Be sure to engage qualified legal and accounting advisors.

Figuring out ways to finance a company's growth can be challenging. On one hand, many entrepreneurs don't want to take on debt. On the other hand, many entrepreneurs also don't want to relinquish decision making authority or voting control of their vision.

Herein lies the problem. Every business needs money to operate. Every business needs to finance operations and growth. There are only two ways to finance growth: debt or equity.

If a business lacks net worth, the entrepreneur can't inject personal capital, the company is already leveraged, or cash flow is tight but a market opportunity is staring you straight in the face, equity financing may be the only source.

Attracting equity from angels, venture capitalists, or IRS-qualified (accredited) investors can be restrictive, expensive, or they may want control. The solution may be traditional or investment crowdfunding. The following details options when considering traditional crowdfunding using platforms such as Kickstarter or GoFundMe.

First, know the law as it relates to crowdfunding.

Law varies by state. In Montana, the Office of the Montana State Auditor and the Commissioner of Securities and Insurance (CSI) oversee compliance with crowdfunding law (HB 481) passed in 2015. Read more on the CSI website: <https://csimt.gov/securities/capital-formation/equity-crowdfunding/>

Second, create a strategy to see the campaign through to success.

Below are the strategic recommendations of Montana Small Business Development Center (SBDC) advisors who've helped orchestrate successful crowdfunding campaigns.

- **Create a strong story** that connects emotionally with the viewer.
 - The best way to do this is with a 2-minute video that, in bold language, shows:
 - A distinct plan and clear goal.
 - The progress that's been made in the planning process.
 - What you've done to get to this point – in other words, a status report.
 - An identified timeline to achieve the goal.
 - Why you're qualified to see the idea through to produce a product or service.
 - What is in it for the donor and what's the identifiable benefit to the target customers and community.
 - Match potential of an "anonymous" donor. Perhaps that's you.
 - ****The goal with the video is to engage potential donors and motivate them to be a part of the project.****
- **Build traction**, beat the street, sell the idea – generally – prior to launching the campaign.
 - Most, if not all, of your audience will be local. We've been told social media plays a major role. 15-20 primary "sharers" help spread the word and build enthusiasm.
 - Direct selling with the target audience is also encouraged.
 - "Free" media from a press release sent to local TV, newspaper and radio stations.
 - Email distributions to a target audience.
 - Newsletters, blogs, social media posts to raise awareness of the upcoming campaign.
 - ****The goal here is to build enthusiasm – generally – before the campaign launches.**
 - ****A good rule of thumb is to have 25% of the goal committed prior to launching the campaign.**
 - ****A typical conversion rate on warm leads is 5%. If your email database from the old store is available, those are very warm leads.**
- **Be specific in the target amount**, keep the goal as small as possible, show exactly what the donation will be used for.
 - SBDC advisors who've worked on successful campaigns argue \$50,000 is likely too large an amount to seek through equity crowdfunding. So think about this as a tool for attracting capital under \$50,000.
 - Generally, people aren't interested in helping cover startup costs. They want something in return and are interested in helping complete a very specific project.
 - Are pre-sales an option?

Successful traditional crowdfunding campaigns take time, effort, and seed capital. Plan the campaign well in advance. Make the ask for legitimate reasons with legitimate timelines so funders see a real return on their investment, regardless of how small it may or may not be.

The last thing a company wants to see is a negative result turn into negative brand impacts. But if you do it right and do it well, crowdfunding is a great way to attract equity to finance a company's growth.

For more on investment crowdfunding, [here is a link to an Investopedia article](#) with some details. Investment crowdfunding is different than traditional crowdfunding. It can be used to raise debt or equity that may include sale of ownership in the company. Dollar amounts are generally higher as well. Investment crowdfunding platforms include WeFunder, Crowdfund Mainstreet, and others.

In closing, it is critical to have qualified legal and accounting advisors to assist with the implications of capitalizing a business through investment.

The Great Fall Development Authority (GFDA) is a regional public/private Economic Development Organization which focuses its efforts on the 13-county Great Falls Montana trade area, also known as Montana's Golden Triangle. We are a certified Community Development Financial Institution (CDFI) that provides gap and bridge financing to businesses, start-up entrepreneurs, real estate developers, and non-profits.

We provide service to support existing businesses, startup entrepreneurs, real estate developers, nonprofits, site selection consultants, and businesses looking to relocate or expand in the Golden Triangle region.

Economic Development Services

- Get the debt/equity capital you need
- Grow sales, expand markets and increase profitability
- Find sites/properties for startup and expansion
- Assess the market and workforce with our proprietary databases
- Secure project approvals, grants and other incentives
- Develop Business plans and assess your current operations
- Grow into government contracting or exports
- Connect with a wide array of experts
- We provide SBA 504 loans statewide

For more information about this topic, contact:



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