

# Is Crowdfunding Right For You?

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Prepared by Lindsay Hart, Sandeep Pillai, Sean Tyler, Mikayla Wicks  
under the supervision of Professor Dilip Soman

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## CORRESPONDENCE

Dilip Soman  
Director, India Innovation Institute  
University of Toronto  
105 St George Street  
Toronto, ON M5S 3E6  
Email: Dilip.soman@utoronto.ca

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### I. Executive Summary

Perhaps one of the key enablers of an effective innovation engine is the presence of adequate financing that allows new ventures to launch, scale and expand their offerings. In the past couple of years, in India and indeed the rest of the world, Crowdfunding has emerged as a simple and innovative online tool that provides small businesses and start-ups with opportunities to increase their social media presence, investment base, and funding prospects. Crowdfunding has been used to fund activities that range from social enterprises<sup>1</sup>, creative arts<sup>2</sup> and more traditional inventions (see Appendix for case studies). In this report, we

- a) Review and analyze Crowdfunding initiatives
- b) Identify conditions under which it might be particularly successful
- c) Describe a process for implementing a Crowdfunding strategy
- d) Provide some case studies, and raise some issues for how this nascent model might evolve over the next few years

Crowdfunding permits one party to finance a project using contributions received from multiple other parties. Three models of Crowdfunding have emerged: the *Donation Model*, the *Investment Model*, and the *Lending Model*. In each of these models, donors provide a contribution in exchange for some type of value. For the donation model, donors receive an intangible personal benefit associated with participation; for the lending model, donors are paid back their contribution with monetary or material rewards; and finally, for the investment model, donors receive equity in the invested business or start-up.

Under existing security laws in Canada, it is illegal for a company to sell equity through Crowdfunding, thereby preventing Canadian businesses from utilizing the investment model. However, Canadian firms have begun lobbying to change security laws and, recently, the Ontario Securities Commission published Consultation Paper 45-710: *Considerations for new Capital Raising Prospectus Exemptions*. Though this paper represents a positive step forward, Canada will risk falling behind Europe and the US, both of which have begun to legally implement Crowdfunding, if Canadian regulators fail to act quickly.

Despite the current legal unknowns, we have identified several key elements that a business can leverage in order to implement a successful Crowdfunding campaign. For instance, a campaign must successfully identify and understand its “crowd” and must recount a compelling, shareable story to that crowd. The campaign must have a specific goal and must utilize the most appropriate online Crowdfunding platform for its particular marketing strategy. It is also important that Crowdfunding campaigns are launched with a big, fast start.

Furthermore, for a company to extract maximum value from its Crowdfunding campaign, it is recommended that they have one or more of the following characteristics: companies must be interested in product pre-sales, particularly to finance manufacturing; companies should be early stage organizations or individuals with a specific project; companies should be willing to do their own marketing and have an outlet to reach people; and companies should lack sales infrastructure, such as a payment processing options. Overall, companies that fit this profile are the most likely to successfully capture donor interest through a Crowdfunding platform.

Crowdfunding can be a valuable tool for businesses, but must be implemented carefully, strategically, and intelligently. Accordingly, the following report serves as a guide to those who wish to pursue Crowdfunding. The report examines the pros and cons of Crowdfunding and provides a guide to finding out whether or not Crowdfunding is right for your business. We not only examine successful Crowdfunding case studies under different Crowdfunding models, but we also present a checklist and a “how to” guide for launching a successful and innovative Crowdfunding campaign. We also present a number of questions and unresolved issues that will animate discussions with respect to how Crowdfunding is adopted around the world going forward.

## 2. Introduction

Crowdfunding is an emerging and innovative online platform that provides small businesses and start-ups with opportunities to increase their social media presence, investment base, and funding prospects. Throughout this paper, we examine the pros and cons of Crowdfunding and provide a guide to finding out whether or not Crowdfunding is right for your business. We examine successful Crowdfunding case studies and different Crowdfunding strategies, be it the equity, donor, or lending model. We also present a checklist and a “how to” guide for launching a successful and innovative Crowdfunding campaign. Finally, we raise a number of questions that speak to the implications of Crowdfunding to initiatives across economies.

## 3. What is Crowdfunding?

In one of the earliest definitions, Rubinton et. al define Crowdfunding as “dis-intermediated investment banking.” However, in simpler terms, “Crowdfunding is the process of one party financing a project by requesting and receiving small contributions from many parties in exchange for a form of value to those parties.”<sup>3</sup> Crowdfunding connects investors with small business start-ups and projects through an online transaction portal that removes barriers to entry and serves as the main point of connection.

Just like an investor financially supports a company by buying shares in the stock exchange for profits, Crowdfunding allows investors to financially support a project through an online portal in exchange for benefits. The type of benefit that the investor earns or receives from the project defines the three Crowdfunding models:

1. *Donation Model:* Much like an online charitable donation, individuals make a financial contribution to a project without any expectations of financial benefits. In this model, the contribution is a direct result of the donor’s interest in the cause being addressed by the project. Currently this is the only form of Crowdfunding that is legally permitted in Canada. Furthermore, studies have shown that “donation-based Crowdfunding initiatives raised the most money in 2011, totalling \$676 million (USD) from platforms around the world.”<sup>4</sup> To incentivize donations under this model, donors often receive small gifts or rewards.
2. *Lending Model:* In this model, an investor will loan money to a project with the expectation of being repaid (in cash or in kind) under terms agreed upon before the transaction is made. Often, agreements are analogous to bank loans, where the principle plus interest is paid back within a certain time frame. Other types of agreements require the recipient to pay back only if the project is successful.





This form of Crowdfunding has become increasingly popular: “Lending-based Crowdfunding accounted for \$522 million (USD) of the Crowdfunding monies raised globally in 2011, making it the second-largest form of Crowdfunding in terms of the amount of money raised.”<sup>5</sup>

3. *Investment Model:* In this model, the investor receives an equity stake in the project in which they choose to invest. Due to the legal restrictions placed on this by provincial governments, in conjunction with the Canadian Securities Administrators (CSA), this model is not yet permissible in Canada.<sup>6</sup> This paper’s content and analysis will focus largely on the equity-based Crowdfunding model, as this model is gaining prominence and popularity throughout North America and Europe.

### 3.1 The costs of Crowdfunding

A firm’s decision to raise capital through Crowdfunding depends on the other fundraising options available to the firm. In cases where all other avenues of raising capital have been eliminated, choosing to implement a Crowdfunding campaign is a straightforward decision. However, in situations where other fundraising options are available, a firm should compare the costs and benefits posed by Crowdfunding in comparison with other options.

Despite its many benefits and potentially ground-breaking success, Crowdfunding has its own set of costs that must be accounted for before deciding to proceed with this fundraising option. Some of the costs of Crowdfunding include:

- **Investor Management Cost:** Managing a Crowdfunding campaign is a resource intensive proposition. The company has to manage its relationship with, potentially, thousands of investors at the same time. This is much more expensive and extensive than any traditional format of fundraising where the firm has to only manage its relationship with a handful of venture capitalists or angel investors. Oftentimes, start-up firms with limited staff and finances may not be able to support the resource requirements of running a successful and *accountable* Crowdfunding campaign.
- **Product Disclosure Cost:** Venturing into a Crowdfunding campaign requires the firm to provide details of their product to the public. This includes technical details, an implementation strategy, and timelines. Essentially, all the relevant information about a product must be disclosed. This presents a risk, as any competitor can make use of this information and threaten to produce an alternative solution to your product.
- **Product Commitment Cost:** In the lending model, oftentimes there is a pre-commitment to deliver the product within a specific timeline. The firm usually makes this pre-commitment when it has no experience delivering the product or service. This is a costly commitment that puts the reputation of the firm on the line right from the beginning.
- **Equity Costs:** In the investment model, the firm has to give up equity, which can at times be costly for the firm. In cases where Crowdfunding only partially finances the product, the market interest for the product from a successful Crowdfunding campaign can be used by the firm to negotiate better terms with a traditional investor.

However, if the Crowdfunding campaign shows poor market interest, the traditional investor may get an upper hand while negotiating the terms of the investment.

#### 4. When is Crowdfunding successful?

Crowdfunding is a relatively new phenomenon that has succeeded in raising millions of dollars and launched thousands of organizations. Understanding the elements that make a Crowdfunding campaign successful is often difficult, but it is important in order to leverage this emerging source of investment and funds.

##### 4.1 How Crowdfunding can be successful across different business sectors

Crowdfunding can be leveraged within a wide range of different sectors depending on the goals, ideas, and models being implemented by a particular project or organization. The multitudes of Crowdfunding platforms are each tailored to serve different sectors and provide different services according to the needs of both investors and projects.

The most popular and successful Crowdfunding initiatives are often divided into the following sector categories: the digital media sector, the arts and culture sector, the innovation sector, the food and beverage sector, the consumer goods sector, and the cause-based sector.<sup>7</sup> While this is not a comprehensive list, it encompasses the types of products and projects typically available on the most popular Crowdfunding websites.<sup>8</sup>

According to the Crowdfunding Industry Report, different types of Crowdfunding models tend to attract specific sectors. For instance, equity and lending-based Crowdfunding are most effective for digital goods, while donation-based Crowdfunding is geared towards cause-based and arts/culture Crowdfunding projects.<sup>9</sup>

Three different case studies can be found under Appendix A, Section 8.1. These case studies survey a variety of businesses across different sectors which have successfully implemented Crowdfunding. These three organizations have different business plans and profit structures, as well as different products, visions, and overall goals, demonstrating that Crowdfunding can serve a broad range of interests with equally high payoffs.

These case studies also demonstrate that Crowdfunding projects can cut across multiple sectors simultaneously. All three projects represent the cause-based sector. In other words, the projects are linked to a larger social cause that provides a tangible social good. However, while the WakaWaka Foundation provides an example that touches on the innovation and consumer goods sector as it provides a useable product harnessing new technology, both Brewdog and Prosperity Organic Foods Inc. provide products that fall into the food and beverage industry.<sup>10</sup>

Although each case study targets a different audience, it is also important to examine the common elements throughout each Crowdfunding campaign, as this can shed light on the factors that influence the overall success of different Crowdfunding campaigns. For instance, in each case study, there are two essential sources of value stemming from the product being offered: an intrinsic value in the product itself and a wider social value provided by both the product and the company offering the product. Given that Crowdfunding, in particular equity-based Crowdfunding, is associated with social entrepreneurship, the social value provided is an essential element for successful Crowdfunding campaigns. Section 6 presents a detailed analysis of these varying factors that can create a successful Crowdfunding campaign.





### 5. The legal implications of Crowdfunding

Under current securities laws in Canada, it is illegal for a company to sell equity through Crowdfunding.<sup>11</sup> However, there currently exist two exemptions which allow large equity-based investments. First, investors who have a net worth of more than \$1 million or an annual income of more than \$200,000 can make an investment in a small company and, second, this investment must be a minimum value of \$150,000.<sup>12</sup> These laws, however, prohibit public solicitation of equity investments, meaning that the social networking aspect of Crowdfunding would be illegal in relation to any investment made within Canada.

Despite these restrictions, there has been some movement towards amending Canadian securities laws to promote growth and opportunity for start-up businesses. The Canadian Securities Administrators is in the process of “a large-scale review of the prospectus requirement exemptions with the intention of broadening them to potentially leave room for Crowdfunding.”<sup>13</sup> Myriad campaigns have also arisen throughout Canada that are pushing for rapid reform. For instance, the Canadian Advanced Technology Alliance (CATA) is engaged in a lobbying campaign for all 13 provincial and territorial securities regulators to amend their securities legislation.<sup>14</sup> Invest Crowfund Canada, also known as I-Canada, has launched a similar campaign to push for rapid reform among security regulators, with the aim to eventually legalize equity-based Crowdfunding platforms.<sup>15</sup>

These campaigns arose throughout Canada as the United States’ Jump Start Our Business Start-Ups Act (U.S. JOBS Act) of 2012 was being drafted. This piece of United States legislation aids Crowdfunding platforms by placing income-based restrictions on how much individuals can invest through Crowdfunding.<sup>16</sup> It is meant to protect investors from fraud, which is one of the many reasons why securities regulators are hesitant to pass Crowdfunding legislation. Specifically, the U.S. JOBS Act introduces three new measures, which are still awaiting approval from the United States Securities and Exchange Commission. First, individual companies can raise up to \$1 million from investors; second, companies can raise up to \$2 million if they supply “the crowd” with audited financial statements; and, third, companies do not have to disclose financial statements until they have at least one thousand shareholders.<sup>17</sup>

Canada will risk falling behind if regulators fail to advance new measures that will legalize equity-based Crowdfunding. Legalizing Crowdfunding will give Canadian start-up businesses the same opportunities that are available throughout the United States and keep our innovation and entrepreneurs at home. In other words, “If Canada does not have a robust Crowdfunding platform that gives Canadian start-ups the same fundraising opportunities available to their U.S. competitors, Canadian technology entrepreneurs will have additional reasons to incorporate in the U.S. and otherwise migrate south.”<sup>18</sup>

In response to these pressures, the Ontario Securities Commission published Consultation Paper 45-710: *Considerations for new Capital Raising Prospectus Exemptions*.<sup>19</sup> This paper seeks feedback on concept ideas for new exemptions in securities laws, which aim to give start-ups greater access to capital markets while simultaneously providing investor protection. This particular proposal would allow Canadian issuers to fundraise up to \$1.5 million in any twelve month period.<sup>20</sup> The Consultation Paper is the first step towards implementing efficient and safe equity-based Crowdfunding laws in Ontario and throughout Canada. We should expect to see more action when comments on the Consultation Paper close on March 8, 2013.<sup>21</sup>



## 6. Implementing Crowdfunding strategies for your business

Given the social nature of Crowdfunding, it is an approach that is better suited to organizations and projects with particular characteristics. In general, it is well-suited to initiatives that have a compelling story that others will want to be a part of. More specifically, businesses with one or more of the following characteristics are stronger candidates for Crowdfunding:<sup>22</sup>

1. Interested in product pre-sales, particularly to finance manufacturing
2. Early stage organizations and individuals with a specific project
3. Willing to do their own marketing and have an outlet to reach people: Facebook, e-newsletters, Twitter, etc.
4. Crowdfunding is especially beneficial if you lack sales infrastructure yourself, such as a payment processing option

Some types of businesses are also more conducive to Crowdfunding. Companies seeking a high degree of customer interaction can benefit from the marketing and engagement opportunities Crowdfunding provides. It allows individuals who are interested in being customers to become supporters, lenders, or investors. For example, UK-based Escape the City elected to raise capital on Crowdcube, an equity Crowdfunding platform, rather than through other avenues, because Crowdfunding better suited their brand and business model, which is built on a network of engaged clients.<sup>23</sup>

For organizations considering Crowdfunding as a means to raise capital, Appendix B, Section 8.2, provides a checklist of questions to ask prior to undertaking the work to launch a campaign. While by no means definitive, it outlines key considerations and suggests areas of focus.

### 6.1 What do you need to get started?

#### 6.1.1 A crowd

Crowdfunding is not just about increasing the number of people invested in a business; it is about changing how they relate to that business. The importance of engagement means that properly identifying and understanding the crowd is crucial to a successful Crowdfunding campaign.

Defining “the crowd” for the purposes of a particular project or business requires thinking about who would be interested in the benefits of a project, potential customers, or investors. More generally, the crowd can also be a self-selecting group that shares an affinity for something, a desire to accomplish something, or a desire to take part in a meaningful experience.<sup>24</sup>

It is also important to understand the crowd, both in terms of how likely certain segments are to support a project, and what motivations inspire participants. Differentiating between segments of the crowd, knowing who are the low-hanging fruit and who are the more reticent, facilitates a more targeted campaign.<sup>25</sup>

The need to understand the crowd includes knowing what motivates donors and investors. Part of what differentiates Crowdfunding from other avenues is that participants tend to be motivated more by intangible value benefits. They want to support causes they identify with, people they know, and businesses they frequent; as such campaigns have to identify and connect with value drivers for that





audience.<sup>26</sup> For example, Foodstart, a rewards-based Crowdfunding platform for restaurants, bars, and food trucks, surveyed potential backers and found their strongest motivation was being a part of something new and cool – they were interested in social returns, such as a spot at a busy restaurant, rather than financial returns.<sup>27</sup> Even in equity-based Crowdfunding, financial return is not the highest priority for most supporters. Instead, they invest because they enjoy the experience and believe in the cause.<sup>28</sup>

#### **6.1.2 A compelling, shareable story**

Given that backers are motivated by non-financial interests, campaigns that tell a better story are more likely to succeed. A better story means not only a well-refined, carefully considered idea, but also conveying that idea in a way that induces individuals to engage and become backers. Effective Crowdfunding story tellers find a way to communicate their passion and personality in order to connect on a personal level.<sup>29</sup> It means explaining what is being done, why people should care, what is possible, and how change can lead to better outcomes.<sup>30</sup>

An element that has been identified as crucial for converting passive viewers into active backers is the transformation through which they internalize the story being told, identify with its goals, and want to take part. This process, referred to in terms such as “kindling a spark of belief” or “establishing a criterion of belief”, occurs when “members of your community begin to believe that what you’re doing is going to happen because they are making it so through collective action.”<sup>31</sup> It is a change in perception when a shared purpose becomes aligned with shared enthusiasm.<sup>32</sup> When a story is compelling, unique, or fun, and backers connect with it on a personal level and see how their own goals align with the story, they are also more likely to share a campaign and even become evangelists.

#### **6.1.3 A goal**

A project needs a goal in terms of what it intends to do, and a campaign needs a goal in terms of the amount raised. The goal of the project, or what it hopes to do, should also create meaningful value for the crowd.<sup>33</sup> It can be intangible value, as mentioned above, but it has to be meaningful. This requires careful consideration about what enough of the crowd values sufficiently to take action.

Setting the goal of a Crowdfunding campaign requires balancing what is desired with what is achievable. While it will depend on the type of project or campaign, the amount sought should be neither so large as to make success implausible, nor so small as to be trivial and not warrant collective action.<sup>34</sup>

#### **6.1.4 A platform**

The increased popularity of Crowdfunding has seen a proliferation in the number of online platforms available to host these campaigns. Platforms vary in their scope, structure, approach, and features. Selecting a platform requires assessing what features best complement the particular goals, needs, and vision of both the project proponents and the audience of potential backers.

Proponents have to consider dimensions such as:

- The funding model: equity, debt, or donation. Regulatory restrictions may ease on the first two, affecting their availability. Even within donation platforms there are two models. One is “all or nothing,” where a funding target has to be met or no money is transferred. This is riskier for proponents, who may not be rewarded for their work

on the campaign. The other model is “keep it all,” in which the campaign keeps any funds pledged, regardless of meeting the target. This is riskier for backers, who may fund an underfunded, and ultimately unsuccessful, project.

- How targeted the platform is. Some platforms are generalist, attracting projects from different sectors, locations, and business models. The audience on these platforms is also likely to be broader. Other platforms are more narrowly focused on particular industries, sectors, or types of projects. These targeted platforms seek to deliver services that better match the needs of proponents and backers in their specific field.<sup>35</sup>
- The features available on the platform. Certain logistical elements are essential and as such should be universally available. These include: embedded video and other media, reliable and trustworthy payment processing, easy searchability, and effortless sharing through integrated social media tools. Proponents want to ensure the interface is conducive to their ability to communicate their story, and backers’ desire for ongoing engagement with the project.

## 6.2 Selling it to your backers


The central components of a Crowdfunding campaign has been highlighted above. This section lays out some of the mechanics, based on a review of articles and guidelines for successful Crowdfunding campaigns. As more projects and organizations utilize Crowdfunding, the number of best practices will continue to grow. Three broad themes are highlighted here: the value of thorough preparation, the importance of a big start, and the benefit of ongoing engagement.

Proper preparation is essential. This means refining the idea behind the proposal, including vetting it with members of the crowd to assess their interest, solicit their input, and even gather pre-commitments from early supporters.<sup>36</sup> It also means refining the presentation. The story must be communicated quickly and in a way that entices the audience to participate. As mentioned in the previous section, the story should kindle the spark of belief that the goal is achievable and worth supporting. More than that, it should also be something people will want to share: an original idea is helpful, but so too is a unique or fun presentation. Literature also points to the importance of video and choice in terms of how to back a project. For example, Indiegogo campaigns that included a short video raised 114% more than those without, and 70% of successful campaigns have more than 3 varieties of perks.<sup>37</sup>

Crowdfunding literature consistently emphasizes the importance of having a big, fast start.<sup>38</sup> This is where the preparation and understanding of the crowd are put to use. Campaign creators have to lean heavily on their personal networks to be early supporters, and for supporters to become evangelists. A solid start is immensely helpful in building buzz as most campaigns do not go viral, but spread through the peer networks of founders and early supporters. As one industry insider has said, a tiny snowball at the top of a social media mountain can create an avalanche of funding.<sup>39</sup> However, contrary to most other literature, Massolution’s Crowdfunding Industry Report found that the first and last 25% of funding took roughly the same amount of time, suggesting campaigns do not on average accelerate with time.<sup>40</sup>

Finally, Crowdfunding is differentiated from other funding avenues through the relationship it establishes between funders and proponents. Participants are motivated by a desire to be a part of something, meaning campaigns have to engage them and provide opportunities for them to share





their excitement with others. This takes work. It requires pushing out new content throughout the campaign, responding to queries, and supporting your supporters.<sup>41</sup>

### 7. Commentary and questions

Crowdfunding has a bright future. With rapidly advancing technology and online resources, Crowdfunding seems to be a natural next step for fundraising in an online and globalized world. While there is not one particular industry that Crowdfunding is best for – as it seems that the most successful Crowdfunding campaigns are unique in different ways – we have used this report to identify some of the key elements found within each successful Crowdfunding campaign. In particular, we must emphasize the importance of the individuality and personality of each Crowdfunding campaign. Businesses must understand that it is not always the financial return that potential investors are looking for, but a unique and impactful project. Backers get involved because they are motivated by intangible benefits and the desire to participate in furthering a cause they believe in. The possibility of receiving something additional in return, whether financial or otherwise, is merely a bonus for investors.

Having outlined fundamental components of understanding and implementing Crowdfunding, there are a number of questions and unresolved issues that will animate discussions with respect to how Crowdfunding is adopted around the world going forward. Its potential for initiatives from and for the global south in particular warrants additional consideration in the literature and by practitioners. Many of the elements that are at the core of Crowdfunding are applicable to these initiatives, but we cannot assume transferability. Crowdfunding has the potential to reshape how capital is raised in international business and for international development initiatives. Even as business ventures and non-profit organizations are struggling to make ends meet, many still have the fundamental ability to create a large impact with limited resources. Many start-ups working to eradicate poverty, by bringing innovation to the global south, for instance, might already have the ingredients for a successful Crowdfunding campaign – including a sellable, shareable story and the need for only a small amount of capital – to get started and to create progress. Furthermore, many businesses and entrepreneurs focused on the global south are also in sectors that have successfully utilized Crowdfunding as a means for raising capital.

Crowdfunding has the potential to spread innovation and success across borders and throughout the global south. However, it requires due diligence, strategic planning, and a constant attention to detail by proponent and crowd. This points to the importance of managing expectations on both sides of the relationship, as negative experiences could sour public perception of the medium. From a regulatory perspective, investor protection is one of the biggest challenges presented by Crowdfunding. This is not only the cause of slow progress and action by the United States Securities and Exchange Commission and the Ontario Securities Commission, but it also presents a fundamental question regarding the future of the international Crowdfunding industry: how can investors and donors prevent fraud from occurring, especially if Crowdfunding models expand into developing and emerging economies?

Finally, as Crowdfunding develops and could, potentially, become a mainstream funding source for many start-ups and innovative global projects, more questions emerge about its implications. For example, how do investors, donors, and recipients maintain accountability as Crowdfunding spreads into new sectors and localities? What do the institutional, societal, and financial variations

in emerging economies mean for the practicality of Crowdfunding? How adaptable is the crowd concept? Are there necessary preconditions whose absence might slow Crowdfunding's spread in certain constituencies? What implications does the emergence and growing popularity of Crowdfunding present for banks and financial service firms? What role can or will these firms play in the diffusion of Crowdfunding? Is it possible to manufacture a viral campaign, or are they the result of a confluence of unrelated factors? And finally, as campaigns become more professional by using multi-media strategies, due diligence, and constant engagement, will the current low barrier to entry eventually erode?

The answers to these questions, and the countless others that will emerge in this rapidly evolving space, will shape how Crowdfunding will affect the future of the global entrepreneurial and business realms.

## 8. Appendices

### 8.1 Appendix A – Case Studies

#### 8.1.1 Prosperity Organic Foods, Inc.

THE ORGANIZATION	
<b>Organization:</b>	Prosperity Organic Foods, Inc. ( <a href="http://www.meltbutteryspread.com/">http://www.meltbutteryspread.com/</a> )
<b>Type:</b>	Corporation
<b>Product:</b>	Rich & Creamy Melt® Organic – a healthy, delicious butter alternative. This product is certified organic and kosher, and is soy free, trans-fat free, and gluten free.
<b>Field of Impact:</b>	<b>Organic Food</b> <b>Healthy Lifestyle</b>
<b>Value Proposition:</b>	Prosperity Organic Foods provides butter-like products that contain an organic blend of healthy fats that supports healthy weight, when replacing other fats in your daily diet.  <b>The prosperity Organic Foods work ethos is based on:</b> <ol style="list-style-type: none"> <li>1. Leading through innovation</li> <li>2. Pursuing practices that respect humanity and the environment</li> <li>3. Cultivating a culture that fosters mutual respect, integrity, authenticity, fun and passionate talent</li> </ol>
THE CROWDFUNDING CAMPAIGN	
<b>Goal:</b>	Expand operations and build brand recognition
<b>Type:</b>	Equity Crowdfunding
<b>Platform:</b>	CircleUp
<b>Money Raised:</b>	US\$ 1,000,000.00
<b>Number of Investors:</b>	11
<b>Reward/Share:</b>	Unknown
<b>Success:</b>	Prosperity Organic Foods' Crowdfunding campaign accomplished the following: <ol style="list-style-type: none"> <li>1. After launching on CircleUp, Melt received national distribution at Whole Foods</li> <li>2. Prosperity Organic Foods' revenue after the campaign increased by 600%, driven by new products and national roll-out</li> </ol>



## 8.1.2 WakaWaka Foundation

THE ORGANIZATION		
<b>Organization:</b>	WakaWaka Foundation ( <a href="http://www.wakawakalight.com">http://www.wakawakalight.com</a> )	
<b>Type:</b>	Non-profit organization	
<b>Product:</b>	The 'WakaWaka' – an affordable, durable, solar LED lamp that can be charged under any weather condition and that provides up to 16 hours of light	
<b>Field of Impact:</b>	<b>Environment</b>	<b>Poverty-Alleviation</b>
<b>Value Proposition:</b>	<p>The WakaWaka Foundation's aim is to provide lighting to underprivileged people in developing countries, in three ways:</p> <ol style="list-style-type: none"> <li>1. By providing the WakaWaka in exchange for in-kind payment, to underprivileged people who are unable to afford electricity or other lighting sources.</li> <li>2. By promoting environmental awareness in developing countries by conducting education programs in schools.</li> <li>3. By subsidizing WakaWakas for school children who have completed the WakaWaka education program.</li> </ol>	
THE CROWDFUNDING CAMPAIGN		
<b>Goal:</b>	Accumulate enough working capital to pay for the engineering of the WakaWaka light and to make a down payment for the first production run of 25,000 units.	
<b>Type:</b>	Reward-Based Crowdfunding	Equity Crowdfunding
<b>Platform:</b>	Kickstarter	Symbid
<b>Money Raised:</b>	US\$ 48,000.00	US\$ 98,887.50
<b>Number of Investors:</b>	787	320
<b>Reward/Share:</b>	A range of prizes were provided, depending on the amount of each donation. Most notably, donations were made to a primary school in Kenya and donors who provided \$35 or more received a WakaWaka light, as well as a range of WakaWaka accessories	Investors received a micro-share of the WakaWaka Foundation, totaling 2.5% at the end of the campaign.
<b>Success:</b>	<p>WakaWaka's Crowdfunding campaign accomplished the following:</p> <ol style="list-style-type: none"> <li>1. It exceeded the original funding goal by 160%</li> <li>2. It increased the organization's international publicity</li> </ol>	

## 8.1.3 Brewdog

THE ORGANIZATION	
<b>Organization:</b>	Brewdog ( <a href="http://www.brewdog.com">http://www.brewdog.com</a> )
<b>Type:</b>	Public Limited Company
<b>Product:</b>	Craft Beer
<b>Field of Impact:</b>	<b>Alternative Lifestyle</b> <b>Small Business Promotion</b>
<b>Value Proposition:</b>	Brewdog's vision is to involve beer drinkers in the ownership of the Brewdog company. Brewdog aims to expand people's perceptions regarding craft beer and promote a craft beer revolution in the UK, focused on good taste, sustainable practices, and community involvement.
THE CROWDFUNDING CAMPAIGN	
<b>Goal:</b>	Purchase new brewing tanks, open new bars in the UK, and expand operations across Europe.
<b>Type:</b>	Equity Crowdfunding
<b>Platform:</b>	Equity for Punks (Independent)
<b>Money Raised:</b>	US\$ 3,575,660.00
<b>Number of Investors:</b>	6,567
<b>Reward/Share:</b>	Unknown
<b>Success:</b>	By implementing Equity Crowdfunding, Brewdog has accumulated many accomplishments, including: <ol style="list-style-type: none"> <li>1. Brewdog has become the UK's fastest growing alternative beer brand and the top selling IPA in Scandinavia</li> <li>2. Brewdog has expanded its operations across the UK</li> <li>3. Brewdog funded a project to brew beer at the bottom of the ocean</li> </ol>

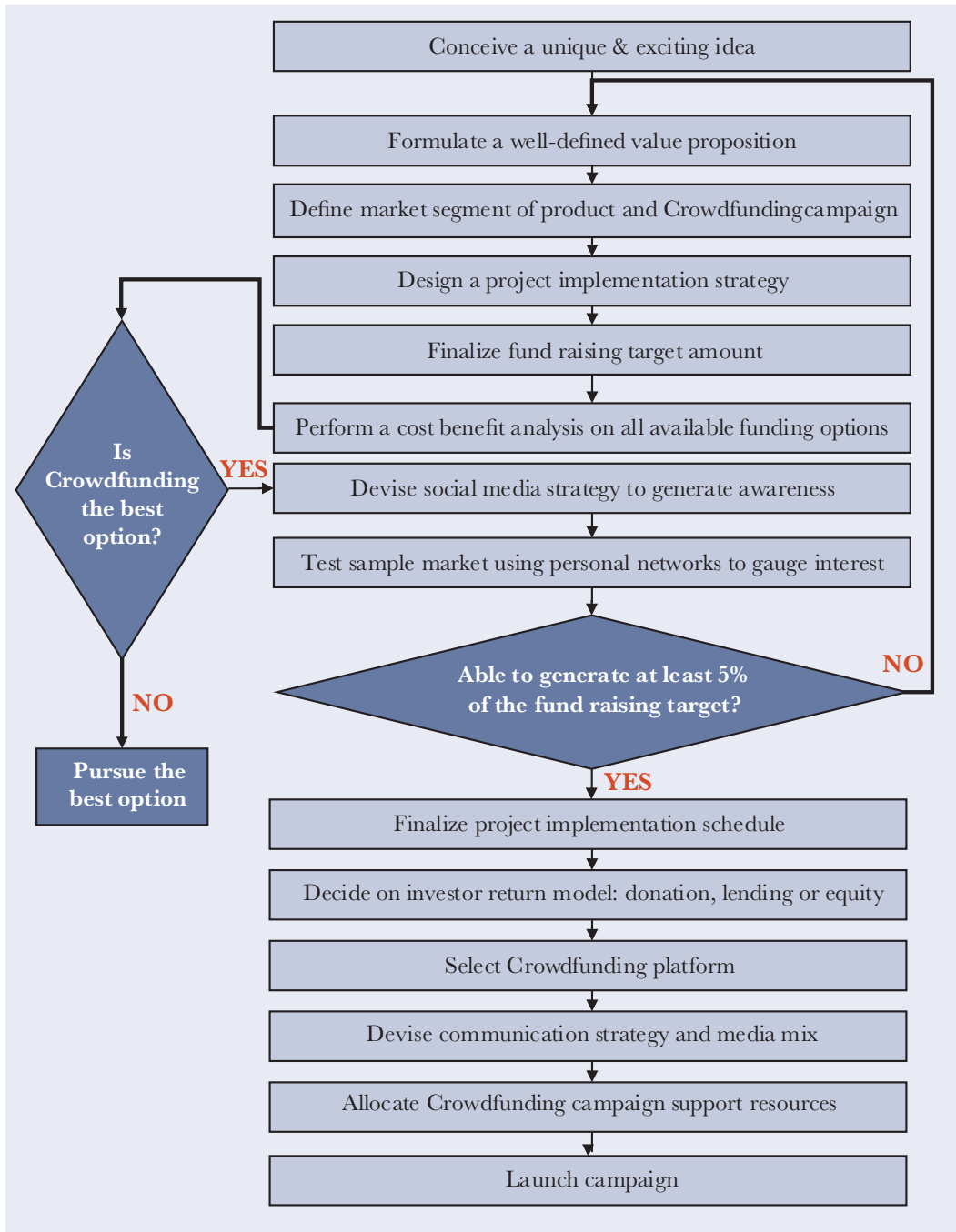


## 8.2 Appendix B – A checklist for potential Crowdfunders

Is Crowdfunding right for you?			
Crowdfunding can be an effective way to raise funds for some ventures and projects. Not all projects, however, are equally well suited for Crowdfunding. This list provides twelve key questions to ask in order to determine whether Crowdfunding is appropriate for you.			
Who are you?			
1	Have you weighed the costs and benefits of Crowdfunding against all other forms of financing that are available to you?	Yes	No
2	Would you categorize yourself as an early stage organization without a well-established sales or marketing infrastructure?	Yes	No
3	Do you have a sizeable and active social media presence?	Yes	No
4	Would you benefit from an ongoing relationship with your potential audience?	Yes	No
What do you aim to do?			
5	Do you have a unique and exciting entrepreneurial and/or charitable endeavor? Is your story compelling and shareable?	Yes	No
6	Does the initiative have a well-defined value proposition with quantifiable end goals and a clear implementation strategy?	Yes	No
7	Have you tested your idea and found members of your social networks interested and willing to provide support?	Yes	No
How will you do it?			
8	Do you have an understanding of the strengths of various Crowdfunding platforms?	Yes	No
9	Have you identified an audience that values your contribution and will provide financial support? Will they pre-commit 5% of your target?	Yes	No
10	Can you communicate your passion and goals concisely and persuasively through video and other media?	Yes	No
11	Do you have a social media marketing strategy? Do you know how you will generate interest for your project?	Yes	No
12	Can you commit resources to continuous engagement with the campaign, answering queries, supporting your supporters, and posting updates throughout?	Yes	No
Crowdfunding is an appropriate fundraising option for initiatives that answered, "Yes" to all or almost all of the questions above.			



8.3 Appendix C – A step-by-step process to launch a Crowdfunding campaign





## 9. Glossary of Crowdfunding terms

**Backers:** A broad term for individuals who support Crowdfunding campaigns, whether as investors, donors, or lenders.

**Canadian Securities Administrators (CSA):** CSA are responsible for the securities regulations throughout Canada. CSA is an umbrella organization comprised of the top securities regulators from each of Canada's provinces and territories.

**Crowd:** A self-selecting group of individuals, united by a common interest or cause.

**Crowdfunding:** Raising money for a project or venture by soliciting many small donations from a crowd of interested individuals.

**Crowdfunding platform:** Web-based tools used to connect project proponents with a crowd of potential and actual supporters.

**Donation Model:** In this approach to Crowdfunding, members of the crowd support a campaign motivated by the intangible benefits they associate with their participation.

**Equity Model:** An approach to Crowdfunding where backers purchase partial ownership of the venture.

**Lending Model:** An approach to Crowdfunding in which individual backers support a Crowdfunding campaign by giving money to its proponents in return for interest on that loan, or for material rewards.

**Ontario Securities Commission (OSC):** The securities regulator for Canada's largest province, and the vast majority of its financial markets. OSC holds the authority to legalize equity-based Crowdfunding in Ontario.

**Social entrepreneurship:** Entrepreneurship that is driven not only by financial, but social goals as well.

**United States Securities and Exchange Commission (SEC):** The securities regulator for the United States. The SEC's job is to protect investors, maintain efficient markets, and facilitate capital formation.

## Endnotes

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<sup>2</sup>The Growing Trend of Crowd Funding, Akshata Shetty, Times of India, 1 October, 2012, [http://articles.timesofindia.indiatimes.com/2012-10-01/news-interviews/34178096\\_1\\_music-gig-artistes-music-video](http://articles.timesofindia.indiatimes.com/2012-10-01/news-interviews/34178096_1_music-gig-artistes-music-video),

<sup>3</sup>Crowdfunding: Dis-intermediated Investment Banking. Brian J. Rubinton. McGill University. April, 2011.

<sup>4</sup>Crowdfunding: \$1.5B Raised, 1M Campaigns Funded In 2011; Figures Set To Double In 2012. Rip Empson. TechCrunch. May 08, 2012, <http://techcrunch.com/2012/05/08/crowdfunding-state-of-the-union/>.

<sup>5</sup>Crowdfunding: \$1.5B Raised, 1M Campaigns Funded In 2011; Figures Set To Double In 2012. Rip Empson. TechCrunch. May 08, 2012, <http://techcrunch.com/2012/05/08/crowdfunding-state-of-the-union/>

<sup>6</sup>Section 4 will further discuss the legal implications of crowdfunding throughout Canada.

<sup>7</sup>Massolution, Crowdfunding Industry Report, May 2012, 19, <http://www.crowdfunding.nl/wp-content/uploads/2012/05/92834651-Massolution-abridged-Crowd-Funding-Industry-Report1.pdf>

<sup>8</sup>Massolution, Crowdfunding Industry Report, May 2012, 19, <http://www.crowdfunding.nl/wp-content/uploads/2012/05/92834651-Massolution-abridged-Crowd-Funding-Industry-Report1.pdf>

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- <sup>10</sup> Please see section 6.1 for more information on each case study.
- <sup>11</sup> *Canada Media Fund*, “Crowdfunding in a Canadian Context,” August 2012, [Http://www.cmf-fmc.ca](http://www.cmf-fmc.ca)
- <sup>12</sup> *Canada Media Fund*, “Crowdfunding in a Canadian Context,” August 2012, [Http://www.cmf-fmc.ca](http://www.cmf-fmc.ca)
- <sup>13</sup> *Canada Media Fund*, “Crowdfunding in a Canadian Context,” August 2012, [Http://www.cmf-fmc.ca](http://www.cmf-fmc.ca)
- <sup>14</sup> *Canada Media Fund*, “Crowdfunding in a Canadian Context,” August 2012, [Http://www.cmf-fmc.ca](http://www.cmf-fmc.ca)
- <sup>14</sup> Invest Crowdfund Canada, <http://icanada.nu/crowdfunding/>
- <sup>16</sup> Vito Pilieci and CATA Alliance, How crowdsourcing could help start-ups: Provincial governments get on board, [http://www.cata.ca/Media\\_and\\_Events/Press\\_Releases/cata\\_pr07171202.html](http://www.cata.ca/Media_and_Events/Press_Releases/cata_pr07171202.html)
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- <sup>18</sup> Helix Commerce International, Inc. and I-Canada, “A Technical Legal Perspective,” 2012.
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- <sup>22</sup> Social Enterprise Associates, “Surfing the Crowdfunding Wave: Is it Right for Your Effort?” 2011, <http://www.socialenterprise.net/assets/files/SocEntAssocTipSheet10.pdf>
- <sup>23</sup> Darren Westlake (CEO Crowdcube), “Innovating Investment with Crowdfunding” Technicity Conference, Toronto, ON, 29 November 2012
- <sup>24</sup> Joe Brewer, “How to Run a Successful Crowdfunding Campaign”, 12 October 2011, <http://www.shareable.net/blog/best-practices-for-crowdfunding-campaigns>
- <sup>25</sup> Devin Thorpe, “12 Secrets for Success in Crowdfunding for Social Entrepreneurs” 15 November 2012, <http://www.forbes.com/sites/devinthorpe/2012/11/15/12-secrets-for-success-in-crowdfunding-for-social-entrepreneurs/>.
- <sup>26</sup> Chris Charlesworth (Co-Founder, HiveWire), Interview 15 November 2012
- <sup>27</sup> Alex Sheshunoff, “The Future of Crowdfunding”, 2 January 2013, <http://www.crowdsourcing.org/editorial/the-future-of-crowdfunding/22927>
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**CONTACT INFORMATION:**

Dilip Soman  
Director, India Innovation Institute  
University of Toronto  
105 St George Street  
Toronto, ON M5S 3E6  
Email: Dilip.soman@utoronto.ca

**[www.munkschool.utoronto.ca](http://www.munkschool.utoronto.ca)**