

Playing to the crowd

Crowdfunding can provide fledgling businesses with the capital they need to get their ideas off the ground. But to attract significant investment, start-ups must make a compelling pitch while not giving too much away. They also need to think carefully about IP

By **Jack Ellis**

“Giant step for entrepreneurship” or “huckster’s charter”? The response to the Jumpstart Our Business Startups (JOBS) Act has been equivocal at best. Espousing the former view are those such as angel investor Scott Gerber, who went on to hail the act in *Time* magazine as a “clear win for logic... and for long-term change”. But sceptics such as technology columnist Dan Gillmor remain unconvinced; writing for the *Guardian*, Gillmor warned that it will be “a bonanza to the kinds of people who see everyday Americans as sheep to be fleeced”.

These polarised predictions represent the diversity of opinions that the JOBS Act has engendered since it was signed into law on 5th April 2012. It aims to create more favourable conditions for early-stage small and medium-sized enterprises in today’s uncertain financial climate. As global economic woes persist and venture capitalists and institutional investors remain wary, the JOBS Act seeks to improve the outlook for small businesses by making it possible for them to source capital from the wider public.

One of the most profound changes affected by the new law will be the liberalisation of the use of government-certified online funding portals –

crowdfunding platforms – which can act as brokers between entrepreneurs and funders.

‘Crowdfunding’ is the crowdsourcing (ie, the outsourcing of a task to an undefined public) of fundraising – whether for businesses, charitable causes or non-commercial creative projects. For the first time, the JOBS Act paves the way for an equity-based crowdfunding model in the United States, which was hitherto significantly constrained by stringent US securities laws. Under the new regime, individuals who are not accredited investors under current Securities Exchange Commission (SEC) guidelines will be less restricted in their ability to buy equity stakes in businesses.

The rules are expected to come into force towards the end of next year, once the SEC and the Financial Industry Regulatory Authority (FINRA) have completed their consultations. In the meantime, interest among the US business community appears keen. A nascent equity crowdfunding industry has rapidly materialised and is already gearing up in preparation for fundraising.

One platform that is ready for the change is Fundable. Launched this May, it has already helped a number of start-ups to secure capital – though equity is currently available only to accredited investors while the wider crowd awaits the final go-ahead from the SEC and FINRA. Eric Corl, president and co-founder of Fundable, believes that the advent of equity crowdfunding in the United States will reap handsome dividends for both entrepreneurs and investors. “JOBS means a fundamental shift in the way that businesses launch and grow,” he says. “For companies located in areas that do not have well-defined start-up ecosystems, crowdfunding will help open up trillions of dollars of capital. It will also

streamline the investment process further for traditional investment hubs such as Silicon Valley. Investors will have increased access to deal flow and the opportunity to tap into a more diverse group of industries.”

In addition to amateur funders pledging two or three-figure sums in return for equity, there are signs that this form of crowdfunding will attract more sophisticated investors with more capital to dish out. Corl believes that equity crowdfunding will allow for a more transparent and efficient investment process – something that should appeal to all shades of investor. “In essence, equity crowdfunding provides a platform to streamline the funding process, quickly and efficiently merchandising and closing deals, with less capital wasted on legal intricacies,” he says.

And while implementation of the JOBS Act is awaited, several of the projects that Fundable has hosted thus far have sought to tap into the power of the crowd by offering gifts, rather than equity, in exchange for investment.

Risk and reward

Indeed, much of the media coverage surrounding crowdfunding has related to platforms that employ this reward-based – as opposed to equity-based – model. Such sites, including Kickstarter and Indiegogo, have hosted the highest-profile fundraising projects so far.

On these platforms, crowdfunders are rewarded with some form of gift or perk in return for the funds they donate. These sites have primarily targeted creative projects, such as a band looking for money to cut a record or an art collective putting on an exhibition. Typically, the funder’s reward might be a first-press copy of the album or a ticket to the exhibition. But some of the most publicised success stories so far have related to technological innovations. Earlier this year, start-up Pebble Technology raised a record-breaking US\$10.27 million via Kickstarter to fund the development of its design for an e-paper smartwatch – a staggering increase on its original target of US\$100,000. In return, backers have been promised one, two, five or 100 Pebble smartwatches each, depending on the size of their donation. More recently, OUYA took just eight hours to raise US\$8.5 million through Kickstarter for its games console based on Google’s open source Android operating system. The speed at which these projects smashed their funding targets shows that the crowd is eager to help in turning high-tech innovations into

market realities. The challenge for US equity crowdfunding platforms is how to repeat those successes.

And while the current legislative restrictions may have hindered the development of the equity model in the United States, it is already flourishing in other jurisdictions with less stringent regulation. UK-based platform Crowdcube has helped around 30 companies to attract funding, raising a total of £4.25 million since it launched in February 2011. Luke Lang, Crowdcube’s marketing director and co-founder, reports that a diverse range of businesses have shown interest in the equity-based portal – though two sectors in particular seem to have captured the public imagination.

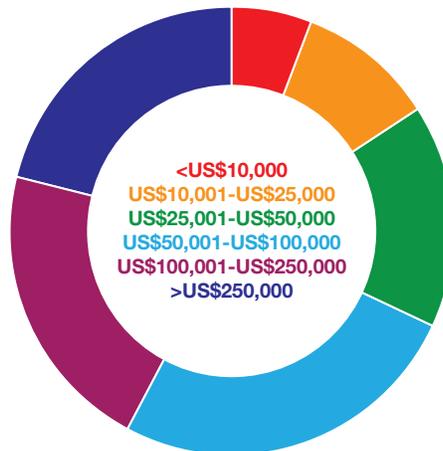
“Internet-based and high-tech businesses tend to do very well, as do food and drinks companies,” he says. “I guess the reason why food and drink do particularly well is that they have universal appeal – people readily understand them and can see, feel and taste the products before they decide to invest.” High-tech innovations are a far more complex proposition for the average crowdfunder, but interest in these projects is still strong. Lang believes that such businesses also present opportunities for those seeking to strategically invest larger sums. “With internet and high-tech, there’s the opportunity to scale and grow a business,” he says. “Therefore, the potential returns are possibly a lot higher.” (For more on the involvement of institutional investors in crowdfunding, see the boxout on the page opposite.)

There for the taking?

One of the key issues for both entrepreneurs and funders in a crowdfunding situation is IP protection. The fear is that by disclosing their ideas online in an effort to secure funding, entrepreneurs may be exposing their intellectual property to greater risk of theft or infringement. In an equity crowdfunding context, this becomes a personal concern for funders, too, as they will be part-owners of the business and the intellectual property that underpins it.

“At the basic level, a technology start-up using crowdfunding should not disclose anything online before it has a patent application filed,” cautions Scott Popma, a partner at Finnegan, Henderson, Farabow, Garrett & Dunner, LLP who advises early-stage businesses, inventors and entrepreneurs on IP issues relating to crowdfunding. “If you put information about your idea online, then that could be considered as a public disclosure and might

Figure 1. Funds paid out per equity-based crowdfunded project, 2011



Based on a sample of 10 crowdfunding platforms. Calculations reflect the total number of funds raised for projects within a specific funding range, not the number of projects within a specific funding range. Source: Massolution

Eric Corl, president, Fundable

“Equity crowdfunding provides a platform to streamline the funding process, quickly and efficiently merchandising and closing deals.”



Crowdfunding aims to improve start-ups' chances of securing necessary early-stage funds by facilitating a large number of low-value investments. More traditional methods of seed funding typically involve larger investments from a much smaller number of relatively highly capitalised investors. While the crowd is, by and large, made up of average members of the public with average net worth, might crowdfunding also present opportunities for 'professionals' – such as business angels, venture capitalists and other institutional investors – to invest in innovative start-ups founded on intellectual assets?

The limited data that UK-based crowdfunding platform Crowdcube has on members of its crowd may contain clues to the involvement of professional investors. Over 24,000 people have registered with Crowdcube as funders – and around 500 of those describe themselves as high-net-worth individuals. "Also, a number of the investments we have seen have been large chunks – we've had one-off investments of £100,000 a number of times, and £70,000 and £80,000 fairly often as well," says marketing director and co-founder Luke Lang. "I think that might indicate that we have managed to attract the more traditional angels that are already out there."

Lang suggests that crowdfunding may have a number of advantages for experienced investors who want to take on riskier innovation-based investments while minimising their exposure to financial turbulence. "Historically, angels have had to have the opportunity to invest pretty large sums of money for them to get involved in a business. You couldn't join an angel club and put in £5,000 here and £10,000 there – investments would tend to be in the tens and hundreds of thousands." But an uncertain economic outlook has forced many angel investors to adopt a much more conservative approach. "Crowdfunding enables those investors who previously had to put £100,000 into a single business to spread that very easily across multiple businesses and create a diverse portfolio of investments," he says. "That gives them a better chance of success in getting a return."

Furthermore, a number of Crowdcube's registered funders are repeat investors. "There certainly is a proportion of our funders that are investing in multiple businesses," explains Lang. "Those people are not just pitching in to support a friend's business idea – they are actively trying to create a diversified portfolio for themselves."

It is not yet clear whether these trends point to the presence of established investment industry players, or rather to the growth of a new class of investor that focuses on crowdfunded opportunities. But

Lang thinks that sophisticated investors are showing their intentions. "Where there are good propositions and good investment opportunities, they will gravitate towards those sources."

Scott Popma, partner at Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, reports a significant venture capital presence at crowdfunding industry events he has attended. "For the time being at least, they seem to be sitting on the sidelines and are keeping quiet about what they're going to do." He posits that the creation of some sort of secondary market to buy and sell equity shares acquired through crowdfunding may be one avenue that institutional investors are exploring.

However, Morgenthaler partner Mark Goines believes that the space will ultimately be of limited interest to institutional investors. "Specialist investors, especially those investing out of venture funds, are generally looking for opportunities that can get very, very large, because they are looking for large incremental returns," he says. "The opportunities presented by crowdfunding sites are mainly going to be niche. One of the key cuts in any investor's thinking is, 'How big can this business be?' And though many of the businesses listed on crowdfunding sites will be very interesting and have the potential to be very successful entrepreneur-run businesses, they're not going to be multi-hundred million or multibillion-dollar companies. Those types of investors are looking for 5x, 10x and even greater returns and larger market opportunities than most of these crowdfunded projects are likely to represent." Nevertheless, Goines still thinks that equity crowdfunding affords significant potential for angels and high-net-worth individuals. "For those investors, making back their money at 20% or taking back 2x is a very good return," he says. "I think crowdfunding sites are much more appealing to those individuals who have a relatively small amount of spare capital, but enough to make a big difference to these entrepreneurs."

Popma thinks that the regime introduced by the JOBS Act will – temporarily at least – keep institutional investors at bay. But he also suggests that the natural next step in the evolution of crowdfunding will be a relaxation of the rules to allow companies to raise higher sums of capital online. "There is so much innovation going on in the crowdfunding space itself at the moment," he says. "I expect we will see a lot of these ideas being more broadly applied to the rest of the market five or 10 years further down the line. By raising the cap from US\$1 million to US\$5 million or even US\$15 million, more traditional areas of the investment industry would have more reason to get involved."

be used by the patent issuing office as a reason why a patent should not be granted. The other option," he continues, "is to keep the idea secret." If entrepreneurs think that their innovations would be extremely difficult for someone else to develop independently or to reverse engineer, they might consider protecting elements of their business plan as trade secrets.

Popma suggests that crowdfunded businesses should check whether they can take advantage of micro-entity filing fees introduced by the America Invents Act as a way of mitigating the often prohibitive cost of patenting. "However, there could be administrative fees later on if people start trading your shares," he warns. "You have to monitor your status to make sure you still qualify for micro-entity fee, and that does have some costs in itself."

For all business plans, including those that are not technology-centric or innovative – for example, a proposal to set up a service such as a restaurant or a dry cleaners, or to manufacture a 'low-tech' product – start-ups should equally ensure that their trademarks and copyrights are protected.

However, Mark Goines, a partner at venture capital firm Morgenthaler, believes that anxieties about crowdfunding are too narrowly focused on the potential IP risks for innovators. He stresses that IP protection is just one of several issues that are of concern to all stakeholders. "If a company has already done all that it can to protect a copyright or file a patent application, then it is as protected as it can be with the resources it has," he says. "I guess someone could trawl crowdfunding sites if they were looking to steal ideas, so there may well be a slightly bigger risk of IP theft, but I don't know how much of a difference that actually makes."

Goines believes that there is a more pressing issue for start-ups and funders to consider. "Crowdfunding sites may include a lot of really bad ideas that are dressed up nicely," he explains. "Investors might put their money up for one of these dubious projects and nothing happens. There are already stories coming out of Kickstarter about people advance-purchasing goods that are never delivered. I worry about both sides of the equation – the IP side and the danger that crowdfunding makes it easier for just about anybody to go out there and ask for money."

For Goines and other investors, the question is how crowdfunded opportunities can be filtered to ensure that the offers being made are genuine.

In October 2012, patent analytics firm IP Checkups announced its plans to create a free online database documenting the patents owned by Intellectual Ventures and the various shell companies that are under its control. In order to finance this ambitious project, IP Checkups is seeking donations via online reward-based crowdfunding platform Indiegogo.

“Our understanding is that markets work best when there is transparency,” says Matthew Rappaport, managing director of IP Checkups. “They are most efficient when the parties know what is happening on the other side of the trade. Our aim with this project is to bring certainty to market participants, to bring certainty to investors, to bring efficiency to market participants and to try to make the market more liquid and efficient.”

Rappaport emphasises that IP Checkups is targeting IV initially as it is supposedly the largest NPE in terms of patent holdings, and that other NPEs and operating companies could be the subject of similar projects in the future. “What we think is happening now is that more NPEs and operating companies are creating these shell companies,” he says. “This creates a sort of secondary underground market where nobody knows who anybody is. We think that all of this information should be available publicly for free, so that potential licensees can make informed decisions.”

IP Checkups’ proposals certainly caught the imagination of the media, with the *Wall Street Journal*, Bloomberg and CNET (and, of course, *IAM*) all reporting on the initiative. Rappaport confirms that IP Checkups has received plenty of encouraging feedback from the IP community too. So why is the project – entitled ‘Case IV Thicket’ – desperately struggling to reach its funding target?

Since the crowdfunding campaign was launched on 15th October, just US\$5,555 had been pledged as of 14th November – well short of the minimum target of US\$80,000 set by IP Checkups. Given that the funding period closes on 27th November, it looks increasingly likely that Rappaport and co will miss their target – unless, of course, there is a sudden flurry of

donations or a few big pledges come in before the deadline. Under Indiegogo’s fixed funding rules, the project will get none of the pledged money whatsoever if the fundraising goal is not reached.

As reflected in the rewards that IP Checkups is offering to prospective crowdfunders – including limited access to its patent landscape databases and free patent searches – it is targeting potential funders from the IP and high-tech communities. To put it another way, Rappaport expects pledges from the people and companies that are most at risk of being accused of infringing IV’s patents. “What’s interesting is that we have talked to quite a few people face to face and over the phone about it,” he says. “They say, ‘It’s very interesting, we think it’s a good project, it ought to be done – but it’s highly controversial.’ And any time you do controversial, a lot of folks just aren’t willing to put their necks out.”

As Rappaport points out, one might expect that those being sued for infringement by IV would be among the first to stump up funds to shine a light on the NPE’s patent holdings – particularly as the cost would pale in comparison to the money they would spend on lawsuits. “The nature of the IP community is that typically, many of the market participants – the larger ones, at least – are well-heeled,” he says. “The amount of money we are trying to raise is a blip on the radar for some of these companies. If four or five of them decided to go in with just US\$10,000 or US\$12,000 each, it would be done.”

The reluctance of potential investors is perhaps indicative of the sway that IV holds over the marketplace. Companies may be worried that the NPE will target them or will make it difficult to work with them in the future if they are seen to be involved in IP Checkups’ scheme. Another reason might be that many such companies themselves use similar tactics to – or have an existing business relationship with – IV. Shareholders and investors may also believe that the lack of transparency caused by the use of shell companies, privateers and the like is beneficial, rather than burdensome, since it can grant greater leverage over prospective licensees and thus bring in higher returns.



Matthew Rappaport, managing director, IP Checkups

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That said, corporates and others in the IP community may be more comfortable contributing money to Case IV Thicket once the crowdfunding stage has finished and the proposal is out of the public gaze. Rappaport makes clear that failure to hit the crowdfunding target will not necessarily spell the end of the databasing project. Whether the mapping of IV’s portfolio happens or not, stakeholders’ apparent aversion to investing in the venture may tell us something just as important about the nature of the patent marketplace.

In response to news of IP Checkups’ proposed investigation, IV released the following statement:

“IV’s patent holdings have been the source of fascination for many years. We and many other patent holders believe that patents should be respected regardless of who owns them. Those interested in viewing granted patents and patent applications can search the USPTO’s public database. Ultimately, we hope to see the day when invention rights are respected whether they are owned by individuals, universities, Fortune 500 companies, start-ups or invention investment firms like Intellectual Ventures.”

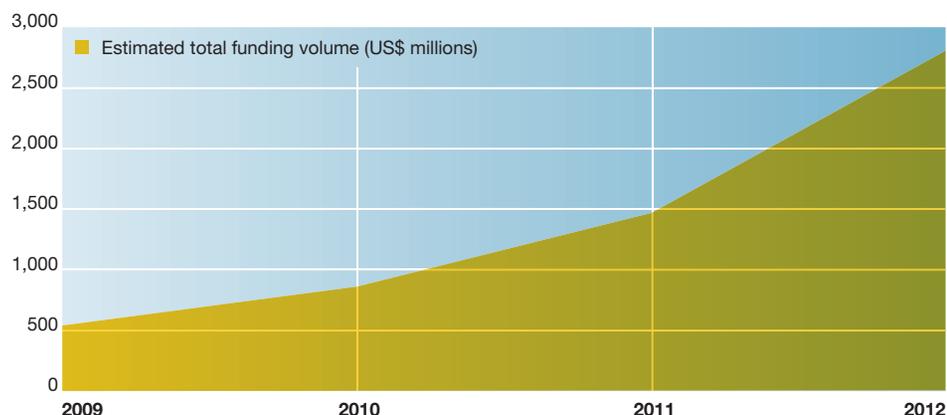
Investors’ peace of mind

Having strong IP protection in place is one way in which entrepreneurs can instil confidence in potential funders. At Crowdcube, Lang and his team advise start-ups using their platform that securing intellectual property is best practice for any business seeking investment. “We firmly believe that start-ups should do all they can to protect their ideas,” he says. “Before making an investment decision, funders pledging larger amounts of money will want to know where the IP is, who owns the IP

and what is and isn’t protected. Therefore, start-ups need to balance the information they give away about their business with creating a compelling story for investors, without exposing any trade secrets.”

One way of doing that is to get someone else to vouch for the intellectual property. For example, universities can back up departmental spin-outs on any claims they make about their intellectual property to potential crowdfunders. “Get a third-party endorsement from an institution, such as a university or a research centre, that says,

Figure 2. Growth in worldwide funding volume via crowdfunding, 2009-2012



According to crowdsourcing research organisation Massolution, almost US\$1.5 billion was raised through crowdfunding globally in 2011. That funding volume is expected to increase by 91% by the end of 2012.

Source: Massolution

“Yes, we have worked with the entrepreneur on this, we have done the research and the invention works,” says Lang. “That kind of endorsement can overcome the barrier and give investors peace of mind.”

Another option is to make contact with those who have expressed interest in pledging funds and ask them to enter into a non-disclosure agreement (NDA). “We don’t operate NDAs as a rule, but if entrepreneurs are asked questions about IP, we suggest that they enter into a conversation with the potential funder or meet up with them, ascertain whether they trust them and get them to sign an NDA,” Lang continues. However, NDAs come at a price, as Popma explains: “They can be difficult and expensive to enforce, especially if they are widely distributed to a lot of potential investors, as would more often than not be the case in a crowdfunding context.”

For the investor, too, a private communication or even a face-to-face meeting may be the best way to verify the intellectual property at the core of the business proposition – as well as the human capital that comes as part of the investment. “It’s relatively easy to put something out on a website and present information about it online,” says Goines. “But I always prefer to have more of a working relationship with the entrepreneur. That’s harder to do through crowdfunding, since it is not necessarily an expected part of the process. But it’s a rare investor that will put significant money into a start-up without getting to know the entrepreneurs – and trying to do that over the Internet comes with the same risks as internet dating!”

Early-stage strategy

It is therefore crucial for a start-up raising funds from the crowd to have IP protection in place – not only to mitigate the risk of IP

theft, but also to improve the chances of securing investment. Yet for many early-stage businesses, patenting can seem like an expense that they simply cannot afford. Their main priorities are growing their business and getting their products to market; obtaining IP rights – and enforcing them in court – might seem to them like the sole preserve of large corporations with dedicated legal budgets and armies of lawyers at their disposal.

“Clearly, the patent warfare that exists in the marketplace today favours those with deep pockets,” says Goines. “The ability to apply for and protect patents, as well as to register copyrights and trademarks, and the capacity to defend those in the appropriate manner, is very important for start-ups – but it’s a pretty high-cost, high-stakes game. And I think it can be very challenging to expect that IP is going to be the key differentiator in any particular early-stage company, because it is just so expensive to protect it.”

However, Popma emphasises that obtaining IP rights is not just about protecting ideas. More importantly, it is about securing freedom to operate and opening up the possibility of long-term value creation – factors which are key to drawing in significant sums of capital from seasoned investors among the crowd. “Start-ups should really be thinking about their IP strategy before they launch and put their business propositions online,” he says.

Luke Lang, marketing director, Crowdcube
“Before making an investment decision, funders pledging larger amounts of money will want to know where the IP is, who owns the IP and what is and isn’t protected.”



“Through crowdfunding, consumers can feel ownership in the brands they are fans of. And with ownership, people are more loyal to the brand; they are more likely to talk about the brand and recommend it; and they are also more likely to buy more of it”

“They should be checking what their competitors are doing, checking how much it is going to cost to get the necessary licences from other IP owners and making sure that they can deliver on their business promises.” Start-ups should survey the marketplace to figure out how their intellectual property will fit into that space and how it can best be leveraged, he adds. “They need to have a strategic vision of their IP plan and understand how they are going to use that to compete with other players in their space.”

Crucially, Popma highlights the need for entrepreneurial businesses to pursue patents covering technology that investors perceive to be of future value to them. “Investors appreciate that even if the company fails, if there is strong IP, that can be monetised,” he says. “Patents can be sold at auction, IP can be licensed out – there are all kinds of ways to build revenue streams from strong IP rights, even if the worst were to happen to the operating business.”

Building and implementing a successful strategy will require input from IP specialists, including lawyers and other experts such as analysts and brokers. That in turn will require a significant amount of money – and Popma recommends that start-ups include their IP legal and strategic budget projections as part of the business plan for their crowdfunding proposal. “The JOBS Act spells out that when you are requesting funds, you must say what you intend to use them for,” he says. “Crowdfunding democratizes access to capital – and with that capital, start-ups can get the same quality of legal advice that major corporations are getting. IP is often the most valuable intangible asset for the company – and the money you invest upfront in protecting that is money well spent.”

Brand-building benefits

Though crowdfunding may present some challenges when it comes to IP protection, it also gives early-stage businesses the chance to build upon those assets – and can generate new intangible assets, too. “Purely from a marketing perspective, there’s a big opportunity for a forward-thinking company to get consumers involved and engaged in its business at a more advanced level,” says Lang. “It provides a good way of testing the market and seeing if there’s demand out there.”

This added benefit has already been observed in the field of reward-based crowdfunding. By divulging certain details about anticipated projects on a crowdfunding platform, companies can gauge public reaction to proposed new products or services. They can also leverage their consumer relationships to finance research and development, prototyping or marketing activities such as product launches. “A sort-of ‘pre-sell’ model has been borne out of Kickstarter,” Lang explains. “A start-up which has designed a desirable product, such as an iPod-compatible gadget, can say to the crowd, ‘We’ve got this great idea, but we need US\$50,000 to do the first manufacturing run – if you’re one of the first to donate, you will get the product free.’ That can be a very effective sell.” What’s more, in many cases start-ups that have been crowdfunded attract extensive media exposure. “The most successful ones have enjoyed global press coverage – which is probably worth more than the money they actually raised,” he adds.

Popma believes that the same concept can be successfully translated to equity-type crowdfunding. “People seem to enjoy being involved in a project from the ground floor up, even if all they are getting is a small gift in return,” says Popma. “I think the same



Scott Popma, partner, Finnegan, Henderson, Farabow, Garrett & Dunner, LLP

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Action plan



Equity-model crowdfunding is a growing industry and is now on the horizon in the United States with the passage of the Jumpstart Our Business Startups (JOBS) Act.

- Protect your intellectual property prior to crowdfunding by filing for patent applications and trademark and copyright registrations before you make any information about your business available online.
- Take advantage of any IP filing discounts available to small businesses, such as the United States Patent and Trademark Office's micro-entity fees.
- Decide which elements of your business can be effectively protected as trade secrets and never publicise any information regarding them except to business partners, when appropriate, and on a need-to-know basis.
- Think carefully about what information about your intellectual property is safe to divulge publicly.
- To provide investors with the information they need about your intellectual property, communicate privately with them and, if necessary, ask them to enter into a non-disclosure agreement.
- Get endorsements from third parties familiar with your technology to further inform investors about the strength of your business's intellectual property.
- Seek the advice of lawyers and IP strategists in order to best understand how to protect your intellectual property and begin devising a longer-term IP strategy that benefits the growth of your business.
- Include projected IP legal and advisory costs in the business plan you make available to crowdfunders.

passion will be there if they can actually own part of the company. Once they own the stock, they can market the business to their friends and make a real difference."

Lang agrees. "The idea of community ownership and fan ownership is really starting to take off," he says. He gives the examples of English football clubs Ebbsfleet United, FC United of Manchester and Exeter City, all of which are owned by fans. Equity-model crowdfunding could allow other brands with a dedicated following to capitalise on their loyal client base.

And as Lang suggests, it is not just start-ups that stand to benefit. "A big company could say to its consumers, 'We're developing this product; if you're interested, invest some money and we'll give you a share of the business and future revenue,'" he says. "So there are certainly opportunities for bigger businesses to be creative and really engage with their customers on a much bigger scale."

Popma similarly predicts that established brands will take advantage of these new opportunities as equity crowdfunding takes off over the next couple of years. "Big corporates will move into this space because they will effectively be buying into a marketing machine," he says. "Through crowdfunding, consumers can feel ownership in the brands they are fans of. And with ownership, people are more loyal to the brand; they are more likely to talk about the brand and recommend it; and they are also more likely to buy more of it."

Beyond start-ups

Despite the possibilities, Goines predicts that equity-based crowdfunding – at least in the United States, where investment will have a relatively low cap – will for the most part remain the preserve of start-ups and individual entrepreneurs and inventors. However, even established companies may appreciate the opportunities it presents to finance one-off projects or campaigns. "Companies with existing capital and market access are unlikely to go anywhere near this," he suggests. "But there are many, many companies with very limited capital access, and there is an opportunity for them to fund new projects in this way."

With regard to larger businesses seeking later-stage funding, Goines also highlights several online fundraising platforms that closely resemble equity-based crowdfunding. "There are a number of other marketplaces developing for those more established businesses that need capital," he says. "I don't think the crowdfunding model is necessarily limited to start-up capital –

it could also be utilised for growth capital." He reports that some mid-sized companies are already investigating opportunities to use the Internet to raise money needed for their expansion plans. One example is AxialMarket, an online platform that helps private companies to tap new capital – though it does not quite match the usual definition of crowdfunding, insofar as its funder faculty is comprised exclusively of high-net-worth investors. CircleUp is another quasi-crowdfunding website that matches US accredited investors with equity purchase opportunities in the consumer products space.

For the time being, however, equity crowdfunding is still primarily about small start-up companies attracting investment from small-time investors. "We are designed to facilitate investment by individual people with little or no experience of investment and to make it easy for them," sums up Lang. "Our plan is to hopefully get more people involved – rather than just sophisticated business angels doing it, getting ordinary people investing more modest sums and spreading their money around multiple businesses."

From the entrepreneur's perspective, traditional sources of funding, such as venture capitalists, business angels and other institutional investors, have become increasingly inaccessible in today's more cautious investment climate. Crowdfunding opens up vast reserves of capital that can give new businesses the financial boost they need to enter the marketplace. Likewise, the economic malaise of recent years has damaged public confidence in investment products offered by banks and other financial services providers. Crowdfunding represents another way of investing personal funds independently of those institutions whose reputations have been badly tarnished. And with more of their own money riding on innovative businesses, the public should develop a deeper appreciation of the value of intellectual property and other intangibles, and the role that these can play in economic health. At a time when scepticism about the benefits of intellectual property is rife, that alone would represent an invaluable dividend. **iam**

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