The Business Finance Guide

Crowdfunding

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There are two main types of crowdfunding that can be relevant to businesses in the UK today. If you are an early stage business who isn't profitable yet, who's really starting out, you can raise money through equity crowdfunding, and it's a bit like a group of angels investing online.

If you are a more established business, with steady revenue in place, you have the option to borrow money through peer to business lending.

Having a known name or band is not a prerequisite for crowding. It can be advantageous, especially for those early stage businesses. But crowdfunding is a means of getting financial backing, but also the backing of customers and establishing a name.

When you are crowdfunding you are going directly to investors and customers and asking them to back your business. So it's important to give them sufficient information for them to be able to assess what the business does, how it will make money, and also how it might go wrong

The information needed tends to fall into one of three buckets.

1. One is around the management team, have they done this before? Is this a credible team of people?
2. They like to know more about the product or service you are offering
3. Of course, there is the financial information as well – particularly how well a company has done in the past and what it thinks can be achieved in the future

Now these are online platforms, and videos are a very popular way of getting that across in just 2-3 minutes. So people that are just browsing and having choosing which businesses to back, can have a very simple and engaging way at having a look at what's on the market and here thy might like to put their money.

Companies are likely to want to choose a crowdfunding platform that is regulated by the FCA. There fore that platform has a responsibility to make sure that the information the business puts up is clear and not misleading – and they also have a responsibility to check any claims that you put in the pitch. So financials are fantastic – and if they can be audited by a third party, that can be very reassuring.

One of the aspects of crowdfunding that can be very attractive to a business can be the sped of the process. So sometimes it can be a 30 day process from start to finish to raise your money. And these investors can become customers at the same time. So it's a large number of people each investing a small amount of money into your business.

If a business is thinking about equity crowdsourcing, it's important to have a view of all the funding requirements through out the stages of the business. So crowdfunding may be the first step, but there may be venture capital coming at a late stage. So being realistic is about valuation is important, and maybe looking at some of the blended models now available, with angels investing alongside the crowd.

It's worth starting with the UK Crowdfunding Association website and looking at the range of platforms available. I'd start with a platform with experience in your industry – whether that's pubs or technology. And I would also think about whether you have any investors of your own that you can bring along, and that will help you to negotiate better terms with the platforms.

I think one of the common misconceptions about crowdfunding is that you put your pitch online and the money will come flooding in. So if you have 60 days to raise the money, take half that time and prepare your pitch and your numbers. Seek financial advice. Once you go live, you will be asked lots of questions, real time, by the crowd - and you need to have our answers ready.