

1) Complete the paragraph with the words in the box.

backers	crowdfunding	entrepreneur	equity
philanthropic	start-up	tangible	venture capital

Less than two decades ago, any 1 _____ with a new idea would have had to go to a 2 _____ company or similar to receive funding for their 3 _____ project, giving up a significant share of the 4 _____ in exchange. These days, they have another option—5 _____—a model that allows small businesses to attract online 6 _____ who each invest small amounts of money in return for either a 7 _____ reward, such as a copy of the finished product, or a 8 _____ reward, such as helping someone in need.

2) Read *The rise of crowdfunding*. Complete the interview with the questions (a–f).

- a What else, other than a lack of video and updates, can result in a failed campaign?
- b What should users do to give their start-up the best chance of achieving their targets?
- c Why is crowdfunding a more attractive way of getting investment these days?
- d The Keep-it-all model is clearly more beneficial, but does it work for all campaign types?
- e What type of reward should entrepreneurs offer potential investors?
- f How sure can I be that I'll get that large amount of funding I want?

The rise of crowdfunding

Journalist Sarah Finch interviews the economist Thomas Kerr about the rise of crowdfunding and how to run a successful campaign.

Sarah: 1 _____

Thomas: Crowdfunding allows entrepreneurs to bypass venture capital companies and reach a large number of potential investors online; where geography no longer matters. However, it's worth considering what level of investment you need. Last year, crowdfunding raised \$4bn for entrepreneurs in the U.S., yet venture capital firms invested over \$60bn. So, while crowdfunding may be an attractive option, investment from venture capitalists is still much higher. The latter is certainly something I'd recommend to entrepreneurs with large projects, or those who need expertise and support to help get their project off the ground.

Sarah: Let's imagine I decide to go down the crowdfunding route. **2**

Thomas: Firstly, you need to be realistic about how much money people will be willing to invest in your project. Kickstarter—one of the best-known crowdfunding sites—says that of the total projects that have been successfully funded on the site to date, 69% have raised less than \$10,000. Only 3% of projects have raised over \$100,000 and just 0.2% have raised \$1 million. That suggests crowdfunding is more appropriate for smaller projects than large companies, even if it's the latter that get more attention in the media. It's also important to consider that Kickstarter campaigns currently have around a 35% success rate, meaning that 65% of projects fail to get the funding they need.

Sarah: 3

Thomas: Research has shown that when it comes to more traditional types of investment, perception of quality is highly significant as investors use it to predict how much of a return they may get on their investment. Research carried out by Mollick at the University of Pennsylvania has indicated that the same is true of crowdfunding projects—those that were perceived to be of a higher quality were far more likely to hit their investment goals. Successful campaigns were also aided by videos explaining the product and frequent updates, particularly in the early stages. In fact, for many projects, a well-produced video pitch is a necessity. For example, I recently saw a campaign for a product called Flic—a small button in your house that allows you to wirelessly control apps on your phone. Now, read or hear that description and it means very little, but watch the video and within the first ten seconds you know exactly what it is and how it can benefit you. Of course, it's important to remember that not all campaigns involve start-ups—existing entrepreneurs have been known to turn to crowdfunding to get funding for new ideas. There are notable examples in gaming where designers wanted to pursue passion projects that publishers didn't want to make. There are also experienced scientists looking to fund research.

Sarah: 4

Thomas: Mollick found that spelling errors, asking for too much investment, and having too long a deadline gave the perception that the project was low in quality and this reduced the success rate. However, it's not just quality that has an impact. Several studies have shown that without an effective network, an entrepreneur is likely to be unsuccessful in his or her campaign. This is true whether you're seeking venture capital or crowdfunding. With the latter, it's your social, online network that can make the difference. 30% of a crowdfunding campaign's investment comes from friends and family, showing just how vital they are. They start off the bidding and then tell others about it. If you don't know enough people to do that for you, your campaign won't develop much momentum.

Sarah: 5

Thomas: There are four types of campaigns, not all of them offering a tangible benefit. Lending-based campaigns and donation-based campaigns are more philanthropic, especially the latter where the money goes towards scientific research or humanitarian projects. Equity-based campaigns, where investors get a share of the company in return for their investment,

and reward-based campaigns are those which offer tangible rewards. The latter are the most common type and generally offer the investor a copy of the product they've backed or the opportunity to consume it; for example, to see the film that was produced. Researchers from the University of North Carolina have found that offering different tiers of rewards also helps to attract funding. Tiers give people the opportunity to decide how much money to invest and what they'd like to receive in exchange. For example, backers at higher tiers often receive limited editions of the product or promotional merchandise. Interestingly, a study in Asia found that people motivated by helping others tended to invest early, whereas those motivated by the promise of reward were late investors, so adding late rewards in the final days of the campaign can help projects get across that investment goal line.

Sarah: 6 _____

Thomas: With a Keep-it-all model, entrepreneurs keep any money invested, even if the target investment isn't reached. Although this sounds more beneficial to the entrepreneur, these campaigns are perceived as riskier and tend to be less successful as a result. Backers invest on the understanding that if the project doesn't reach its target, the product may never be made and they will lose their money. All-or-nothing campaigns are perceived as less risky as investors know that if the campaign doesn't achieve its target, they get their money back. I'd say that it's worth selecting the Keep-it-all model for small projects, but I would definitely recommend the All-or-nothing model for larger projects that are looking for greater investment.

3) Mark the statements as true or false.

- Last year, crowdfunding raised \$5bn for entrepreneurs in the U.S. T F
- Investment from venture capitalists is more recommended to entrepreneurs with large projects. T F
- Crowdfunding is more appropriate for larger projects than smaller companies, even if it's the latter that get more attention in the media. T F
- Investors use perception of quality to predict how much of a return they may get on their investment. T F
- All existing entrepreneurs have been known to turn to crowdfunding to get funding for new ideas. T F
- A good video of your product can help you to find investors. T F
- Without an effective network, an entrepreneur is likely to be unsuccessful in his or her campaign. T F
- More than a half of a crowdfunding campaign's investment comes from friends and family. T F
- Reward-based campaigns are the most common type, which helps to attract funding. T F
- Adding late rewards in the final days of the campaign can help projects get across that investment goal line. T F
- Keep-it-all model campaigns tend to be risky and unsuccessful. T F

- In All-or-nothing campaigns if it doesn't achieve its target, investors don't get their money back. T F

4) Find the words in the text which refer to the given definitions.

- a) _____ is when a large number of people each give an amount of money to pay for a project, especially by using a website to collect the money. (*n*)
- b) An _____ is a person who sets up businesses and business deals. (*n*)
- c) You can refer to television, radio, newspapers, and magazines as the _____. (*n, pl*)
- d) If you _____ an activity, interest, or plan, you carry it out or follow it. (*v*)
- e) If something is _____, it is clear enough or definite enough to be easily seen, felt, or noticed. (*adj*)
- f) _____ material, events, or ideas are designed to increase the sales of a product or service. (*adj*)
- g) Something that is _____ is advantageous for people or improves their lives. (*adj*)
- h) If an activity or action is _____, it is dangerous or likely to fail. (*adj*)