

June 2015

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Follow The **CROWD**

*A Crowdfunding Guide
For Entrepreneurs*



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"Surround yourself with people who believe in your dreams."

"Don't follow the crowd!" These four words capture the traditional advice given to entrepreneurs and is usually sound advice.

"The woman who follows the crowd will usually go no further than the crowd. The woman who walks alone is likely to find herself in places no one has ever been before" is among a plethora of quotes that underscore the importance of going it alone and charting one's own destiny.

However, when it comes to exploring new financing channels; following the crowd, or at least pursuing the crowd for funding is certainly an option to

place at the front burner particularly for entrepreneurs in the region where traditional financial institutions are not configured to provide the types of financing required by start-ups to chart sustainable growth.

The possibilities that crowdfunding hold for raising capital and opening up doors and opportunities for OECS start-ups and small and big companies is to say the least hugely exciting and can provide many OECS entrepreneurs with a fighting chance to make it onto the playing field.

It is difficult to measure our competitiveness if many prospective entrepreneurs don't get a fighting chance to take their first step into the

world of business.

Your Financial News sat down with an indomitable entrepreneur, Ms. Telojo 'Telly' Onu, to explore the ins and outs of crowdfunding and the possibilities that lie ahead for the OECS. *SLW*

CREATE

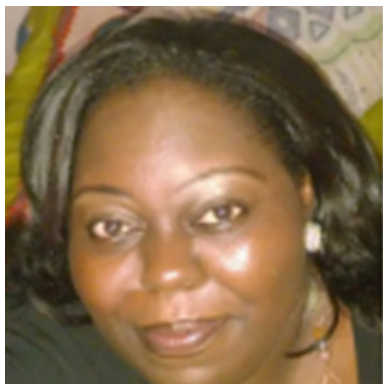
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COMMUNITY

COMMUNICATE

EFFECTIVELY

INS AND OUTS OF CROWDFUNDING WITH TELLY ONU



Ms. Telojo Telly V. Onu Managing Director, Quintessence Consulting Inc.

YFN: Many businesses have identified access to financing as a major obstacle to moving their businesses forward. Is crowdfunding the financing solution for businesses in the OECS?

First of all it is important to understand what crowdfunding is.

Crowdfunding is a form of community financing that is participatory and uses internet based platforms to raise capital.

There are many types of crowdfunding models.

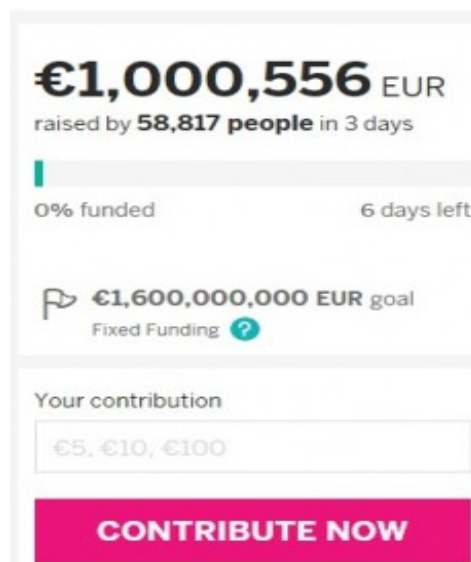
There are some that are like loans where everyday people

offer a small loan of \$100, \$200, \$300 in return for the repayment of the funds loaned with interest income at a future date.

Then there are other models that are based on donations similarly to when a group is fundraising for a social activity - You ask people to give you a donation.

Other crowdfunding models are based on rewards. These rewards can be a letter of gratitude; or they can be in the form of a product. One of the recent famous examples is one where a young lady was crowdfunding to save Greece and she was offering Greek yogurt and other Greek products. If your business is product based, you can also offer your products as the reward so that it becomes part of your presales.

Then there is the equity based crowdfunding model that takes into consideration



Greek Bailout Fund campaign. The EU is home to 503 million people. If everyone contributes just over €3 each, the goal of 1.6b would be attainable. The campaign closes on 6th July 2015.

profit sharing. In this case you are offering the investor shares in your company in exchange for funding. Internationally, (in the US and Europe) this type of crowdfunding has attracted some sort of regulation because it is tantamount to competing with an accredited investment platform like a stock exchange and it is raising money from ordinary people instead of accredited investors.

There is also a newer crowdfunding model – royalty based crowdfunding. This model is good for businesses that have very good cash flows. Investors provide the business with an advance against the business' revenues and in return the investor gets an opportunity to earn a percentage of the business' future revenues (royalties).

YFN: What are the Pros and Cons of the various models?

For the crowdfunding that involves lending, like with any type of debt financing, there is a risk to the investor. An investor offering a loan bears the risk of not getting his money back.

For someone taking an equity stake in a company, additional due diligence is required and the extent of the due diligence depends on the type of investment. Some investors look at the business or the person who is requesting the investment and others focus on the

feasibility of the project. That is why countries are putting regulation in place because investors need to know or have some experience in investing to make those decisions. One of the fears is that someone who does not have investment education, takes his or her last savings and invests in an equity based crowdfunding venture without knowledge of the risks.

For those pursuing the donation route, the risk is to the person running the campaign, it is really about one's credibility. If you say you are going to raise funds, you have to be honest about the purpose. If you are raising funds for health make sure you state that clearly, likewise if it is for a business project. In as much as you are not paying back the funds you have to show what type of progress you have been able to make with the invested funds. If you do not do that you will not end up with a good reputation.

Reputation capital is critical regardless of the model used. Like with any business venture you have to maintain the relationship with your investors by letting your investors/funders know what is happening and keeping them informed.

YFN: Are crowdfunding sites like Kickstarter, GoFundMe and Indiegogo suited to our purposes in the region?

I believe that sites like Kickstarter and Indiegogo would be the ones that persons are most familiar with. Most of the crowdfunding sites that exist are more focused on specific geographic locations. Many based in the US require that you have to be a US company/organisation in order to launch a campaign.

YFN: But sites like Indiegogo are global. You do not have to be based in the US, right?



That's right.

YFN: What considerations should one take in choosing

Top 10 Crowdfunding Sites

This list is based on independent traffic data found on [Alexa & Compete](#).

Source: <http://www.crowdfunding.com/>

TOP 3					
Rank	Crowdfunding Site	2014 Volume	US Alexa Rank	Fee	Important to Know...
1	 gofundme	\$470M	244	5%	Over \$1.25 Billion raised for personal fundraisers. Processing fee of 2.9% + \$0.30 applies.
2	KICKSTARTER	\$444M	191	5%	Personal fundraising <u>not allowed</u> . Creative only. Processing fees of between 3-5% apply.
3	 indiegogo	???	709	9%	Fee is 9%. Only if goal is reached 5% is refunded. 3% processing fee. \$25 fee for international wire.

a platform?

What you have to bear in mind is that it is a platform and like any other platform there is a cost. The cost is usually a percentage of whatever you make and there may be other fees. Many platforms take up to 10% of the funds raised as their fee. It is only free to sign up.

When you are exploring platform options one has to look at the cost of capital. How much will you be charged to use the platform and what will you be getting in return?

Some sites will also charge

an upfront fee to prepare the pitch. What we find, is that some persons will say I can put together a crowdfunding campaign but fail to realise that crowdfunding entails branding, marketing, and preparing your plan. It bears some semblance of a business plan and investment pitch deck. It is similar to preparing documents for an investor. Many platforms offer fee based services to assist businesses in putting their documentation together.

YFN: Some sites have a policy that if you do not reach your target you don't get the funds. Is this a

compelling reason for businesses to develop their own proprietary crowdfunding site?.

That is the reason why some start-ups incorporate a crowdfunding platform into their site.

YFN: In the wider Caribbean, there are several crowdfunding sites like Pitch & Choose, Carib Direct and IsupportJamaica.com however, currently we do not have a crowdfunding site for the OECS.

I am working on changing that. In fact one should be coming very soon.

YFN: Why has crowdfunding been slow to catch on in the Caribbean?

One of the reasons why it has been slow to catch on in the Caribbean is that crowdfunding is centered around networking. If you are not familiar with networking or your networks are small or you are not the type of person who is into networking, you will find that if you launch the campaign without a strategy to raise awareness about yourself and your campaign there would not be much traction.

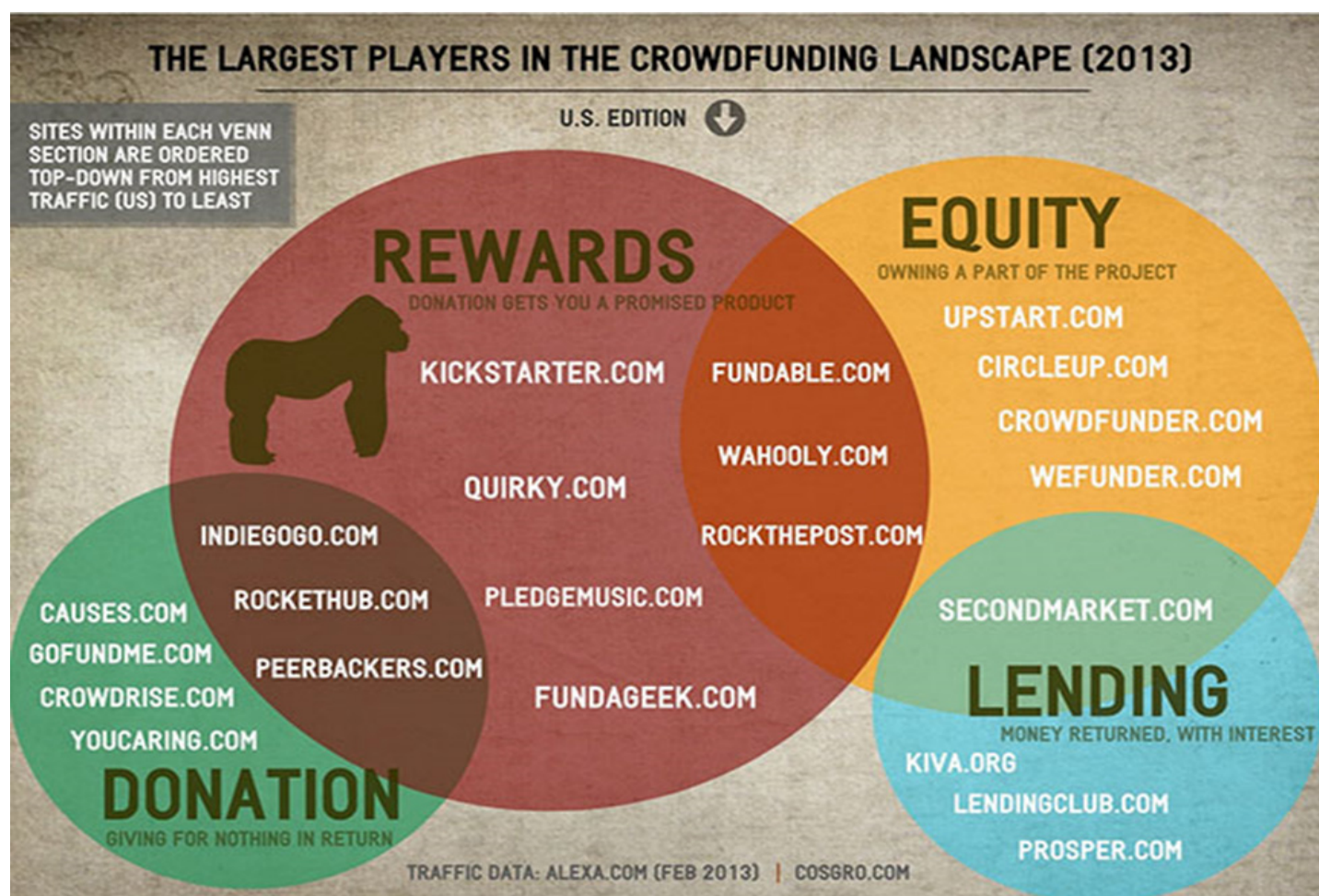
YFN: How would you describe your journey and your experience into crowdfunding?

I've been involved in crowdfunding in terms of supporting entrepreneurs on crowdfunding sites like Indiegogo and Kickstarter and I have helped create brands and finance packages for small entrepreneurs, getting them investment ready and getting them to

launch their campaigns. These have been great experiences. Once persons can tap into their networks and get persons to contribute \$20 or \$50, that is significant. If you think about someone who has networks of over 1000 and over 300 persons contribute, it does add up. My experience is that depending on the type of project one can raise between five to twenty thousand dollars using the donation model. When you look to raise significant capital for large projects you are moving to the next level which may entail the equity or the newer royalty type model. That is why the equity based financing has attracted the attention of the US with persons raising millions on these platforms. Even now, at least internationally, banks are beginning to take interest.

On a personal level with crowdfunding, I had an invitation to attend the Money Conference in Belfast

June 15-16. This is the largest conference that deals with financial technology. I received the invitation about a week and a half before the event and since it was unplanned I didn't have a budget for that trip. However, last minute I decided that it was a good opportunity because of the initiatives in which my business partner and I were engaged. We decided to launch a crowdfunding campaign to raise the funds to assist with us attending the conference. We discussed various platforms that we could use - Indiegogo, Kickstarter and even Buzzbnk in the UK. Eventually we decided that since we were in the process of developing a crowdfunding platform even though we had not launched the model yet, we should incorporate that aspect of the crowdfunding platform on our own website. We spent the night coding and then launched the campaign Wednesday at 10:00 a.m.



considering we had to travel Saturday/Sunday. By the Wednesday evening we had raised US\$1000; by Friday we were up to US\$3500. We bought our tickets and travelled. For us that proved the concept that it works in the region because my networks were in the OECS.

YFN: What are some of the common pitfalls that persons make in trying to raise funds via crowdfunding?

Not adequately preparing their pitch. Not articulating what they want, what they are doing, where they are going.

If the model is a donation rewards type it has to be reasonable, achievable, and attainable.

YFN: Could you spend more on rewards than the funds raised?

Correct. I have seen some campaigns where the

rewards are expensive t-shirts, mugs, etc. Persons have to factor into the funds needed the cost of the donations. Sometimes one has to be creative. In my case I offer free services for a month or so as rewards. You have to be within budget and within reason. For a person who sells products one of the ways is to factor in offers of one's product as product sales.

One of the approaches that persons should adopt is to research what is out there already and take lessons from the best examples. There are numerous examples to look at. Why reinvent the wheel? The way successful persons layout and present their pitch can be used as a guide to help you in your crowdfunding efforts.

YFN: Does the lack of a lot of crowdfunding sites in the Caribbean suggest that we are not good at technology or networking?

It is a signal that when it comes to new innovation in the Caribbean we are not early adopters and we are risk averse. We tend to adopt a wait and see approach. We tend to wait until things are well beyond proven before getting involved. It also signals something else. I think the region has had years and years of exposure to financial literacy in relation to savings but very little in relation to investments. It

signals the need for investment awareness and education.

YFN: But we are accustomed to partner hand/susu, albeit for consumption not investment. Why haven't we gravitated to crowdfunding for investments given our complaints that access to funding business projects is difficult? One would think that given our challenges in accessing traditional financing channels we would readily gravitate to participating in and developing crowdfunding ventures.

We are not making the link. I think it comes back to raising awareness about investments and focusing on investment education. I think in developing crowdfunding we have to develop the eco-system for investments and we cannot develop the eco-system without education. Education on what crowdfunding is; the type of

model and how to go about getting ourselves ready for crowdfunding. Once persons are empowered with the knowledge and the know-how, you will begin to see the gradual start-up of more crowdfunding ventures. When you ask entrepreneurs, '*What are your options for the financing?*', they will say 'I go to the bank'. They fail to realise that their start-up businesses are way too risky for banks. The business needs to prove itself first. Crowdfunding is good for start-ups. Even encouraging partner-hands or susus within the context of business is something that the region should be promoting. We sometimes take for granted that we already have the tools and that the only problem is that we are not using them. Maybe we need to be shown how to start using the tools that reside within our reach. That is why investment literacy is so important.

YFN: In relation to the

security of people's information what measures are built into your proposed OECS Crowdfunding platform?

In the region e-commerce has been around for decades so we rely on the Master card/ Visa card network to handle e-payments.

We know that internationally these e-payment systems have

passed certain protocols and rigours.








YFN: What are your expectations in looking ahead and what can the OECS look forward to in relation to participating in a crowdfunding platform spearheaded by your company?

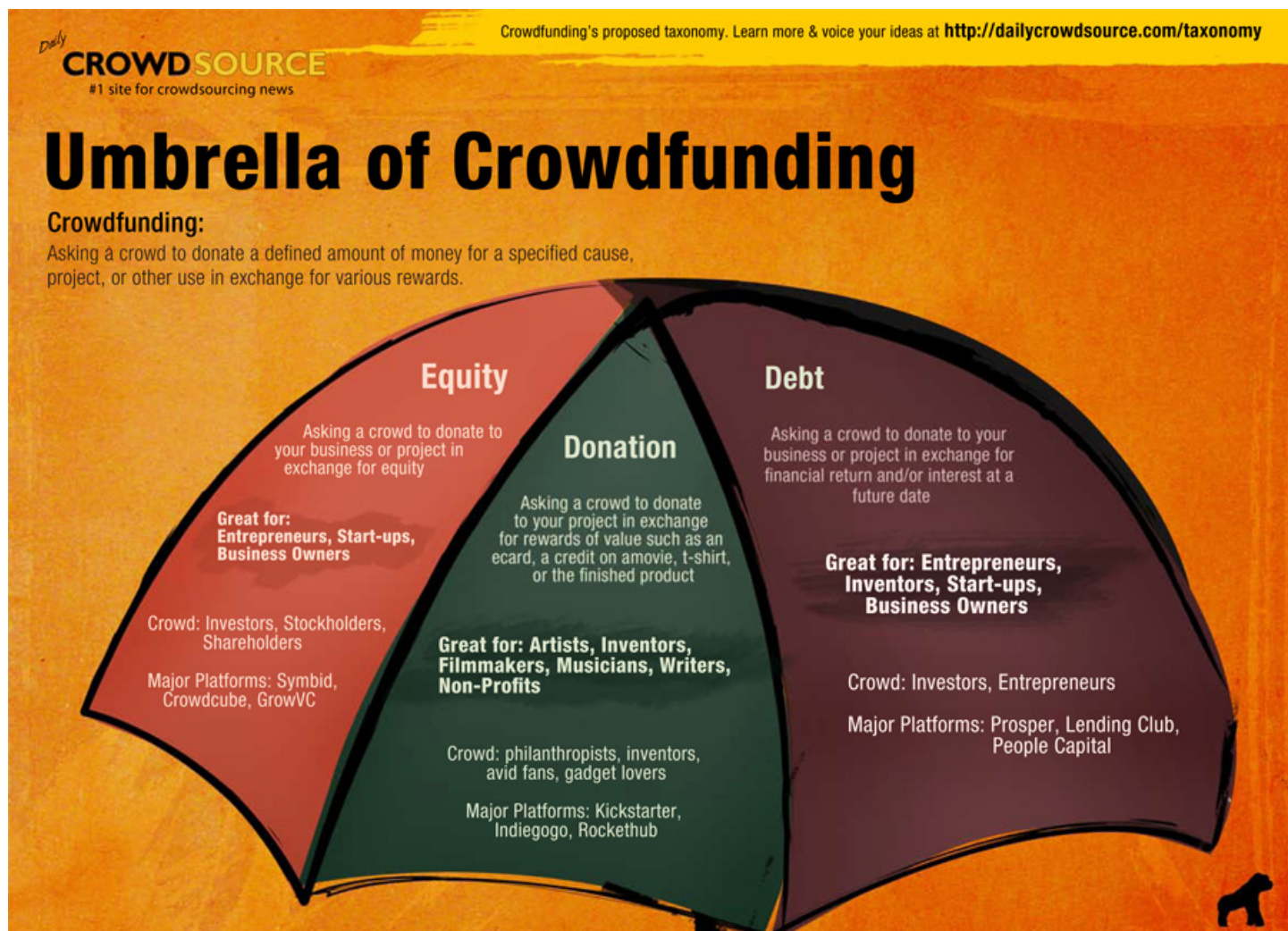
We envision instituting a pipeline of initiatives that

would support and sustain the growth of the OECS businesses and specifically through our financial technology company, Royalty Capital. We expect to power an OECS crowdfunding platform with the aim of increasing the region's access to growth capital and supporting overall growth and development in the OECS.

Top 10 Crowdfunding Sites

This list is based on independent traffic data found on [Alexa & Compete](#).

Rank	Crowdfunding Site	US Alexa Rank	Compete Rank	Fee	Important to Know...
4	 teespring	1,264	823	10%+	T-shirt crowdfunding site. Fees vary based on t-shirts selected for sale
5	 patreon	1,453	2,378	5%	Must pledge an on-going amount. Creative projects only. Additional processing fee of 4%
6	 YouCaring.com	2,421	2,110	5%	5% fee is suggested to campaign donors. Processing fee of 2.9% + \$0.30 applies.
7	 crowdrise™	6,013	4,703	5%	Free accounts charge 5%, paid accounts are 3%. Processing fee of 2.9% + \$0.30 applies.
8	 DonorsChoose.org	8,178	6,467	15%	Optional 15% fee to support DonorsChoose.org. Donation is 100% tax-deductible.
9	 KIVA	6,079	5,946	15%	15% fee is suggested to campaign micro-lenders. Processing fee of 2.9% + \$0.30 applies.
10	 Giveforward	9,779	4,169	5%	5% fee is charged to campaign creators. Processing fee of 2.9% + \$0.50 per transaction applies.



5 Tips When Considering Crowdfunding To Finance Your Next “Big” Idea

1. Clearly establish or understand the process through which financing can be secured.
2. Be specific about the project and your requirements.
3. Establish a deadline by which support should be given.
4. Establish a rewards system.
5. Provide updates and feedback.

See more at: <http://www.ict-pulse.com/2012/08/5-tips-crowdfunding-finance-big-idea/#sthash.KpeaKPTA.dpuf>