CROWDFUNDINGROADMAP
Leading You In The Right Direction To Fund and Build A Great Company!

Getting Started with Crowdfund Investing For Dummies® in a day

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Getting Started with Crowdfund Investing In A Day FOR DUMMIES®

by Sherwood Neiss, Jason W. Best, and Zak Cassady-Dorion

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Table of Contents

Introduction

Crowdfund investing is an exciting new business financing opportunity created by the JOBS Act that was signed into law in 2012. It taps into the power of the crowd by connecting entrepreneurs and small business owners with investors via LinkedIn, Facebook, Twitter, and other social media. And it offers small investors the chance to purchase an equity stake (or to fund debt) in small, private businesses run by people they know and trust.

Crowdfund investing occurs via online funding portals: websites that host investment campaigns and collect investor pledges. An individual can invest only a limited amount each year in these campaigns (to mitigate investor risk), and a campaign must be funded completely in order for the business to receive investor dollars. The U.S. Securities and Exchange Commission is charged with regulating the crowdfund investing industry and will announce industry regulations in early 2013.

If you've got a great concept, a solid business plan, and vibrant social networks, you may find that crowdfund investing is a great fit for you. Reading this book is your first step to figuring out if that's the case.

What You Can Do In A Day

In a day, you can get yourself up to speed on the opportunities that crowdfund investing presents and the legislative guidelines that you must follow. You can start to visualize the size and makeup of your ideal investment crowd, and you can discover how an online funding portal will support your campaign. You can even start working on your campaign pitch by drafting a headline that succinctly states your goal(s) and considering what you'd say to an investor in a video that explains who you are and what you want to accomplish.

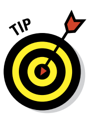
Be realistic: You can't set up a brilliant crowdfund investment campaign in a single day. But you certainly can lay the groundwork for what may become a vital source of funding for your business after the crowdfund industry debuts in 2013.

Foolish Assumptions

We assume that you're coming to this text with at least a little business acumen. Maybe you're already running a company, or you've got at least a draft of a business plan in hand. With that said, we avoid jargon and focus on the fundamentals here, so even if this is the first book you read about business financing, you won't have any trouble following along.

Icons Used in This Book

Throughout this book you'll notice small graphics in the margins, called *icons*. These symbols are meant to draw your attention to particular ideas.



This icon denotes information that can ease your efforts when starting a crowdfund investing campaign.

To avoid a common misstep, heed the advice offered in a paragraph accompanied by this icon.

These tidbits are worth tucking into your mental filing cabinet for future use.

Take a break from the text for a quick exercise designed to help you get a better grasp of crowdfund investing. This icon shows you what to do.

When you see this icon, head to this book's companion website at `www.dummies.com/inaday/crowdfundinvesting`. Online, you'll find information that supplements the topics that we cover in this book.

Chapter 1

Tapping a New Source of Business Funding

In This Chapter

- Preparing for a regulatory overhaul
- Turning the crowdfund investing concept into legislation
- Grasping what the JOBS Act accomplished

The concept of crowdfund investing goes back to 3000 B.C.; it was one of the earliest forms of financing. Back then, banks and financial institutions didn't exist, but people with money and people who needed funds did. Deals were made among people who knew each other, and accountability was reinforced through interaction and oversight. The rates of return (interest rates) were determined by how well the individuals knew each other and how much money someone needed. The weaker the connection and/or the more money needed, the riskier the investment was and the higher the return had to be.

In the early days of our nation, the crowd concept was evident in the way the Statue of Liberty was erected (through contributions from the citizens of France and the United States) and in the proliferation of building and loan associations that helped community members mortgage homes. But federal regulations changed drastically following the stock market crash of 1929, and the crowd largely got squeezed out of the private equity marketplace.

In this chapter, we explain why this form of financing is "new all over again" and has become one of the hottest topics in early-stage business financing. We walk you through the industry framework we took to Washington and explain how crowdfund investing changes the business financing landscape.

To see a video on Crowdfund Investing 101 — discussing many of the topics we touch on in this chapter — check out www.dummies.com/inaday/crowdfundinvesting.

The Origins of the JOBS Act

The groundwork for the JOBS Act, which opened the door to crowdfund investment, was laid with the 2008 financial collapse. After past recessions, small businesses got the country back on track. But this time around, they couldn't do so because the typical ways that small businesses gained access to capital had dried up. Banks weren't lending, credit card companies slashed credit limits and hiked interest rates, and private equity and venture capital firms invest money in less than 2 percent of companies that approach them.

Many people and organizations still had cash after the 2008 collapse, but that money wasn't flowing to the entrepreneurs who could use it to start businesses and to small businesses that could create jobs.

The three of us could see the problem clearly, and we offered a solution. We had zero political experience, yet we were able to get a crowdfund investing bill passed in the U.S. Congress in 460 days — from the creation of our Startup Exemption Regulatory Framework to the day we attended the presidential signing ceremony in the Rose Garden of the White House.

In this section, we briefly explain why we were (and are) so bullish on crowdfund investing and why the time was exactly right for the U.S. financial regulatory system to allow it to happen.

Internet + social media = easy crowd access

Virtually every business today has to have an online presence. People spend an increasing amount of their time online, and that includes time they spend shopping, investing, and making other business-related decisions. Therefore, it just made sense to introduce the means for entrepreneurs and small businesses to raise funds online and for individual investors to locate such investment opportunities via their online social networks.

The other major change that has occurred courtesy of the Internet and social media is unparalleled transparency that has never before been available in the finance world. A company that dares to play games with its financial reporting is much more likely to have that fraud broadcasted far and wide by investors who share their horror stories online.

Responding to the financial collapse of 2008

After the financial collapse of 2008, small business funding dried up. If you were a small business owner or entrepreneur and you went into a bank for a loan, the bank would require three years of financial statements, as well as enough assets to back your loan. If you were trying to fund a startup, meeting these requirements was impossible. (As a brand-new business, where would the financial statements come from?) And even if you were a going concern, the asset requirement likely took you out of the running for the size of loan you really needed.

Credit card financing was no longer a readily accessible option either. Credit card interest rates were raised to extremes, and credit limits were slashed. (You can argue all day about whether this was a good or bad thing, given how addicted our nation was to easy credit, but it had a net negative effect on even successful small business owners.)

Recognizing that investors want other options

Before the JOBS Act, the average small investor didn't fund small businesses and startups. Federal financial regulations made doing so tough, and unless your nephew or college roommate or another close contact was the one opening the business, chances are, you would have no way of hearing about this type of investment opportunity.

But after 2008, many people lost trust in the traditional financial systems. They stopped putting blind faith in big companies, big banks, and Wall Street. They still wanted to invest their money in businesses, but they didn't want the people responsible for the global meltdown to take a cut of the pie.

With the advent of crowdfund investing, the average small investor today can sit in her living room anywhere in the world, study 20 different pitches from 20 different entrepreneurs or small business owners, decide which of them make sense for her, and fund them with the click of a mouse. And she can feel assured that, when doing so, her funds are directly supporting the individual making the pitch — not a multinational financial conglomerate that couldn't care less about the $100 or $500 or whatever amount she's investing.

REMEMBER

Crowdfund investing is essentially creating a new set of investors: micro-angel investors. Before the JOBS Act, accepting $100 from a small investor was way too complicated to have been worth it. (The regulations just didn't allow for it.) Now, a business owner has a platform for raising funds in such increments, and every $100 or $500 or $1,000 investment can have a big impact on that business's success.

Following in the footsteps of microfinance

In many ways, Mohammed Yunis, the father of microfinance, laid the foundation for crowdfund investing. *Microfinance* focuses on small loans, typically in the $300 to $500 range, to entrepreneurs (mainly women) in the developing world.

The core tenets of microfinance and crowdfund investing are similar: Both systems are about getting capital in the hands of people who have trouble raising it via traditional means, so those people can start and grow their businesses. Yunis made his first microfinance loan in 1976, and shortly afterward he started the Grameen Bank, the world's first microfinance organization. (He and the bank won the Nobel Peace Prize in 2006.) Microfinance has since grown to be a factor in almost every developing country in the world and has had an amazing impact on alleviating poverty.

Following the path blazed by Yunis, in 2005, Matt Flannery and Jessica Jackley launched Kiva (`www.kiva.org`), which allows someone with as little as $25 to make a loan to an entrepreneur in the developing world. Kiva connects with microfinance organizations in the developing world, which locate entrepreneurs and help write their stories and explain why they need the money. Then it allows donors to become part of a crowd that supports an entrepreneur's mission.

Since Kiva began, it has funded over $300 million in loans with a 98 percent repayment rate — far better than credit card companies have in the developed world. (Because the organization is a 503(c), the SEC allows for the principal of the loan to be repaid.) The site is a platform where anyone with an Internet connection and a debit card can sign on and make a loan.

5-MINUTE EXERCISE

To get a taste of how Kiva taps into the power of the crowd, visit its website (`www.kiva.org`) and click on Lend. Read just a handful of stories that demonstrate who benefits from these microloans. We dare you not to feel inspired!

Watching the rise of donation- and perks-based crowdfunding

Out of microfinance and Kiva sprouted donation- and perks-based crowdfunding websites. When they first began, these sites mainly supported art-related projects. If a band wanted to make a new album, for example, it created a profile on a crowdfunding website, posted some of its past music, and talked about its plans for the new album. Then it listed how much money it needed and how it planned to use the money. The band created a bundle of rewards that donors/investors would receive upon giving money. For instance, if someone gave $25, she'd get a CD of the new album; for $100, she'd get her name on the album cover; and for $500, she'd get backstage passes to the band's next concert.

The wild success of these websites (which are currently funding over $10 million a month) led to other campaigns that focused on crowdfunding via presales of products. One such success was an iPod Nano watch kit. Scott Wilson created a watch into which you could plug your iPod Nano. He didn't have the upfront capital to manufacture the watch, so he put his concept on Kickstarter (www.kickstarter.com). Wilson wanted to raise $15,000 to buy material. For $25, someone would receive one of the watch kits in the mail. He ended up getting 13,512 backers and raised a whopping $942,578.

Success stories like these demonstrated that the concept of crowdfund investing had traction. They proved that people will invest money online through crowdfund and crowdfund investing portals. From a business plan perspective, donation-based crowdfunding was akin to a proof of concept for crowdfund investing.

As with Kiva, we encourage you to spend even just a few minutes on the Kickstarter site (www.kickstarter.com). On the home page, browse some of the Popular campaigns, and click on a couple that pique your interest. Notice how their descriptions are worded and how the pages use text, graphics, statistics, and other elements to grab your attention. You can get a quick intro to online campaign pitches this way.

The Startup Exemption: Advocating for Change

The specific idea for crowdfund investing began as many good ideas begin: over drinks with friends. Near the end of 2010, the three of us were talking about the state of the economy in the wake of the 2008 financial meltdown. Even though it had been two years since the market crashed, the official unemployment figures were still above 9 percent, with estimates of underemployment at similar rates. Most small business financing had evaporated.

With these problems weighing heavy on our minds, we sat around Jason's dining room table and considered our own options for raising money for several businesses, which were extremely limited (despite the fact that we had collectively raised $87 million through traditional financing for previous projects). At the same time that we were getting shot down by banks and private equity, we were giving away our own money to people on donation- or perks-based crowdfunding websites so they could launch art-related projects, and we were investing in entrepreneurs in third-world countries via Kiva.

A light bulb went off. We thought to ourselves, "If we can donate to artistic projects all over the United States and we can lend money to entrepreneurs in other countries, why can't we use the web and social media to raise money for U.S. small businesses we know and entrepreneurs we believe in and give people a slice of equity in return?"

Hitting the regulatory barriers

The three of us believed we had a great idea for a business, which was a crowdfund investing website that would allow businesses and entrepreneurs to sell shares (or make revenue-based financing loans) via their social networks. However, when we went to talk with a securities attorney, he politely explained that what we planned to do was illegal based on the Securities Acts of 1933 and 1934.

Our lawyer explained that we couldn't publicly solicit the sale of private shares to *unaccredited investors:* people whose net worth (not including their primary residence) is less than $1 million and who have made less than $200,000 per year for the previous two years. He continued by saying that to change this law would require an act of Congress, and that was unlikely to happen.

We pushed the idea aside for a few weeks but kept coming back to the fact that it was exactly the right thing to do. It didn't make sense that laws written 77 years ago (when the majority of Americans didn't have a telephone!) should govern the sale of securities in the age of the social web. We really believed then, and still believe today, that crowdfund investing is Web 3.0: the social web + capital formation.

Being the optimistic entrepreneurs that we are (and possibly slightly stubborn and naïve), we set out to change the laws, to get capital flowing, and to get America growing.

Developing a new framework

In order to get something passed through Congress, we knew that we had to put investor protection at the forefront. In January 2011, the three of us reviewed the Securities Acts of 1933 and 1934, as well as Regulation D, which governs small, private sales of stock for small business (mainly to accredited investors). We thought about how to balance the capital formation needs of small businesses and entrepreneurs with our desire to protect investors from fraudsters. We created the Startup Exemption Regulatory Framework as a proposal to leverage the power of community financing with social media and small business.

We built `www.startupexemption.com` and were ready to take our framework to Washington. We began to talk about our framework to the media, to members of the U.S. House of Representatives, and to any other insiders who would listen. We were happily surprised at the reception.

Getting crowdfund investing into the JOBS Act

Our goal was to get someone in the U.S. House of Representatives to introduce a crowdfund investing bill. The White House took early notice and asked us to send our framework and a summary of our proposal for their review. The big breakthrough came when Congressman Patrick McHenry (R-NC), the chairman of a subcommittee of the Banking Committee, took our framework and wrote it into law. Then a bipartisan group of three senators — Sen. Jeff Merkley (D-OR), Sen. Scott Brown (R-MA), and Sen. Michael Bennett (D-CO) — joined the cause.

Around the same time, the JOBS Act (short for Jumpstart Our Business Startups) was created by combining several pieces of proposed legislation with the goal of providing additional ways for small and emerging businesses to access the capital markets so they could grow, create jobs, and spark innovation. The crowdfund-investing bill was rolled into that act, which was passed by overwhelming majorities of both houses of Congress. We were thrilled to be invited to attend the Rose Garden ceremony at the White House to watch President Obama sign the legislation into law on April 5, 2012.

Grasping the Regulatory Revolution

So, what exactly did this legislation change in the U.S. financial regulatory system? And how do these changes stand to benefit business owners and investors? In this section, we answer these questions in very broad strokes.

Promoting emerging growth companies

The JOBS Act created a new category of companies called *emerging growth companies* (EGCs) and gives small, growing companies a five-year window in which to become fully compliant with accounting regulations. To qualify as an EGC, the company must

- Have less than $1 billion in annual revenue
- Not have gone public more than five years ago
- Have issued no more than $1 billion in debt securities
- Have floated less than $700 million in stock securities

You may find it downright funny to see such high revenue, debt, and stock numbers used in combination with the words *small* and *emerging.* Nonetheless, this provision is important because it allows growing companies to have access to the public markets and not be crushed by the regulatory burdens.

Redefining who can invest in small ventures

Prior to the passage of the JOBS Act, accredited investors (people with high net worths and/or incomes) often were the only ones who could invest in private debt or equity transactions. One of the biggest changes the JOBS Act created was lifting the restriction on soliciting unaccredited investors to purchase stock. This means that companies that use crowdfund investing to raise capital are legally able to solicit people of all net worths and income levels to purchase their shares.

You can't solicit anyone and everyone, though. You have to follow SEC regulations that require you to directly solicit only people who are members of your online social networks. And when doing so, you must be careful not to discuss the investment opportunity itself by any means except driving people to the online funding portal hosting your campaign. We discuss this topic much more in Chapter 3.

Setting up the structure for online investment

The JOBS Act spells out, among other things:

- The maximum dollars a business or entrepreneur can seek via crowdfund investing, which is $1 million per year.
- The maximum amount an individual can invest via crowdfunded ventures in a year, which may be a flat $2,000, 5 percent of the individual's annual income or net worth, or 10 percent of the individual's annual income or net worth. The limit depends on the person's specific finances.
- The means by which a company may seek investments and an individual may make them, which is via SEC-registered online funding portals (see Chapter 4).

The legislation also specifies other parameters that seek to promote the business sector while preventing fraud and protecting the investor, and the SEC has developed regulations to support these parameters. To keep abreast of current SEC regulations, be sure to visit `www.sec.gov` regularly, and ask advice from an attorney if you have any doubts about whether you're following the letter of the crowdfund investing law.

Chapter 2

Financing a Startup or Small Business

In This Chapter

- Spotting businesses that are likely to tap crowdfund investing
- Respecting the rules of the road for this type of investment
- Getting a sense of what's involved in a campaign
- Recognizing some of your risks

This chapter offers a big-picture view of how an entrepreneur or small business owner can use crowdfund investing and how this type of financing differs from others. We describe some categories of businesses that are the right fit and style for crowdfund investing. We then briefly touch on the statutory requirements that an entrepreneur or business owner must follow to raise funds from the crowd, sketch the process of raising funds this way, and describe some risks faced by businesses engaging in this type of financing.

Identifying Businesses Ripe for Crowdfund Investing

Title III of the JOBS Act, which created the opportunity for crowdfund investing (see Chapter 1), uses the term *emerging growth companies* (EGCs) to refer to entities that are most likely to utilize this form of financing. In this section, we introduce you to the key categories of EGCs: startups, small businesses, and other entities that find it difficult or impossible to find traditional financing.

Startups

When you think about a startup, you may envision a bunch of high-tech college kids camped out in a fraternity house or apartment, coding away, living on beer and pizza, and figuring out how to change the world and get rich in the process. In reality, startups emerge from every part of a community, from chambers of commerce to kitchen tables.

Essentially, a startup is a pre-revenue company that may be in the “great idea” phase or may have been developed into a business plan complete with marketing and financial ideas. In better cases, a startup has a *proof of concept* (meaning that its feasibility has been proven).

Startups are the riskiest types of investments because so many things can go wrong. Maybe the idea itself proves to be bad. (Turns out that people won’t actually buy chocolate-covered gummy bears.) Maybe the revenue model doesn’t pan out. (Turns out that people expect information on the Internet to be free.) Maybe the concept wasn’t thought through well enough in advance. (Turns out that website you need requires an integrated payment system, which isn’t in the budget.) The list of possible pitfalls is long and stress inducing.

So, why do startups ever get off the ground? Because great businesses (the kind that bring innovative products to market, earn lots of revenue, and employ brilliant people) have to start somewhere, and many risk takers want to be involved from day one with the Next Big Thing. From the investors’ perspective, the chance of return over the long haul is much greater with a startup than with almost any other type of investment, especially if the startup has the potential to eventually lead to an initial public offering (IPO). Of course, the chance of losing every penny of your investment is also much greater.

Not all startups are IPO material. For instance, consider someone who wants to start an organic farm to supply produce to local restaurants, or someone who plans to run a home renovation business. Neither one is a highly likely candidate for a future IPO. That doesn’t mean these aren’t good investments — it just means they aren’t the types of startups you see discussed at length in the financial press.

Small businesses

From the perspective of the federal Small Business Administration (SBA), a small business generally has fewer than 500 employees for manufacturing businesses and less than $7 million in annual receipts for most nonmanufacturing businesses. But from the crowdfund investing perspective, a small business probably earns less than $1 million in revenue and has fewer than five employees.

Why the much narrower definition? Because companies fitting these criteria are the most in need of crowdfund investing support. Historically, businesses with less than $1 million in revenue have a much harder time qualifying for financing than businesses with more than $1 million in revenue.

Why does crowdfund investing focus on small businesses also? Why not just fund startups? One answer is jobs. According to the entrepreneurial think tank the Kauffman Foundation, over the past 30 years, startups and small businesses combined provided the bulk of net new jobs in the United States. In addition, small businesses that have an operational history may be less risky and more attractive than startups. After all, businesses that have been around a few years usually have a business model that's working.

Small businesses stand to benefit greatly from crowdfund investing because those businesses that haven't been around for three years don't qualify for bank loans (even if they're growing steadily). And businesses that are growing steadily (5 percent to 20 percent per year) likely don't qualify for venture capital (because these funders are interested in big exit strategies that deliver a financial return of at least ten times what was invested).

Crowdfund investing is not the right choice for every funding need. If you're opening or running a small business that likely will never make a significant amount of money, you may not want to get a crowd involved in your business. After all, having financial obligations or expectations and unhappy investors can be extremely stressful, and investors tend to be unhappy if they aren't making any money. That stress is very likely to distract you from creating and running your business and will reduce your future productivity.

Anyone who doesn't qualify for traditional financing

Many new small businesses can't secure bank loans. That's always been the case, and it's become even more difficult since 2008. Banks require security for their loans and, in most cases, want to see two different ways that a business owner can repay them. When you're starting a new business, you (and your partners, if you have them) invest everything you've got — financially, physically, and emotionally — into getting your business off the ground. You may not have a Plan B, which means you may not qualify for a bank loan.

What about venture capital or private equity? Well, if you live in the San Francisco Bay Area, Austin, New York City, Washington, D.C., or Boston, you may be in luck. High concentrations of private capital investors operate in these areas and are looking for great ideas to invest in. Geography is on your side because these investors may be looking to invest locally or may simply be more apt to meet with someone whose business is in town (versus halfway across the continent). If you live in Natchitoches, Louisiana, or Arnold, Nebraska, your access to these investors may be more limited.

In addition, if you're starting or running a company in an industry that isn't hot or new, you probably won't grab the attention of private equity firms even if you live in one of the investment hot spots. (Private capital investors generally don't put money into dry cleaning chains or sports bars unless you have a way to generate 10- or 20-fold returns in less than five years.)

And just in case you aren't discouraged enough, venture capitalists and other private investors are increasingly moving away from what used to be considered "seed-stage investments" and taking a more wait-and-see approach before parting with their money. They now tend to watch an entrepreneur bootstrap his business until he has real deliverables or traction. For example, they want the entrepreneur to build a prototype, launch the service or product, sign a certain number of customers, or maybe even get to break even on a cash flow basis before they're willing to invest. If you've ever started a business, you know that these milestones are big, and reaching them on your own is no easy task.

If you have a legal and legitimate business or idea, just because you haven't been able to qualify for traditional financing doesn't necessarily mean your business or idea can't work. Turning to crowdfund investing may provide you an opportunity to raise the money you need to get the proof that you can achieve milestones, create a track record, and demonstrate to investors or banks that they should work with you.

Are you the type of entrepreneur who can successfully tap into crowdfund investing's potential? Check out our video on this topic at `www.dummies.com/inaday/crowdfundinvesting`.

Working within the Statutory Framework

Crowdfund investing is not the Wild West. (We do *not* want risk to run amok and investors to lose their shirts.) When we first created the Startup Exemption Regulatory Framework (see Chapter 1) and began actively promoting it in January 2011, we knew that rational, common-sense regulations would be critically important to the success of this new investment path. For that reason, we built certain rules into our initial framework and have actively encouraged their implementation with the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA).

If you determine that crowdfund investing is right for your company, you must follow all legal requirements and abide by the terms and conditions of the online platform you select to use when you raise capital (a topic covered in Chapter 4).

The intent of Title III of the JOBS Act is to create an orderly market for crowdfund investing that enables entrepreneurs, small business owners, and potential investors to have the best opportunity for success, while protecting investors from potential fraud. In this section, we explain a few of the statutory requirements set forth in the JOBS Act you need to understand.

Limiting funding to $1 million

Our intent with our legislative framework was to create an asset class that provides targeted tools to enable small businesses to grow. Therefore, we wanted to establish a limit for crowdfund investing that would allow for sufficient seed money or early-stage investment for most businesses, while avoiding the unintended consequence of having larger organizations use this asset class as an ATM. The limit we set is $1 million in crowdfund investing funds per year. Organizations that need to raise more than that amount should seek funding via more traditional means.

Also, we're big believers in *lean startup methodology.* We think that business owners should exercise extreme care in determining how much money they need to raise to achieve their next milestone. Any time you raise capital (whether via crowdfund investing or traditional means), you take on investors who expect a return on their investment. If you take on more capital than you can effectively use at that time, you're potentially reducing their return on investment, diluting your ownership stake unnecessarily, and increasing the risks facing your organization. Setting a cap on crowdfund investing discourages businesses from raising excessive capital. It also keeps the funding vehicle targeted at small businesses.

Realizing why an all-or-nothing funding provision exists

When we wrote the framework for the crowdfund investing bill, we decided early on that an all-or-nothing provision was essential. That decision follows the example of many donation- or perks-based crowdfunding services, which we explain in Chapter 1. This provision means that the entrepreneur or business determines upfront the financial goal for a crowdfund investing campaign, works diligently to accomplish that goal, and either succeeds (and receives the full amount) or fails (and receives nothing, despite whatever investment pledges have been made).

Here are some key reasons that this provision exists:

- **To be fair to investors:** Business owners must be clear with investors about how much money they require and how that money will be used. If a business aims to raise $100,000 and promotes to investors what it will do with that money, it can't possibly accomplish the same goals if it raises only a portion of that amount. An investor who pledges to support the $100,000 project shouldn't be assumed to support a reduced version of it.
- **To keep it lean:** We mention *lean startup methodology* in the preceding section. The all-or-nothing provision encourages this kind of thinking because the entrepreneur or business owner doesn't want to think too big (aiming for the maximum of $1 million to open several new locations, for example) and risk getting nothing. Instead, this person is encouraged to think more realistically (aiming for $200,000, perhaps, to open a single new location), so the chances of fundraising and operational success are greater.

  With crowdfund investing, you can always go back and raise more money with additional campaigns. The more successful you are with your first effort, the easier it will be for you to raise successive rounds of financing.

  It's a much smarter business decision to go after financing in small portions (called *tranches* in the financial world), to enable incremental growth, than to go after the capital to fulfill all your business goals at once. The all-or-nothing provision encourages entrepreneurs to set their goals at the smallest level possible to be able to grow their businesses to the next level.
- **To discourage fraud:** If the all-or-nothing provision didn't exist, it could be fairly easy for a fraudster to go online, set up a bogus business pitch, and pocket whatever amount of money he could drive to his crowdfund investing page before being exposed. It could be fairly easy to convince a handful of investors to fork over cash for a bogus business plan.

  We believe in the power and intelligence of the crowd, and we expect that the crowd can sniff out fraudsters before they're able to secure significant amounts of investment pledges. If a fraudster is able to get $1,000 in pledges toward a $20,000 campaign before he gets busted, for example, he doesn't get the $1,000; he gets nothing. The all-or-nothing provision essentially grants the crowd time to sniff out the frauds.

Avoiding general solicitations

To explain this rule, we should first offer a short history lesson. One of the reasons for the collapse of the stock markets back in 1929 was mass speculation. People were making investments assuming that there was no way to go but up, and this hysteria was fostered by salesmen who sent offers to the public in newspapers, for example.

After the 1929 crash, the way in which investments could be solicited changed. The SEC was created, and it determined that the general public was not well served by investment offerings being so openly promoted. Therefore, a company wanting to raise cash had to be listed on an *exchange* (a market like the New York Stock Exchange). To be listed on the stock exchange, a company would have to disclose lots of information to the SEC, including the risks associated with investing in it.

The same laws have been in existence since 1933, although a few updates have occurred — mainly ones that allow private companies to solicit money from the richest 1 percent of Americans without having to go through a costly public registration. The thinking behind these updates was that the wealthy are more sophisticated about investing than regular folks and can afford to risk more of their assets without incurring catastrophic losses.

With the JOBS Act, the rules of the game changed to account for advances in technology and the Internet. Previously, we needed the SEC and the exchanges to act as the sole gatekeepers to people's pocketbooks so that investors had all the information they needed to make informed decisions. Today, the Internet can serve part of that function by providing increased transparency and making it more difficult for a business to take advantage of investors.

REMEMBER

But even with the sunlight of the Internet, we can't just open the doors to generally soliciting the public for money. (You still can't post an ad to raise money for your startup idea on the radio, in a newspaper, in a magazine, or on television.)

Instead, the intent of Title III of the JOBS Act is that if you want to raise money to start or grow a business, you can do so by soliciting funds from people who know you. Specifically, you're limited to soliciting via an online funding portal (see Chapter 4) after reaching out to people with a general notice on your social networks. You can't step outside these bounds and directly solicit capital from someone who doesn't know you (although the people in your social networks may extend your solicitation to people they know, which offers you more layers of possible investors).

The SEC is charged with developing the rules for how you can direct people to your funding pitch (on your online portal) using Facebook, LinkedIn, Twitter, e-mail, and other online networks. Visit `www.sec.gov` to find the most up-to-date information on the regulations at play.

Using only SEC-registered websites

To prevent people from soliciting random folks for money, the JOBS Act mandates that anyone seeking crowdfund investments must do so via an SEC-registered website or, in some cases, through a broker-dealer. The websites, known as *funding portals,* help the SEC make sure that a company has disclosed as much information as possible so investors can make informed decisions. They also prevent a company from getting any of the funds unless it hits its stated campaign goal (see the earlier section "Realizing why an all-or-nothing funding provision exists").

In addition, the SEC-registered websites prevent investors from investing more than their annual limits.

TIP: If you're going to seek crowdfund investment support, you must use one of these SEC-registered websites (or a broker-dealer). Doing otherwise will land you in trouble. For specifics about what crowdfunding portals can do for you, be sure to read Chapter 4.

Putting Your Baby Online for the World to See

Here, we explain the basics about how a crowdfund investing campaign works and what to expect when you take your brilliant idea and business plan online.

Mapping out your goals and plans

The starting point of any crowdfund investing campaign is getting your brand advocates — your existing customers, your family members and friends, and anyone else who knows and trusts you — onboard with your business and financial goals. To do so, you first have to know what your goals are, and you have to get specific. A great idea is helpful, but a business plan that spells out the financial needs you'll face as you start or grow your company is even more crucial.

If you've already constructed a business plan, take a few minutes to read through its executive summary. Try to think like an investor. Is the summary clear? Concise? Organized? Thoughtful? Inspiring? Highlight anything that doesn't wow you. Your executive summary can serve as a starting point for your crowdfund investing campaign pitch, so you want it to shine. If you aren't sure that it's strong enough to attract a crowd, later ask friends and family members to read it and offer feedback.

Keeping in mind the financial caps for a crowdfund investing campaign, and especially keeping in the mind the all-or-nothing funding provision that we outline earlier in the chapter, you want to set a realistic campaign goal. If your business is very small and you can achieve a significant amount of growth with just $20,000, don't try to raise $200,000 just because the government says you're allowed. Stick with what you really need, and work every step of your campaign with energy, enthusiasm, and professionalism so your crowd knows they can trust you.

At the same time you're deciding on an amount of money you need to raise, you need to consider the form those funds will take. You can structure your crowdfund investment campaign in order to offer investors equity ownership of your company, or you can opt to treat their investments as debt to be repaid over a set amount of time (with interest). Consider the other types of financing available to you, consult with a financial advisor and your accountant, and make a decision that fits your company's overall needs.

Engaging existing advocates of your brand

Communicating your specific goals to your customers, friends, family members, and other advocates, as well as explaining the specific ways in which funds will be used, is the next major step of your campaign. This step takes place either through a broker-dealer or online, via an SEC-approved website that serves as your funding portal (see Chapter 4). Here, we briefly explain how this online solicitation works.

You *cannot* discuss the terms of your campaign offering outside the funding portal. Doing so is a violation of the legislation. No matter how jazzed you are about getting your idea off the ground, you can share only your concept and goals with people in person, on the phone, via e-mail, and so on. If those people are interested in knowing what investment in your idea would entail, you must direct them to your online funding portal or your broker-dealer for the specifics.

Tapping into your online network

Crowdfund investing is where financing meets online social networks. Through your online funding portal, you communicate your campaign pitch to every contact in your Facebook, LinkedIn, Twitter, and other social network accounts. Those people, who are your first-tier contacts, have the opportunity (again, via the broker-dealer or SEC-approved funding portal) to share the campaign pitch with their own social network contacts. Therefore, your pitch can spread to larger concentric circles of contacts and social networks over time — from the people who know you personally to the friends of friends who may prove to be your best investors because they share your passion for your business and want to make an investment. We explain this process in more detail in Chapter 5.

Turning to your established customer base

If you already run a business and you're looking to grow, you need to bring your existing customer base into your campaign. These are the people who know your business, your product, and you. As long as you've been treating them right and providing a good product or service, they're very likely to want to support your efforts by becoming equity or debt investors.

Although you can't directly solicit campaign funds in your existing store, on the phone, or in any way other than via the online funding portal, you can certainly inform your customers about your campaign. Ask them to join your social network(s) and to visit your campaign page on the funding portal website.

Promoting interest throughout the campaign

When your campaign goes live, you must be prepared to respond to questions, concerns, and criticisms posted on the funding portal site by people who review your pitch. From start to finish, your online campaign may last up to three months. Be prepared to stay engaged consistently so your pledges start strong and stay vibrant throughout.

You want to start strong right out of the gate so your campaign gets immediate traction. The funding portals use metrics to rate the early success of each campaign, and those metrics can help or hurt you. If a potential investor sees that response to your pitch is anemic in the weeks immediately following your launch, you'll be fighting harder to get that person onboard. If she sees, instead, that your pitch has garnered immediate interest and resulted in robust pledges, she'll be more likely to join your crowd and to share her enthusiasm with her own networks.

Your best chance at success is to get your committed supporters to pledge their funds early on and let them spread the word on your behalf. The ripples of their enthusiasm can spread far and wide, and you may find that you get investments from people you've never met who are taking a chance on you because a friend of a friend says you're trustworthy, hardworking, and worth the risk.

Rewarding your investors or paying back your debt

The financing structure you choose during your campaign determines how you reward your investors:

- **Repaying debt:** If you choose to finance your venture with debt, you determine a repayment schedule upfront that includes principal and interest payments. You must be confident about generating revenue immediately so that you can cover these payments. (A startup without revenue should think twice before choosing this model).
- **Paying dividends on equity:** If you choose to offer your crowdfund investors equity, the type of equity you choose determines when investors get paid. Investors with *common stock* usually are in the investment for the long haul, and their exit will match yours. A *preferred stock* offering means that investors expect a dividend, which is paid out of the cash your business generates.

You must do a lot of thinking before you determine whether offering equity to your investors is the right move. You always want to be certain that you aren't giving away control of your business. Keep reading for some hints about how to start considering this option, and keep your lawyer and accountant on standby to help with the specifics of rewarding your investors.

Sharing the wealth

One of the biggest risks in crowdfund investing is failing to understand the value of equity. Sharing the wealth is important, but you need to be judicious in how you do it.

REMEMBER

Never give up control of your business. Simply put, *never* give up more than 50 percent of your equity when raising capital through crowdfund investing.

Most entrepreneurs go through multiple rounds of financing. You need to think strategically and ask yourself, "How many times do I think I need to go out and raise money? In each of those rounds, how much equity will I have to give up?"

TIP

As a general rule, the earlier you are in the development of a project, the greater the equity you need to give up. Someone with an idea who needs to build a proof of concept may give up 20 percent to 25 percent of a business for the necessary money. Someone with an existing proof of concept may give up only 10 percent to 15 percent of the business for some growth capital. And someone who's already generating revenue may be able to give up a smaller amount.

Of course, the equity percentages are dependent upon how much money you need as well. Raising smaller dollar amounts means you can give away less equity. Unfortunately, the larger the dollar amount you need, the greater the likelihood that you'll have to relinquish a larger amount of equity.

Think of equity as an apple pie. You always want at least half the pie for yourself. If you're going to give away pieces of it, the first slice may be half of the remaining half. The next piece may be a quarter of the remaining half, and the next may be an eighth. Figure 2-1 can help you visualize what we're talking about.

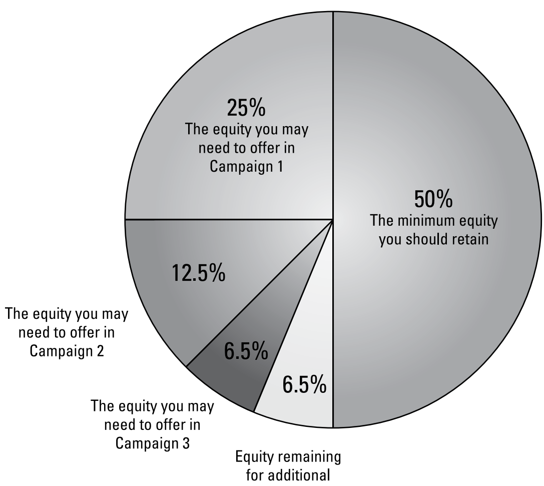


Figure 2-1: Your slice of the equity pie should never fall below 50 percent.

Be fair and don't be overly miserly, though. Using equity is a great way to get people to work with you. You may even be able to trade equity for services (such as legal, accounting, design, or computer services).

Chapter 3

Picturing Your Crowd

In This Chapter

- Coaxing the right crowd into your corner
- Preparing to give the crowd what it needs

Much of this book focuses on figuring out what you want to accomplish through a crowdfund investing venture and how to accomplish it. This chapter is all about the who. Specifically, we help you envision the members of your crowd and prepare yourself for winning their support.

Considering How Large and What Type of Crowd You Need

Outside of crafting a rock-solid business model, assembling your crowd is your number-one priority. The people who choose to join your crowd will validate that your idea is good enough to support, your revenue model makes sense, and you're a trustworthy entrepreneur deserving of their money. Your crowd will be not only your initial investors but also your consultants, your future customers, and your word-of-mouth advertisers.

You can see why getting the right crowd on your side is crucial. In this section, we show you how to begin figuring out what your crowd looks like.

Estimating the number of investors

Before you envision specific faces in your crowd, you want to get a sense of how many faces (and wallets) you need. If the subject of this book were raising venture capital, you might envision just one investor with a very large wallet who could make your every wish come true. But with crowdfund investing, you have to make some rough calculations to determine the number of investors you're likely to need.

You need to consider a couple pieces of information en route to estimating the size of your crowd:

- **How much money you're trying to raise through crowdfund investing:** As you construct a business plan and projected financials, you must estimate your crowdfund investing goal.

  Crowdfund investing is an all-or-nothing method of funding. Be realistic in your expectations, or else you risk getting zero for your efforts. Don't aim for $1 million in crowdfund investments unless you're extremely confident that you have an idea, an existing social network, and a marketing pitch that can convince a whole lot of people to believe in you. Your first time out of the gate, you may be better off setting your funding goal much lower so your chances of achieving it are greater.

- **The maximum investment level allowed from an individual crowdfund investor:** Per regulations established by the Securities and Exchange Commission (SEC), the maximum amount differs from person to person based on the individual's annual income or net worth.

  The maximum amount for any one person to contribute to a crowdfund investment project is $100,000, but the cap is much lower for people with modest incomes. If someone earns less than $40,000 a year, she can contribute a maximum of $2,000 per year to crowdfund investment opportunities. Someone who earns between $40,000 and $100,000 a year is limited to 5 percent of his income. People who earn more than $100,000 per year can contribute 10 percent of their incomes (up to the $100,000 per year cap). Keep in mind that an individual's maximum participation amount is the total amount he can contribute among *all* crowdfund investment opportunities each year.

To see the investor limits in table format, and to find out more about how and why people may put money into crowdfund investment opportunities, go to `www.dummies.com/inaday/crowdfundinvesting`.

With your funding goal and investors' limits in mind, you need to get real. Unless you have a specific reason to believe that your friends, family members, existing customers, or other close contacts are frothing at the mouth to put money into your venture, you shouldn't plan on many people maxing out their crowdfund investing capacity with you. Instead, you need to estimate how much money an average investor in your crowd is likely to risk on your project.

What's a reasonable expectation from each investor? Although crowdfund investing is new, the concept of crowdfunding isn't, and history may offer some helpful clues. (See Chapter 1 if you aren't sure how crowdfunding and crowdfund investing differ.)

TIP

Consider a specific type of crowdfunding event, such as a fundraising run or a political campaign. For donation-based platforms such as these, the average donation in recent years has been $80. Does that mean you should just divide your total funding goal by $80 to determine your crowd size? Maybe. Say your crowdfund investing goal is $25,000; divide it by 80 to determine you need 312.5 supporters. (Good luck finding that half a person.) That number can serve as a good starting point for your crowd size.

Should you then ask your potential investors each to contribute exactly $80? Absolutely not! A concept called *Pareto's principle,* which derives from crowdfunding, tells us that 80 percent of your financing will come from 20 percent of the crowd, who will make donations of $1,000 and higher (see Figure 3-1). The other 80 percent of investors will contribute 20 percent of the funding.

Using the example of aiming for $25,000, you can estimate that 80 percent of that amount ($20,000) will be given to you in the form of donations of $1,000 and up. In other words, you can expect 20 or fewer investors to provide that $20,000. If the remaining $5,000 comes to you in average investments of $80, you need about 62 people to provide that amount. (Actually, the number is 62.5, but we're going to leave that poor half-person alone.) You're then estimating that you need 82 total investors:

Pareto	***Dollar Amount***	***Number of Investors***
80%	$20,000	20
20%	$5,000	62
100%	**$25,000**	**82**

We aren't claiming that the Pareto principle is firm science, but it does provide a general framework for estimating your crowd size.

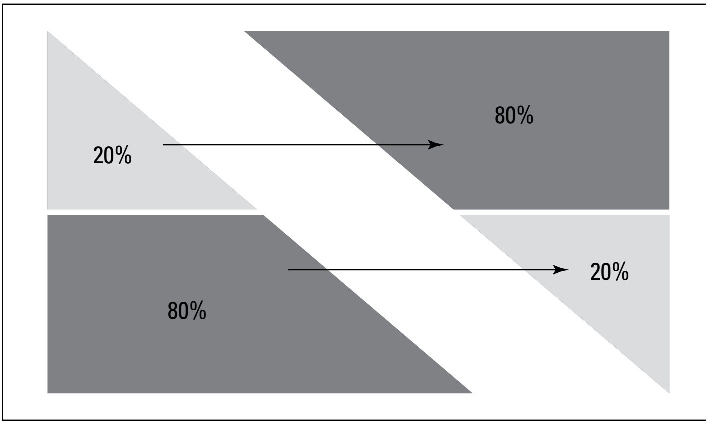


Figure 3-1: Pareto's principle.

Setting the minimum investment level

When you establish the parameters for investment in your business or project, you may determine that you don't want to bother with tiny investments. You don't want people buying into your venture for $1 or $5, for example, because you could run yourself ragged trying to meet the needs and answer the questions of hundreds or thousands of equity investors.

Some online funding platforms (see Chapter 4) may set minimum amounts you can raise; others will enable you to have the option of setting a minimum investment level for each crowd investor, and you probably should exercise that option. But in setting a minimum investment, you don't want to shut the door on people eager to participate but unable to supply major dollars. So, how do you strike a balance?

Start with the assumption that an average investment in your crowdfund investing venture may somewhat resemble an average donation to a crowdfunded project. As we note in the preceding section, the average such donation has, of late, been $80. You probably don't want your minimum to be higher than that amount.

Homing in on your social networks

The principle of crowdfund investing is based on a community of interrelated people coming together to support someone they know and trust with their money to help launch an initiative. These investors are rewarded with equity in the initiative or earned interest on a loan.

In this section, we point out some fairly obvious and not-so-obvious considerations when you start envisioning the faces in your crowd.

Starting with friends and family

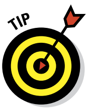
The JOBS Act legislation that supports crowdfund investing states that an entrepreneur or small business owner (also known as an *issuer*), via her pitch on the funding portal, will use her online social networks as the first tier of contact for seeking investments. Given this stipulation, you're undoubtedly going to be reaching out first to the people who know you best: your friends and family members.

Even with people you know extremely well, you're only allowed to explain your business concept and goals and to notify them that your investment pitch is on the funding portal. You aren't allowed to disclose details of the pitch via any means except the online portal. In other words, you can't call or e-mail your cousin or your former roommate and explain your investment offering ("If you invest X amount of money, you get X amount of equity"). Doing so violates the JOBS Act and can get you in serious trouble with the SEC. Always, always send people to the funding portal to find out what the investment looks like!

Stretching through your social network

If your intention were simply to fund your business with help from friends and family, you wouldn't require a crowdfund investing platform. You could probably achieve that goal with some persuasive phone calls and some old-fashioned IOUs.

A key function of crowdfund investing is to enable you to reach further into your social network contacts and drive your second- and third-degree connections to view your pitch online. Your second-degree connections are friends of friends, people you know courtesy of your friends. Third-degree connections are people your friends know who you haven't met yet.



To get a sense of your first-, second-, and third-degree connections, log onto your LinkedIn account. Under Contact, go to your Network Statistics section. What you find is a visual representation of your connections that demonstrates the power of online social networks. If you have 100 first-degree connections, for example, you likely have 20 times that number of second-degree connections. When you look at third-degree connections, you may be amazed at the number.

Although you certainly can't predict which of your social network contacts may come onboard with you, spending just a little time getting a sense of the scope of your social networks can help you gain a better picture of the crowd you're trying to assemble.

Figuring out if your network features any industry players

As you peruse your first-, second-, and even third-tier contacts on a site like LinkedIn, note how many of these people are familiar with your industry. Search your social networks for terms related to your business (such as *baker* or *biotech engineer*). The goal is to locate people who share similar interests as you, friend them, and introduce them to your idea (being certain to send them to your funding portal page for any specifics about your investment offering). Doing so can build your credibility, and these people may then introduce you to other contacts who can help you.

If you're starting a tech company, for example, and your social networks are teeming with techies, you may reasonably assume that a well-constructed business model is going to attract positive attention from the industry insiders. More than even your mom and dad, your industry peers may recognize the value of what you're proposing and be willing to risk investment. Keep in mind the collective power of the crowd: The more industry players you have as investors, the more solid input you'll receive for your business.

If you're starting a company in the biomedical field and your social networks are populated mostly by people with zero background in that field, your pitch may be tougher. You may also make a reasonable assumption that you need a larger crowd. Why? Your contacts may still be willing to roll the dice and invest, but without industry knowledge, they may not recognize the true potential of your plans and may opt to risk a bit less than the industry insiders.

Respecting What Crowd Investors Need from You

By seeking funding for a project or new business, you're embarking on a process that may last for many years. Over those years, you'll be building and maintaining relationships not only with your customers but also with your investors. Your customers may expect nothing more than a good product or service in exchange for their money, but investors are different. Anyone who gives you money upfront to support your vision is bound to have *expectations* about what will come from that investment.

REMEMBER

We put the word *expectations* in italics because it's the most important part of managing investors: You must carefully manage their expectations from the first minute you contact them about the investment opportunity, and this section gets you started.

Consider an example: You want to expand your greenhouse and landscaping business, and you're seeking $20,000 to do so. You have a solid business that has grown 7 percent to 8 percent each year for the last three years, has earned 15 percent profits each year, and boasts happy, repeat customers. When seeking investors, you must set their expectations to the realities of the landscaping business and prepare them for the possible upside and downside of your industry. You must accurately inform them of what you think the most likely outcome will be, based on data, facts, and your best judgments and planning.

Stating a clear vision

Managing investor expectations starts with stating a clear vision for your business. To state a clear vision for your business, first ask yourself these questions:

- What problem is my business trying to solve?
- How is my product or service going to solve that problem better than the existing options?
- How am I going to use the money I raise to help me build my business?
- How am I going to make a return for my investors?

Your vision should be able to clearly answer all these questions. Entrepreneurs often make the mistake of trying to have their businesses be the answer for everything. What can happen is that an entrepreneur tries to have her business do everything, but it ends up not doing anything well. Having a clear and realistic vision is the first step in avoiding this pitfall.

Be very succinct in your vision, and communicate it to your investors and your team. But don't overestimate what you're going to achieve. The best approach is to under-promise and over-deliver.

TIP

Any experienced entrepreneur or investor will ask you, "What's your elevator pitch?" Imagine that you and an investor get into an elevator at the ground floor. You hit the button for the top floor. In the length of time it takes to get to the top, you need to explain your business proposition to your investor. She needs to understand the problem, your solution, and how you make money. (She does *not,* however, hear about a specific investment opportunity; you encourage her to visit the funding portal for that information.) In most cases, you have about 30 seconds to accomplish this. Therefore, you must know how to reduce your idea down to powerful, digestible sound bites. Think you can't? The founders of Facebook knew how to do so, and now they're running a $100 billion business. If they can craft a winning elevator pitch, so can you. Give it a shot, and test out your pitch on a few of your friends who will likely be investing in you.

Aiming for honesty and financial transparency

WARNING!

Making wild claims or selling people your best-case scenario is a recipe for disaster. People deal with expectations in interesting ways. If they expect to make 5 percent per year on an investment and they make 6 percent, they're usually thrilled. If you set the expectation that they'll make 10 percent and they actually make 8 percent, they may think investing with you was a mistake. And just as you don't want an angry customer talking about how bad your product or service is, you don't want an angry investor talking about how she lost money in your venture.

As you work to establish realistic expectations, you need also to control investor assumptions about you or your venture. The more you can disclose about yourself, your project, or your business, the better. Investors make decisions based on these disclosures, and you want them making informed, responsible decisions so they can become happy investors. You definitely don't want to be caught down the line doing something that your investors didn't expect.

Good or bad, risk or reward, investors want to know they have all the information at their fingertips to make sound decisions. Here, we walk you through some of the fundamental information that investors need from you before they join your crowd.

Sharing your personal background and experience

Any business planning book you read or class you take will tell you that the people leading the company are more important than the company itself. No matter how great your idea may be, investors need to feel confident in the leadership of the company before they invest.

TIP

Spend the time upfront to clearly lay out your personal background for your campaign. You have to show off your strengths so people will be confident giving you their money, but you must understand your weaknesses as well. Many online products are available that can provide insights into your personality. The book *Personal Branding For Dummies,* by Susan Chritton (Wiley), is a good resource for exercises that can help you get to know yourself better so you can construct a personal brand to represent to the world.

Become comfortable talking about both your strengths and weaknesses so that when people ask you about them you're prepared to answer. Before you throw yourself to the wolves, start in your comfort zone: Talk to your friends and family members and ask them why they think you'll be successful. Listen carefully to their answers so you can better determine your best qualities to present to potential investors.

Touting your creativity, passion, and motivation

You don't need to be a seasoned entrepreneur who has created multiple successful companies in order for people to be confident in investing in you. People want to see the creativity, passion, and motivation that you bring to this venture. They want to feel certain that you're 100 percent behind your business and believe in its success.

Talk about why you love your business, what excites you about it, and why you started it (or are attempting to start it). Make your investors feel your passion, and they'll be much more likely to invest in you. Investors need to know that you're authentic, and they're going to ask questions about what drives you. ("Is he really that passionate about chocolate-covered gummy bears, or is he just trying to make a quick buck?") Obviously, your financials, strategies, and tactics must make sense for an investor to jump onboard, but passion and drive are key elements of what you're selling.

Knowing your limits

Investors want to know your passion, but they also want to know that you're realistic. Say you want to raise $20,000 for your landscaping business that has $100,000 in yearly revenues. If you claim that this extra $20,000 will allow you to grow the business to $500,000 in yearly revenues, investors will know that plan is flawed.

Be honest with both yourself and your potential investors about what you're capable of doing. People like to see that you understand your limitations. The best way to accomplish this step is to show investors how the money will be used and the impact you expect it to have on your business based on history and facts. If you've done a similar project before, say so and explain the results. If you've never done anything like this before, say so and explain the research you've conducted to arrive at your conclusions. You may not be able to claim complete certainty about the outcomes, but the more hard facts you can present, the more your investors will believe that you're a realist.

Posting financial information

The amount of money you're raising will determine the amount of financial information you need to disclose to potential investors. The thought of posting your company's financial data (such as a balance sheet, income statement, and statement of cash flows) may be enough to throw you into a panic attack. You may be thinking, "What if my competitors see this?" or "Why should I post all my sensitive data for the whole world to see?" Especially for small businesses, financial reports can feel like very personal information. But if you want to participate in crowdfund investing, you need to get over your disclosure fears. The reality is that you have to make financial disclosures to attract potential investors.

TIP

Here's something to keep in mind as you select an online platform to host your crowdfund investment listing (a subject we focus on in Chapter 4): If you choose a platform that enables you to put sensitive data into a private data room, you have better control over what gets shared. In this situation, you can make limited disclosures in the public part of your listing. Then, your more sensitive financial data can be housed in this data room so it's available only to people who provide their real names and contact information and meet some threshold of credibility as potential investors. You should also have the opportunity to track who has logged into this section of your listing, see how much time they spent in the data room, and identify which documents they reviewed.

What types of financial information are potential investors most likely to care about?

- **If you already run a business,** potential investors want to know the financial status of your company. Be transparent about your company's revenue, profit margins, and debt obligations. Per the JOBS Act, at a minimum you need to provide the following financial information:
  - Your prior-year tax returns and financial statements
  - A description of the stated purpose and intended use of the proceeds
  - The target offering amount, the deadline to reach the target offering amount, and regular updates regarding the progress of the issuer in meeting the target offering amount
  - The share price for equity participation and the methodology used for determining the price, as well as a reasonable opportunity to rescind the commitment to purchase the securities

    - A description of the ownership and capital structure of the issuer, including a lot of detail about the terms of the securities being sold
    - The terms of any other outstanding securities of the company, including a summary of the differences between them

- **If this is your first business, or the first business you've owned yourself,** be prepared to provide all the components mentioned above minus any prior-year financial statements. You'll need to supply personal tax returns to the online crowdfund investing portal, but those returns won't be revealed to investors. Instead, your tax records simply confirm to the portal (and, therefore, to the SEC) that you're a real person contributing to society (or at least to the government's coffers). Requiring your tax records is one of many ways the SEC aims to prevent crowdfund investing fraud.

If you feel uncomfortable sharing this information, put yourself in the shoes of a potential investor. Funding a small business of any kind is a risk; that's a known fact. Funding a small business without having a thorough understanding of its fiscal health is financial suicide. If financial disclosure of any kind is uncomfortable for you, crowdfund investing may not be the best way for you to raise capital.

REMEMBER

When you ask investors for money, they become (in a sense) your business partners. They have the right to ask questions about the financial health of their investments. Investors need concrete, honest numbers, and you want to be the one to share those numbers. In the absence of information, an investor may search you or your company online and make assumptions based on what he finds. Be proactive; give your contacts the financial background they need to become informed investors. And trust us, if you don't disclose something about your numbers that someone other than you knows, chances are pretty good that it will be disclosed on your behalf in a manner you didn't want. Take the initiative and be transparent.

Chapter 4

Working with an Online Investing Platform

In This Chapter

- Figuring out what the law requires from funding platforms
- Researching the services a funding portal offers
- Getting specific in your portal shopping

Picking a powerful online crowdfund investing platform is just as important as pitching a winning idea to potential investors. That's because the JOBS Act legislation states that you can use this type of platform to seek crowdfund investment; you cannot — we repeat, *cannot* — set up your own website, call people on the phone, put a notice in your local paper about the terms and details of your offering, or use other means to raise funds this way. (As we explain in this chapter, crowdfund investing also can take place using a broker-dealer, but the online funding platforms are usually less expensive and more suitable for the relatively small amounts being raised.) This requirement ensures that the Securities and Exchange Commission (SEC) can keep tabs on all crowdfund investing activity to protect investors and verify that everyone's playing by the rules.

Crowdfund investment funding platforms of all shapes and sizes will pop up to meet demand. When the crowdfund investing industry makes its debut, you want to find the right portal to fit your needs: one that helps you achieve transparency, helps your investors become more informed, and helps the entire funding process be completely compliant with SEC regulations.

TIP

How will you know which online platform to choose? This chapter is your initial guide, and after you're done reading it your next stop is `www.crowdfundingprofessional.org`, the website of the Crowdfunding Professional Association, a crowdfunding industry trade association that we helped to launch when the JOBS Act was signed. It's a one-stop shop for entrepreneurs seeking to secure crowdfund investments, online platforms seeking to offer crowdfund investments, and investors looking for education on making such investments. In the future, you will find a list of all the SEC-registered funding platforms on that site. For now, you can use it to stay informed about the industry's progress and the status of SEC regulations on crowdfund investing.

Understanding JOBS Act Provisions about Investment Platforms

To connect entrepreneurs with their social networks and help investors get the tools they need to make sound decisions, while at the same time protecting against fraud, the JOBS Act contains provisions that specify minimum activities that an online crowdfund investment platform must do. In this section, we describe these activities. But first, we explain the difference between an online funding portal (the type of platform we focus on in this chapter) and a broker-dealer that can also host a crowdfund investment campaign.

Distinguishing funding portals from broker-dealers

The JOBS Act distinguishes between two types of crowdfund investment platforms:

- Online funding portals
- Broker-dealers

Here's why: Prior to the legalization of crowdfund investing, anyone seeking to raise capital needed to do so under the guidance of a broker-dealer — an individual or business registered with agencies including the Financial Industry Regulatory Authority (FINRA; www.finra.org) and North American Securities Administrators Association (NASAA; www.nasaa.org). Broker-dealers pay compliance and oversight costs that can exceed $100,000 each year, and they pass such costs on to consumers in every transaction. This situation isn't so bad when a broker-dealer is handling very large and complex offerings because prudent oversight does prevent fraud. However, these compliance and oversight costs are the same for a $10,000 offering as for a $100 million offering. For this reason, most broker-dealers won't bother with capital raises of less than $1 million; working with smaller amounts doesn't make financial sense because they can't pass on all the associated costs in small deals.

That's where online funding portals come in. The JOBS Act allows such portals to support smaller capital raises without being able to perform all the duties that a broker-dealer performs. For example, a funding platform isn't allowed to analyze a business opportunity, conduct business valuation, or find investors — duties that cost a lot of money. Allowing funding portals to exist, and offering their use to small businesses and entrepreneurs that don't necessarily require the full-service package that a broker-dealer provides, creates a simpler cost structure with lower fees associated with an equity investment offering.

REMEMBER

A funding portal doesn't have to register as a broker-dealer as long as it doesn't perform any of these duties:

- Offer investment advice or recommendations
- Find investors on behalf of the issuer
- Compensate employees, agents, or other persons for such solicitation or based on the sale of securities displayed or referenced on its website or portal
- Hold, manage, possess, or otherwise handle investor funds or securities
- Engage in any other activities that the SEC determines to be inappropriate

If the online platform just lists an entrepreneur's or company's pitch, uses a third party to manage the transfer of both cash and stock, and offers general support services that don't fall into these categories of activities, it can register as a crowdfund investment portal. If it conducts any of these activities, it must register as a full broker-dealer.

Meeting SEC requirements for registration

Whether you choose a funding portal or a broker-dealer to support your crowdfund investment campaign, that entity must be registered with FINRA: the self-regulating organization that oversees the industry and makes sure the platforms are performing their specified roles. So, at a minimum, you need to make sure that the funding platform you select is registered with FINRA. The FINRA website (`www.finra.org`) has a broker check feature that easily allows you to determine if a platform is registered with FINRA and whether it has been subject to any discipline.

What else are you looking for from an online portal? Following are the fundamental services we recommend looking for as you decide which organization to work with to raise money via crowdfunding.

Containing key social media tools

Crowdfund investing sits at the intersection of social networking and community capital. You use your Facebook, LinkedIn, Twitter, Google+, and other social media accounts to engage with your networks and request money for your business venture. Therefore, any online funding portal must feature tools that connect you to your social networks. When comparing platforms, look for one that has the most robust (and easy to use) social media connectivity tools — ways to direct your networks to your pitch.

Integrating your social networks (Facebook, Google+, LinkedIn, Twitter, and so on) to your pitch page on the funding platform tells your friends that you have a pitch, and they can easily get to it via your shared social networks. From your online funding portal, you must log in to Facebook and grant access between the portal and your Facebook network. Then, once your connections arrive at the funding portal page, you can tell your crowd about your brilliant idea and all the details of the offer.

Pretty cool, eh? The same process works for Twitter, allowing you to tweet that you're raising money and provide a link to your pitch. You can also notify your LinkedIn and Google+ networks that you have a pitch and where to go to get the details. Make sure that you work with an attorney and follow the letter of the law regarding what information you can include in your social media campaign.

WARNING!

Keep in mind that the SEC doesn't allow you to spam people you don't know, nor does it allow you to send pitches that contain much more than very basic information about your venture. It definitely doesn't want you using words like "Limited time — act now!" or "Amazing, definite success" or "Inability to lose, and guaranteed to win." The information must be focused on directing the user to the funding platform so she can review the complete investment offering.

Integrating background checks

REMEMBER

The online funding portal (or the broker-dealer) you choose must perform a securities enforcement regulatory history check. Per the JOBS Act, anyone who is a principal or who owns more than 20 percent of the equity in a business seeking crowdfund investments must submit to a background check. The check aims to prevent someone from fronting as another individual and running a fraudulent crowdfund investing campaign.

Be prepared to turn over your name, address, Social Security number, date of birth, e-mail address(es), cellphone number(s), and more.

Quizzing users on their investment knowledge

Investor education is imperative when it comes to crowdfund investing. Investors need to understand what it means to park their hard-earned dollars in a small business or a startup. The risks of this type of investment are significant; about 50 percent of business startups fail.

When we crafted the framework for the crowdfund investment portion of the JOBS Act, we insisted — and Congress, the president, and the SEC agreed — that investors must broaden their scope of understanding before making a crowdfund investment decision. For this reason, the legislation prescribes that crowdfund investment platforms (both funding portals and brokers-dealers) must do the following:

- Confirm that investors understand that they can lose their entire investment and can afford that loss.
- Warn investors of the speculative nature generally applicable to investments in startups, emerging businesses, and small issuers, including risks in the secondary market related to *illiquidity* (difficulty selling equity or debt shares to another buyer).
- Warn investors that, as minority share owners in a business, they have small voices, and investors with the majority of shares (and votes) can make decisions because they have control. This means, for example, that the company can vote to sell more equity, and, hence, each investor will own a smaller piece of a bigger pie. For example, if an investor owns 1 share out of 100 (1 percent) and the company votes to sell another 100 shares, she would then own only 0.5 percent of the company's equity. This process is called *dilution*.
- Warn investors that they are subject to restrictions on the sale of the security. The legislation requires that equity investors hold on to their crowdfund invested shares for at least one year.

To see an example of an investor quiz that accomplishes these goals — the type of quiz an investor must take on an online funding portal — go to `www.dummies.com/inaday/crowdfundinvesting`.

Linking entrepreneurs and investors via social media

Although some crowdfund investors put money into people or companies they don't know well, most money that's raised from crowdfund investment comes from individuals the issuer (the entrepreneur or business owner) is already connected with. The online solicitation of potential crowdfund investors takes place primarily via social media to individuals who are known by the issuer.

The CEO and/or management team of a company seeking crowdfund investment *must* have at least one social media profile. Without this minimum level of online connectivity, the investment campaign can't launch. (Likewise, a potential investor can't tap into crowdfund investing without a social media presence. You can't mail a check to get in on this type of investment.)

Online funding platforms must enable effortless connectivity between their services and all leading social media platforms so that both issuers and potential investors can link their social media profiles on each platform.

Allowing contacts to bring other possible investors into the conversation

As an issuer's social media contacts begin to engage in a crowdfund investment offering, they may want to reach out to other people in their own social networks to share this opportunity with them. For this reason, per the JOBS Act, online funding platforms must provide ways to share links to an issuer's campaign.

The ability to easily share a link to a crowdfund investment campaign enables a pitch to go viral. What does that mean? Consider an example outside the crowdfund investing realm. A previously unknown gaming company built an Android game console called the OUYA, which allows people to create and play games using an open software system (so they aren't dependent on the Xbox or PlayStation platforms, for example). Under the old law, the company wasn't allowed to sell equity in the business, but consumers were allowed to preorder the software. The company raised $8,596,475, in less than 45 days on Kickstarter (`http://kck.st/Mfvs9y`) because the campaign went viral — friends shared the information with friends, who shared it with their friends, and the news spread like wildfire.

Under the JOBS Act, the same viral spread can take place, but instead of only being able to preorder products, people can have a financial interest in the company.

Policing the SEC's rules

Online funding platforms must be vigilant regarding the SEC's rules on crowdfund investing. Because this investment asset class is new (available as of 2013), the SEC regulations will inevitably evolve as experience with crowdfund investing evolves. For example, maybe an issuer will be allowed to use new forms of social media for general solicitations, or perhaps the SEC's reporting requirements from issuers will be modified.

Anticipating such possibilities, a funding platform must monitor all SEC communications related to crowdfund investing, as well as regulation changes related to private capital markets or other related areas of the financial services industry.

A platform's ability to operate will depend on understanding and fully implementing all SEC regulations as they're enacted. You should select a crowdfund investing platform that has a strong and productive relationship with the SEC so you don't have to change platforms midstream.

Spotting the Services a Good Platform Can Provide

As crowdfund investment matures, the strongest online funding portals will survive, and the rest will falter. But even when this field is still young, you really want to take your time making a decision about which platform to use. Consider the services each platform provides, how many registered users (both entrepreneurs and investors) it has, its success rate to date (keeping in mind that crowdfund investing is an all-or-nothing type of funding, as we explain in Chapter 2), the reputation this platform has with other companies it has funded in the past, and its total combined social network. After all, picking the right platform could mean the difference between raising your target capital or not.

5-MINUTE EXERCISE

People love to talk about their successes. After the crowdfund investing industry gets at least a few months under its belt, go on to one or more top crowdfund investing portals and find a successful campaign (or two or three). Reach out to the business owner and ask for a few minutes of time. Ask this person to tell you what services she used that were the most useful, as well as what services the portal didn't offer that would've been useful.

Business plan templates

You know you have to write a business plan, but this topic could be a big black box for you. What information do you include? How long should each section be? How do you create the executive summary?

You must have a good business plan so your investors can get a concrete and concise understanding of what your business is and who you are. As you look through the myriad funding portals available, consider the business plan templates they offer.

TIP

If you choose a portal with a weak business plan template, be prepared to tap into another website that offers comprehensive business plan templates, such as `www.fundingroadmap.com`. Just be advised that using a separate site for your business plan template could incur additional costs. Alternatively, the Small Business Administration website (`www.sba.gov`) has an excellent section on writing business plans — and it's free.

Incorporation assistance

There are two main paths to incorporate your business:

- **You can consult with an attorney who is well versed in incorporation of businesses and understands the JOBS Act regulations.** Speaking with a legal professional when embarking on a new business is always a good idea. An attorney can help you complete the process of incorporation.
- **You can use one of the many online services (such as `www.legalzoom.com` and `www.incorporate.com`) to help you with the process.** You may want to search for a funding portal that has a relationship with such a service and can offer you a discount. And keep in mind that you likely will still need an attorney to answer your questions and offer guidance.

Making sure you set up your company the right way is a very important step. You want to protect your company from the risk of regulatory or civil legal action. In addition, the tax and legal differences among various options can be significant, so spend time learning about them and figuring out which is best for you, your business, and your future shareholders.

TIP

If you create a plan and a list of questions you have about the incorporation process before you speak with an attorney, you can save time and money.

Intellectual property support

Depending on the type of business you're in, it could be very important that you protect your intellectual property by securing patents or securing copyrights or trademarks. Hiring a lawyer to do so can be time consuming and expensive, so you may want to seek out a funding portal that can offer some help. But you must make sure the portal has a solid track record on this front; if it contracts with a cheap service and your paperwork isn't done correctly, you could stand to lose a great deal down the road.

WARNING!

Almost every day, we read news stories about businesses going to battle with each other over their intellectual property. Entire law firms are dedicated to intellectual property law. If your business model is based upon intellectual property that you created, you simply must safeguard it or else risk losing all your hard work.

Accounting and auditing help

Accounting and auditing are probably our least favorite parts of running a business. Most entrepreneurs want to spend their time making sales, building partnerships, and planning long-term strategies. But to run a business, you need to have a good handle on your money so you know where and how it's being spent, you pay the correct taxes, you file your expenses correctly, and so on.

TIP

A funding portal may offer some of these services, so be sure to explore how robust their services are and for what length of time they're available to you. For instance, if the portal offers these services for only a short period of time (such as one month) after your campaign is complete, they won't be very useful to you. That short-term accounting support could help you get things set up initially, but you actually need the most help throughout the *entire* first fiscal year (for preparing both quarterly and year-end tax returns and financial reports).

Escrow agents

Escrow agents are folks who handle the cash that investors commit to a deal. They're like an intermediary bank, and every funding portal must work with an escrow agent. The JOBS Act states that a funding portal cannot be an escrow agent; it cannot hold the committed cash from investors until the all-or-nothing threshold has been met. This job must be outsourced to an escrow agent who takes responsibility (and liability) for maintaining that cash. If a funding target is met, the escrow agent makes sure the cash gets to the entrepreneur. If a funding target is not met, the escrow agent makes sure the cash gets back to the investors.

Why can't a funding portal handle its own cash? Funding portals play a hands-off role in the crowdfund investment process, so they don't carry insurance to guard themselves against potential fraud or failure. Just imagine how awful it would be to commit some funds to an entrepreneur and to discover that the person or entity holding the cash has disappeared or gone out of business. Using an insured escrow agent is a safeguard for investors' cash.

Stock transfer agents

Per the JOBS Act, an investor faces a 12-month holding period on any stock purchases. The main reason this provision exists is to prevent pump-and-dump schemes where people buy lots of stock in a company to boost up the price and then dump all of it, making a quick gain while everyone else suffers.

After the 12-month holding period passes, investors may want to sell their stock. As a business owner or entrepreneur, contracting with a funding portal that has a relationship with a stock transfer agent (who is monitored by the SEC and FINRA) means that you're giving your investors a valuable service. These agents make sure that the person selling the stock is the actual owner, so when it comes time to sell, the investor has complete confidence in his stock ownership. The benefit to the business owner is that the stock transfer agent helps protect you from people fraudulently selling stock in your company that they don't own.

Filing and financial reporting tools

How you choose to incorporate your business dictates how you need to file your taxes and report your financials. To file and report on time (and accurately), you most likely need outside help, especially if you've never owned a business before. You may want a funding portal that connects you with tax- and financial-report-related tools that can ease your burden.

REMEMBER

Don't procrastinate when thinking about issues such as taxes and financial reporting. Be proactive, and look for a platform that offers guidance and helpful tools, whether in the form of third-party recommendations or tools on the portal website that help you file taxes directly from your account.

Shopping for the Best Crowdfund Investing Platform

Additional considerations when shopping for a funding portal include how much the online platform will cost and whether it has any limitations that will impede your efforts. We want you to be a savvy shopper, so here we offer some specific questions to ask during your research.

Anticipating the cost

Expect that whatever funding portal you choose will, at a minimum, charge you a flat fee for registration and for conducting a background check on you. Beyond that flat fee, you'll likely be charged what's called a *success fee* if you hit your funding target. The success fee likely represents between 4 percent and 10 percent of the money your raise. (Broker-dealers charge much higher success fees because they have a higher cost structure.) Keep in mind that the more bells and whistles a funding platform has, the more it'll cost.

In all cases, you should be able to determine in advance the costs associated with your chosen funding portal; its terms and conditions should spell out its fees very clearly. You want to build these costs into the money you raise — assuming that you hit your all-or-nothing funding target. (If you don't hit your funding target, any time, energy, and money you put into your pitch will most likely be your loss.)

When you find out the costs associated with your chosen online platform, build those numbers into your financial projections. If you didn't account for these costs when budgeting, back up and do so before determining how much you need to raise in your crowdfund investment campaign.

Asking the right questions

When choosing your funding portal, make sure that it offers good customer service. When you ask questions, expect good — and prompt! — answers. You shouldn't need to wait days for answers, and you shouldn't need to ask a question twice.

When you do find a responsive portal, make sure you're asking the right questions. Here are some suggestions:

- **What services do you offer?** After reading the preceding section, home in on the services you really need help with, and make sure the portal has what you need.
- **How can I create the best possible online pitch (see Chapter 5)?** You benefit by getting advice from people who really understand crowdfund investing. A good portal wants to give you this type of advice because it wants you to succeed.
- **What percentage of projects you've hosted have been fully funded? What might make the difference between success and failure?** Again, you want a portal that's willing to share insights based on past experience.
- **How do you handle ongoing communication between companies and their investors when a campaign has succeeded?** You absolutely *need* an easy way to communicate with investors. You can't exchange e-mails with a few hundred people while trying to build a business!

- **Are you geared toward my type of business?** Some portals may be more suitable for Main Street businesses; some may be better for more tech-related businesses; and some work with a cross-section of industries and businesses.
- **Who owns the copyright?** A portal should make it clear that it holds no title or claim to your copyrights (if you have any). If a portal's contract is not crystal clear on this point, run in the other direction.
- **What are your limitations?** No portal can possibly offer every service an entrepreneur or business owner needs, but it should represent itself with accuracy and transparency. If you suspect that you're getting a half-baked answer to this question, keep shopping.
- **Can I get a refund?** Suppose that you try to raise money on a crowdfund investing platform, and you fail. Can you get a refund for the registration and background check fees you've paid to the funding portal? No platform can guarantee success in raising capital for your business; it can only provide a service to help you achieve your goals. Therefore, you should expect the answer here to be *no*. However, you want reassurance that if your failure relates in any way to significant technical issues caused by the platform itself, or to services that were promised but not delivered, you can seek a refund of these initial fees.

TIP

Any platform you choose should offer terms of service that a human being can read. Even after you select a funding portal, don't sign the paperwork if you can't understand it. Be sure to ask a lawyer for advice if you're unclear. Spending a small amount of money to know exactly what you're getting from your funding portal is worth it so you know your rights and responsibilities. You may want to ask for a generic contract to consider while you're shopping; any reputable portal should be willing to share its terms of service upfront so you can make an educated decision.

Chapter 5

Making Your Pitch and Recruiting Investors

In This Chapter

- Crafting a powerful first impression
- Controlling how your pitch reaches your social networks
- Preparing your post-pitch action plan

In this chapter, we help you build a winning pitch that will best position your business to potential investors to attract their investment when crowdfund investing is ready to roll. We discuss creating a hook to catch your investors and reel them in by using tools such as video and your website. We also offer insights based on experiences with crowdfunding, and we walk you through how to manage your social networks.

Here's a quick tip to get you started: Building a winning pitch requires vetting each part of it with existing supporters, meaning any friends, family members, and others who have already shown interest in your idea. You may want to ask your earliest supporters to act as an informal advisory board. Doing so taps into the wisdom and power of the crowd from the start and prevents you from taking a pitch public before it's ready.

For insights on creating a killer crowdfund investing campaign and following best campaign practices, check out our videos on these topics at `www.dummies.com/inaday/crowdfundinvesting`.

Putting Your Best Face Forward

If you're going on a job interview, even to an office where business casual reigns supreme, you should wear a suit. That's because first impressions matter so much. When you're pitching your business idea, you want that pitch to wear a suit as well; you should dress and polish it so it wows your potential investors.

To put your best face forward, you must first have a clear strategy regarding what you want to do, how you want to do it, how it's going to make money, and how you're going to pay back your investors. Take a step back and try to look at your business plan from an outsider's perspective. What problem are you solving? Who is your customer? How will you make money? These are three very important parts of a pitch.

In this section, we walk you through the steps required to dress up your idea in its best professional clothing and make a potent impression that leads to the funding you need.

Writing a great headline

Your first step is to consolidate your business plan into an attention-grabbing one-sentence headline. Sound hard? It doesn't have to be.

Before you try to write the headline, sum up your aspirations and inspirations in a paragraph. You don't need to share this paragraph with anyone, so don't get frozen at this step. Just spend a few minutes writing directly from your heart about the *why,* and not just the *what* and the *how* of your business. Jot down the big-picture ideas that have motivated you to get this far in your planning.

For example, if you're an organic farmer, your paragraph could be something like this:

> Local food systems strengthen our local economies: When we buy local and choose to support local farm and food ventures, we reinforce our community, our environment, and our own health. Not only can we create local jobs, but we can provide a valuable service to the community, and our farm can enjoy 50 percent more of the profits by selling

> directly to purchasers rather than going through a massive wholesale produce corporation. Those corporations control the process to maximize profits at the expense of safety, force the use of nasty pesticides, and eat away at the margins of the farmers who produce the food.

From this paragraph, choose several keywords that represent what you're talking about. In this case, you might select *organic, farm, local, community, jobs,* and *profits.* Take these keywords and write a few sentences around them that explain who you are, what you care about, and what you need. For example:

> "City boy turned organic farmer with three years of experience needs $100,000 to create community jobs."
>
> "$100,000 needed to start local farm-to-table organic farm for the city of Anytown, USA."
>
> "Profits from organic farming are greater, and the food is healthier. Let's create community jobs with $100,000."

Take your sentences to your informal advisory board or, at a minimum, to the friends and family members who are your greatest supporters. Ask them the following questions:

- Which headline resonates the most with you?
- Which headline would pique your interest enough to consider investing your money?
- What would you change in each headline to make it better?
- Which headlines turn you off and why?
- Is there another headline you like better?
- Who else would you recommend that I talk with about this headline?

Listen closely to the advice you get. The responses are key to determining if your one-liner is strong enough to pull other investors in.

Producing a quality video to sell your idea

Creating a video to pitch your idea to potential investors isn't optional; it's essential. Video is by far the fastest growing part of the web because it engages people more than flat text. A video won't be the *only* way you present your pitch, but it must be one of the ways you do so. The video will bring your passion to life for people you can't talk with in person.

TIP

Before thinking about your own video, watch 10 to 20 videos that were part of a successful campaign on crowdfunding sites. What do you like about them? What do you dislike? Next, do the same exercise but select projects that seem likely to miss their funding targets or have missed their funding targets. Are there any common themes? Did these videos engage you, or did they bore you or turn you off?

If this medium is new to you, don't panic. No one expects you to hire a production team and spend $10,000 on a video. Follow the advice in this section, and ask for help from supporters with more experience. The outcome should be a video pitch that communicates your passion, your business strategy, and your financial need.

Scripting your message

A quality video starts with a script. A script doesn't need to spell out every word you're going to say; instead, it should act as a guide for all the points you need to hit on in your video. To reduce your stress, you don't even need to think of it as a script; think of it as answering a few questions that a friend is asking you about your business, such as these:

- Who are you?
- What product or service do you need money to create, and what problem will it solve?
- Where will the business reside?
- What are the important milestones you'll reach with the money and when do you plan to reach them?
- How will you use the money to accomplish your goals?
- Why should your audience care?

TIP

Keep your pitch *under* five minutes so you can retain your audience's attention; two or three minutes is preferable. Make the beginning of your script the most powerful part because after one to two minutes, some people will tune out (even if they like what you're saying).

Rehearsing your presentation

With your script in hand, it's time to rehearse for the video shoot. Here are some pointers:

- Practice your script in front of the mirror.
- Get familiar enough with the script that you memorize the core concepts. You want to avoid reading the script when you're on camera.
- Work on acting naturally when the camera is rolling. Start by looking at yourself in the mirror, and then practice when looking at the camera itself. It may help to have someone look at you while you're rehearsing. (No one's around to watch? Put a wig on the camera!)
- Strive to engage with your audience. You must show your passion, and by knowing your content completely, you can relax and let your passion shine.
- Prepare a stellar opening statement. The first 15 seconds of your video are the most important because you have to make sure to get people's attention.
- Be yourself. People care most about the human side of things, so keep in mind that you're really just trying to tell the story behind your project.

Ideally, you should tape one of your rehearsals and solicit feedback from your supporters. Very few people do their best work the very first time the camera is rolling.

Controlling your environment

Make sure your sound quality and the video's lighting are as good as you can make them. If you have a microphone that you can plug into your video camera (or into your computer, if you're using a built-in camera), use it! Pay attention to any background noises that can ruin your video. Create a quiet space, and try to eliminate white noise and static by using your video editor.

TIP

Cameras, like plants, function better with lots of light. Give your camera what she needs, and your video will look crisper and more polished. Set up a few extra lamps, and record during the daytime. Try to get some natural light, and bear in mind that mirrors can help by reflecting ambient light.

Shooting yourself (with the camera, please)

When it's time to record, here are some tips to keep in mind:

- Use the timer button to delay the start of recording so you have some time to situate yourself in front of the camera.
- When the camera starts recording, wait a few seconds before beginning your pitch; doing so will make the editing process easier.
- Expect that you'll record several videos to get what you want. If you mess up, take a deep breath and start again. If you get frustrated, take a break.
- When you're done with the first take, review it carefully. Decide what you like and what you don't like. Then record your pitch again — and again — until it's perfect (or at least close).

Editing for maximum effect

When you're done recording, it's time to edit. The good news is that you can weave together bits and pieces from each take that you liked. Here are some pointers for editing:

- If you're working on a PC, use the program Windows Movie Maker. If you're on a Mac, use iMovie.
- Don't like how you look in a specific section? Weave in photos, video clips of your work, or testimonials from others. Make your video a visual showcase of what you're all about. (But don't overdo it! Your audience really wants to see your face.)
- Do *not* use material that belongs to others (illustrations, photos, music, logos, and so on) unless the owners explicitly authorize you to do so.
- Find and extract the clearest lines from each take. Also, try to keep in the fun and emotion — you don't want to strip out the elements that make you seem most human.
- Most importantly, put yourself in the shoes of a potential backer and make sure that your introduction makes viewers hope for more.

Uploading your pitch

When your video is complete, you need to show it to your supporters and solicit their feedback. If you need to re-record any parts of it or alter the editing, do so until your supporters feel great about the quality.

When you have a product you're proud of, upload it to an online video site such as YouTube, making sure to control its privacy settings so not everyone can view it. When crowdfund investing is underway, you'll ask your funding portal (see Chapter 4) to link to it so potential investors can easily find it.

Preparing your website

Your website should reflect all the things you emphasize in your video pitch and can offer more details about your product or service, your business strategy, the milestones you seek to achieve, and so on.

You can use text, photos, additional videos, graphics, a blog, and more to get your points across. You want a clean, easy-to-navigate site that demonstrates to potential investors that you have answers to their questions, you've thought through the specifics of your venture, and you're professional.

If creating or updating your website to achieve all these goals seems overwhelming, keep these things in mind:

- Blogging platforms like WordPress (`www.wordpress.com`) make getting a website up and running relatively easy. *WordPress For Dummies,* 4th Edition, by Lisa Sabin-Wilson (Wiley), can get you started. Even easier than WordPress is Virb (`www.virb.com`). With Virb, for $10 per month, someone with absolutely no knowledge of web design can create his own professional-looking website, fully customized with just a few clicks of the mouse.
- Lots of people know how to create websites, and chances are that at least a couple of these people know you and support what you're trying to achieve. When in doubt, reach out to your early supporters for help.
- Likewise, your supporters can tell you whether what you're creating is truly useful and easy to navigate. They can offer tips for improving your site that may be crucial to sending the right message to potential investors.

Be very careful about how you use your website. You have to prepare for a situation in which someone visits your website for reasons *other* than finding out more about the investment opportunity. Potential investors need to go to a crowdfunding portal or registered broker-dealer to learn about the crowdfund investment offering that you mention on your website. You can — and should — promote your business venture on your website so customers and potential investors understand what your business does. But the JOBS Act doesn't allow you to post a solicitation for capital on your own website.

Managing Your Social Network

In this section, we show you how to start your pitch (via your funding portal; see Chapter 4) by first engaging your core social networks. Then we explain how to nurture your pitch so it moves well beyond your first-tier contacts and reaches friends of friends of friends. Getting a grip on this information now will allow you to hit the ground running when the crowdfund investing industry is ready to start launching campaigns.

Building from your core social network outward

Now is the time to make your social networks as robust as possible. Consider the example of LinkedIn, the social network for the business world. If you're on LinkedIn, you most likely have connected with all the people you've worked with in the past, people you went to school with, and anyone else who knows you professionally. Who else can you possibly tap to be part of this network?

When you're signed on, LinkedIn lets you see people's résumés. If you locate second- or third-degree connections who seem like strong potential investors, you can ask your first-degree connection for an introduction.

Next, go into the related groups on LinkedIn and join the existing conversations. Make a name for yourself by posting relevant comments. Find the movers and shakers in the groups, and start conversations with them. When you're engaged in a conversation, you can add this person as your first-degree contact.

As you can see, this process takes some time. It's never too late to start, but if you haven't started already, start today. Set up a schedule for yourself with specific goals — for example, make ten new contacts each week or spend 20 minutes two times a day engaging people on social networks.

Be diligent about growing your social network. The larger and more comprehensive it is when you launch your project, the more potential people you'll have to invest in your business.

Supporting other companies for mutual benefit

While you're trying to grow your networks, remember that other companies are doing the same thing. If a company helps you out, make sure to respond in kind. Here's how you can do so on some of the leading social media websites:

- **Sharing:** Online *sharing* occurs when you repost something that someone else has posted. People usually post things because they want them to be shared; they want as many people as possible to see what they have to say. Businesses post things about their products or services, about upcoming events, and about other relevant content. By sharing something another business posts, you help it extend its reach.

  The more you help other people and businesses by sharing their information, the more they'll return the favor.

- **Retweeting:** Very similar to sharing, retweeting occurs specifically on Twitter. The unwritten spamming rules of social media are different for every social network, and on Twitter you can get away with a lot more than you can on Facebook. When sharing on Facebook, you need to make sure you aren't sharing too often. On Twitter, however, tweeting and retweeting multiple times a day is completely okay.

  Find people and businesses that are related to what you're doing and repost their material. Learn how to tag them in posts that they may be interested in, and you'll start to see your list of followers grow.

- **Liking:** *Liking* is what happens when you "like" something that someone else posts on Facebook. It's an easy, unobtrusive way to show your support for that person or business. Don't be shy with your likes — they can come back to help you.

- **Commenting:** Comments demonstrate a level of engagement with the company that goes far beyond just liking it. When you post comments on other business's sites, make sure your grammar and spelling are perfect. Also, make sure that you're providing good feedback; don't leave negative or long-winded comments.

Realizing What Happens When Your Idea Goes Live

Make sure that everything related to your pitch is in place before it goes live. You can always postpone the launch date, but once your campaign is launched, it's launched. It will be live on your funding portal website for everyone to see and to share with their social networks. Potential investors can start commenting and asking questions on your project page. Potential business competitors can begin making comments as well.

When you reach this critical moment, the clock starts ticking loudly. The amount of time you have to raise your money can vary slightly depending on you and the funding platform you choose. But whether you have 30 days, 60 days, or something in between, the time will go by fast and things will happen quickly. Be prepared to be busy. Monitor your campaign like a hawk, because this is your time to shine! This section shows you how to act when your pitch hits the fan.

Reading crowd comments and responding to questions

REMEMBER

You need to be attentive to *everything* going on with your campaign, including the chatter. People will be asking questions, and they want you to respond. Taking 24 hours to respond to a question is too long. Set a rule for yourself that you'll respond to every question within six hours.

Monitor the types of comments as well. If you're starting to see a theme of questions/comments, you may need to go back into your campaign and answer these questions before they start popping up again. The less time people spend on your campaign trying to figure out something that was unclear, the more time they'll be able to spend deciding how much to invest.

Watching your network grow through referrals

When someone invests in you, he's going to be tied to your success. It will be in his interest for your campaign (and later business) to be successful. Don't be shy — encourage your investors to help you. Having your investors share your project with their friends greatly helps you build both your network and your pool of investors. Every referral you get increases your network. Every addition to your network gets you that much closer to reaching your funding target.

Demonstrating traction

Many lessons in life are learned in junior high school. One such lesson is this: Nobody wants to be the first one on the dance floor. The same is true for fundraising. If you do all the prep work and then send out your messages to every person in your entire extended social network on day one, you'll have a lot of people clicking on your campaign all at once. When they arrive on your page, they'll see an empty dance floor (zero dollars from zero investors). They may think "Hmmm . . . guess it didn't work out," and then it will be much harder to get them back to view your campaign again.

If you have some core supporters on the dance floor when other kids arrive at the dance, the newbies will be more comfortable and more likely to stick around.

TIP

To avoid an empty dance floor, prepare a multi-wave marketing plan that moves in concentric circles out from you. Envision the circles as being based on how well the person knows you. Your family is at the core, and then close friends, friends, colleagues, acquaintances, business contacts, friends of friends, and so on (see Figure 5-1). Create a schedule of when to contact these people so that you can start with your core supporters — and allow them to help you gain initial traction — before moving outward to people who don't know you as well.

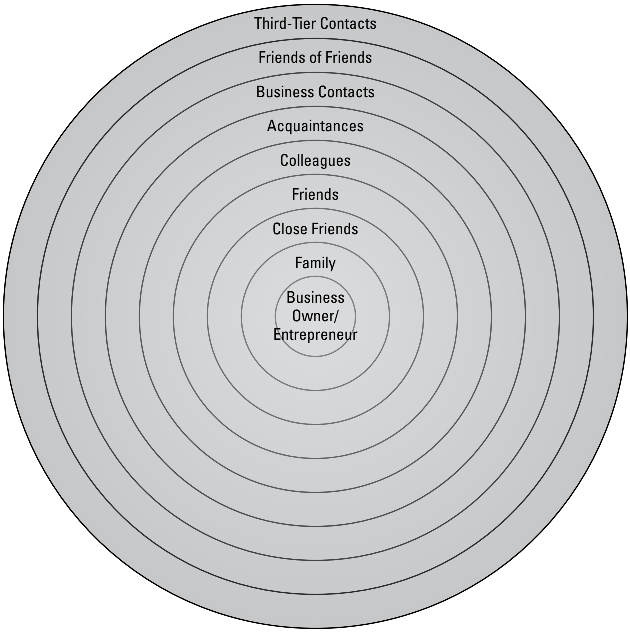


Figure 5-1: Starting with your core and moving outward.

Before you launch your campaign to the public, you'll surely have a group of people who have told you they want to invest in you. These are the people who will support you in anything you do — people like your mother, aunt, cousin, and college roommates. You know they'll invest in you, so make sure that doing so is as easy as possible for them. Give them detailed and bulleted instructions for how to invest on your funding platform and ask them to please make their investments within a specific timeframe (perhaps the first two or three days of your campaign). Explain why the money needs to be pledged so soon.

After you've built a small base, then send the next wave of communication to the next group of people in your social network. Give each group at least a couple days to consider supporting you, and then repeat the process with the next group until you've completed the campaign.

Chapter 6

Where to Go from Here

In This Chapter

- Getting started
- Checking out dummies.com

Now that you're armed with the information you need to understand the very basics of seeking funding via crowdfund investing, it's time to start preparing for the arrival of this new financial opportunity!

Taking Your First Steps

Before you begin preparing for a crowdfund investment campaign, make sure you have taken the essential steps that every new or growing business takes before securing funding:

- **Conduct market research.** Understand the competitive landscape and how the product or service you offer sets you apart from what's currently available.
- **Identify your target market.** Get specific about who your customers will be.
- **Detail your financial needs.** Figure out how much money you need to accomplish your next goal and what other possible sources of funds are available to you. Then set a realistic goal for raising money from the crowd.
- **Craft a watertight business plan.** Put all this information and more into a business plan that can serve as a springboard for your online investment pitch.

With a business plan in hand, visit www.sec.gov to find out everything you can about the Securities and Exchange Commission regulations that apply to crowdfund investing (which will make their debut in 2013). To do more research, visit www.crowdfundingprofessional.org or www.crowdsourcing.org/caps. Read as much as you can, ask lots of questions, and keep your attorney and accountant on speed dial!

Visiting dummies.com

Along with the information we've previously linked to in this book, more information about crowdfund investing is housed at the official *Dummies* website. Point your web browser of choice to www.dummies.com/inaday/crowdfundinvesting to find

- **Crowdfund Investing 101:** Review the basics.
- **Three keys to a killer crowdfund investing campaign:** Find out the importance of a strong social network, a compelling campaign pitch video, and clear, consistent communication.
- **Whether you're the right type of entrepreneur to tap into crowdfund investing:** Discover the personality traits that may spell success for a crowdfund investing campaign.
- **Ten best practices for a crowdfund investing campaign:** Get ten quick tips for making your campaign as strong as possible and improving your chances of securing funding.
- **Five ways to leverage crowd wisdom post-funding:** Consider what (besides money) your investors can give you.
- **The investor's perspective:** Find out how much an individual investor can put into crowdfund investments each year and why someone may invest.
- **Three keys to safe investing in crowd securities:** Know the risks involved in this type of investment and the steps an investor can take to keep them in check.
- **An investor quiz:** See questions that an online funding portal should ask potential investors.
- **Five ways to support a company as a crowdfund investor:** Think about what an investor can do to help a startup or growing company succeed.

About the Authors

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We're proud of this book; please send us your comments at `http://dummies.custhelp.com`. For other comments, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

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