

# Crowdfunding for startups: Selling the rewards

The Wall Street Journal Online (August 18, 2012) has spoken: *“Supply and demand, product design and development and marketing, basically everything we know about making and selling goods—Crowdfunding has potentially upended all of it.”* David Tomlinson explains.

## Crowdfunding – what is it?

Crowdfunding is not new.

It is almost self-explanatory: a method of raising money from many people to help fund an event, a project, person or product – with extra benefits thrown in for the funders. Politicians have been raising campaign finance from supporters like this for years.

There are two distinct forms of crowdfunding: pledge or donation based, typically in return for unique rewards, and equity crowdfunding, which will allow start-ups to raise early stage equity capital.

To date, pledge based Crowdfunding has been used to launch a new product, kick-start a film, or finance a band's new album.

## How does it work?

Here's an example: In May, crowdfunding site Kickstarter made worldwide headlines. Makers of the Pebble smartwatch, which can communicate information from the wearer's smartphone, launched a campaign to raise \$100,000. For a pledge of \$115 or more backers would receive a Pebble Watch, effectively allowing them to pre-order the \$150 watch at a discount. Within two hours of going live the project had met the \$100,000 target and, incredibly, six weeks later when funding closed, over \$10 million had been raised.

## Benefits to New Zealand business

Recently, interest in crowdfunding has been further galvanised by the passage of the US Jumpstart Our Business Start-ups (JOBS) Act, which facilitates equity based crowdfunding by requiring less arduous requirements around disclosure and reporting.

Many think equity based crowdfunding has the potential to be far bigger than pledge based crowdfunding. After all, wouldn't you like to have shares in that Pebble watch company?

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Given that the numbers don't stack up

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for smaller capital raisings, the promotion and raising of capital needs to utilise advances in technology, the Internet and social media to reduce the expense and regulatory hassle.

Furthermore, to a large extent any bad actors will be exposed through the transparency afforded by the power of social networks.

Crowdfunding can help large corporations too. “For big brands, raising money matters less than gaining information about customers or generating good PR,” says Slava Rubin, a founder of Indiegogo; and “Crowdfunding is a good way to test consumer demand,”

says Hal Varian, Google's chief economist (Economist, June 16, 2012).

Just as John Dillinger robbed banks because “that was where the money was”, if you are going to crowdfund you might as well go to where the crowds are. For this reason crowdfunding is an obvious match with sports and entertainment.

Way back in 2003 racing driver Justin Wilson financed his F1 Minardi drive through a public share offer, raising £1.5m – perhaps one of the first and most successful crowdfunding campaigns.

Similarly, my companies ThrillCapital and ThrillPledge are involved in equity and pledge based crowdfunding for sports and entertainment. Our big hairy aim is to be a “kinder, gentler” Goldman Sachs meets IMG meets Facebook; a private, more nimble version of SPARC. We give fans the chance to literally own a “piece of the action”, get some skin in the game and have a great insider, “fly on the wall” experience.

Backers get bragging rights down at the pub and a share in the career of the next Indy 500, US Open contender or up-and-coming filmmaker, while the up-and-coming talent gets the funding he or she needs to take their career to the next level.

While an association with sports and entertainment talent can provide a door opener to NZ exporters looking to showcase their businesses globally, equity based crowdfunding has a far more direct benefit to NZ business.

As EMA's Kim Campbell says, “Now we need a plan of action to galvanise business investment in innovation as it represents their best chance for making money and employing more people.”

Equity based crowdfunding legislation needs to be a part of that plan.

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