10 TIPS

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FOR CROWDFUNDING YOUR BUSINESS

California Small Business Development Center Network

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Crowdfunding—raising funds from "crowds" of individuals online via websites like Kickstarter and IndieGoGo—has been used to finance thousands of projects, inventions and businesses in the past few years. Now, a provision of the recently enacted JOBS Act, called the CROWDFUND Act, will greatly expand entrepreneurs' ability to raise money by crowdfunding. Here are 10 steps to successful crowdfunding.

1. **Consult a professional.** The CROWDFUND Act seeks to lower the cost of raising capital by exempting companies raising $1 million or less from registering their offering with the SEC. But although you are exempt from registration, you're not exempt from regulation. Always consult with a professional investment consultant or attorney versed in securities law before embarking on any crowdfunding venture.
2. **Understand the two types of crowdfunding.** Previously, crowdfunding sites could be used only to get *donations* (or pledges). The CROWDFUND Act expands the options by allowing entrepreneurs to solicit investments of up to $1 million annually via crowdfunding websites. Unlike donors, these investors actually own a piece of the company and can realize a return on their investment if the company succeeds.
3. **Don't jump the gun.** The process for crowdfunding donations hasn't changed, but the SEC regulations regarding crowdfunding investments and nonaccredited investors won't be set until January 2013. You will be able to crowdfund from accredited investors (those whose net worth, excluding the value of their primary residence, is over $1 million) beginning July 4, 2012, but you will have to wait until after January 2013 to solicit nonaccredited investors.
4. **Research your options.** Make sure the crowdfunding site you choose meets the requirements of the CROWDFUND Act. Crowdfunding investments must be solicited through sites that are registered with the SEC, conduct background checks on companies seeking investments, and screen investors to confirm that they understand the risks involved.
5. **Beware of scams.** Interest in crowdfunding is high, and the CROWDFUND Act is not yet implemented, which means the market is ripe for scam artists. Be very cautious about anyone claiming they can help you raise capital online for a fee.
6. **Create a compelling pitch.** If you're crowdfunding donations, your fund-raising pitch should focus on emotions and get donors excited about your business, your product or service and your entrepreneurial passion. If you're crowdfunding investments, your approach should focus on the bottom line and the potential for investors to make money.
7. **Offer rewards.** For investors, the reward is the profit they make from your company, but for donors, you'll need to offer rewards such as product samples, T-shirts or promotional items, or discounts. Develop different rewards for donors depending on how much they contribute.
8. **Spread the word using social media, marketing and PR.** Don't limit your search for funds to the people who frequent the crowdfunding site you choose. Create an integrated marketing campaign that tells everyone you are looking for financing—and makes it simple for them to tell others.
9. **Create a video.** Make your company stand out from the pack by creating compelling pitch videos—one for donors and one for investors. Post them on your website, the crowdfunding site and YouTube—and increase your chances of going viral.
10. **Share information.** If you crowdfund investments, the SEC regulates how you communicate with investors. Even if you crowdfund donations, you'll want to regularly update donors on how your company is doing, the progress of your product or service, and any other news that makes them feel part of your success.

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