

THE FUTURE OF CROWDFUNDING





CROWDFUNDING - THE FUTURE?

Presented by KPMG

Welcome to the first of our roundtable reports from *Tech City News*.

Our monthly roundtables cover topical issues that affect London's growing technology sector. Taking place at the Eight Club in Moorgate, they bring together thought leaders, startup founders, investors and service providers for an informal discussion.

Recently British-based Crowdcube became the first equity-based platform in the world to raise over £10m. Crowdfunding continues to be one of our most important areas of coverage.

In this report we'll outline the state of the industry, demystify some of the complexities and reveal the attendee's predictions for the future.

ROUNDTABLE ATTENDEES

Tom Davies – Seedrs

Peter Behrens – RateSetter

Luke Lang – Crowdcube

Nick Moules – Rebuildingsociety.com

Emma Watkinson – Founder of Silkfred.com

John Williams, Kuber Ventures

Tim Kay – KPMG High Growth Technology Group

Simon Dixon – Banktothefuture.com

David Penston - Assetz Capital Group

Rob Symington – Escape the City

Alex Wood - Tech City News

Sarah Davison - EveryInvestor

WHAT IS CROWDFUNDING?

Crowdfunding has become one of the hottest topics for startups looking to raise investment. Some of the industry believe it could be seen as a potential savior from bank lending.

According to recent a report by Nesta, £200m was raised through crowdfunding in 2012 and they believe it could raise as much as £15bn per year in the future.

Once, investing was the preserve of the top 1% of the country – individuals with high wealth and security. Crowdfunding allows potential investors to spend less money and spread the risk more widely. It means the ‘mass affluent’ – the top 20% of the country in professions including finance, medicine or law – can start to invest in fast growing new businesses.

Many investors can also benefit from tax relief on their crowdfunding investments through the government’s SEIS scheme.

Crowdfunding is seen as an increasingly attractive, democratic option of funding. Supporters of the sector point to the ‘wisdom of the crowd’.

The platforms also give young startups a way to boost their profile and visibility to both potential investors and customers. The large number of people that will see, research and invest in a business means the startup will likely benefit from more publicity and greater scrutiny. This can be invaluable for a fledgling business.

WHO USES CROWDFUNDING?

Many of the most visible types of companies applying for crowdfunding have come from the consumer tech sector, making use of well known platforms including Kickstarter and IndieGoGo.

In the past 12 months, the scope of companies looking towards crowdfunding has widened. Usually they are at an early stage, looking for very large sums of money, and crowdfunding cannot usually provide this, nor are crowdfunding investors as interested in the businesses.

The two sectors that dominate and tend to succeed on Crowdcube, one crowdfunding platform, are tech-online companies and food and drink businesses. This may well be a result of the ‘pleasure’ factor that comes from investing in something you like and something that’s easy to understand.

Attendees at the roundtable agreed it’s currently unusual to see businesses in Fintech apply for crowdfunding – although this may be a result of the type of investment many Fintech startups need.

The table said the ‘personal’ and ‘community’ elements of crowdfunding will often lead businesses that interest investors on a more basic level to be more successful.

Luke Lang from Crowdcube told us that in terms of funding, around 20% of the businesses on the platform are ‘startup’ – at the pre-revenue stage.

Around 50% are early stage – with some momentum already behind the business and the remainder are established businesses looking for finance to grow.

WHY CHOOSE CROWDFUNDING?

The table agreed the attitude that crowdfunding is a 'last resort' for investment is true in the current climate, but that this will change. As the sector grows and gains greater traction, it will become the new investment model business turn to.

It was felt there are not enough angel investors in the UK 'to go around', and so crowdfunding will become an increasingly necessary part of finding investment for businesses.

Two of the greatest perceptions of crowdfunding are that it's a last resort, or that it's easy to secure. This needs to change – and isn't true. Anecdotal experiences from around the table shed light on an attitude from startups that they will secure angel funding easily and that money is readily available. In time, these businesses find this isn't the case, and turn to crowdfunding - realising the benefits of the sector.

One of the greatest benefits comes from the public nature of the investment process. It means the application alone gets the product known and gets people talking about the business. Crowdfunding can act as a PR exercise as well as an investment platform.

Emma Watkinson is the founder of Silkfred.com, a fashion retailing platform. Speaking as a startup now pitching for crowdfunding, she confirmed she didn't feel it was a last resort. Silkfred was offered finance from a mainstream bank, but turned it down. Emma believes that the ethos of Silkfred – helping people sell their products, coupled with its community values – lends itself to crowdfunding.



There is a 'human angle' that fits with the general consensus that crowdfunding is more personal than traditional investment.

“[Crowdfunding is] that emotional connection of ‘well I really like what you’re doing, it’s a great enterprise and I want to get behind you and support you because I think you’re onto something’”.

Emma Watkinson

Escape the City is another startup that turned down conventional funding. Choosing crowdfunding over venture capital was a matter of control and independence Rob Symington of Escape the City told us.

The aims and goals needed to satisfy a venture capitalist were perhaps too ambitious and a business may find itself promising too much. Crowdfunding offers independence and setting a more realistic level of growth.



EARLY DAYS

Crowdfunding’s relative youth means that we are still in uncharted waters.

It’s too early to point to any instances of disputes between investors and businesses or similar concerns, but the table agreed that anything that happens in the ‘normal’ financial world will likely happen in the crowdfunding sector too.



WISDOM OF THE CROWD

One of the great advantages of crowdfunding is that it makes a startup ‘raise its game’ according to the group.

The table agreed that a business that goes through the crowdfunding process comes out stronger because of the questions asked of it and the scrutiny it is put under. As opposed to one solitary angel investor, a business seeking crowdfunding will likely be put under the spotlight by finance, technology and marketing experts in the course of the application.

By taking investment into the public realm, the table felt the examination is more diverse and more probing.

Such an example can be found when a company didn’t realise that its brand name was already registered to another business. The research by potential investors brought this to light and led the company to rectify the oversight.

The table also agreed that just because a startup doesn’t succeed in gaining crowdfunding, that is not to say the business isn’t viable. The investors may not be on platform, or it simply wasn’t the right time.

The notion of the ‘wisdom of the crowd’ to scrutinize was tempered by a discussion of whose responsibility it is to check the facts and confirm the claims of a startup looking for crowdfunding.

Seedrs told us they check every part of a businesses proposal line by line, making sure everything is accurate. Others argued that it is the responsibility of the investor to take their own due diligence.

There was no agreement on whether the platform itself should have to investigate and confirm the business's claims.

KEEPING IN TOUCH



For businesses, one of the biggest problems can be communicating and engaging with investors after successful funding. It may be the case that investors are interested in the big updates, but less bothered by the smaller, day-to-day running.

The platforms themselves are split on whether to remain in contact following successful funding.

Many are in touch with businesses afterwards– often just to see how they're getting on and improving – sometimes just for press purposes.

Luke Lang from Crowdcube said there was no obligation to stay in contact, because shareholders want direct and personal relationships with their businesses. For Crowdcube, the relationship with the platform ends at funding, though Luke did explain they intend to launch a portal to help investors keeps updated on businesses they've funded.

Seedrs have a tighter framework with startups that have successfully secured funding. Each business is expected to give quarterly updates the platform can then communicate onwards. Tom Davies said this was important for a startup – as by looking after early stage investors and keeping

them engaged, they will be more likely to reinvest. There is also the advantage of investors acting as ongoing ‘mentors’ to the businesses in which they’ve invested.

THE FUTURE

The table agreed that crowdfunding will only become more popular, and see far more money invested within the next 12 months. They believed there is a real opportunity for crowdfunding to expand and ‘democratise’ the investment market.

A warning was made. Banks had thrown away a lot of credibility during the financial crash and the same mistakes need to be avoided by the crowdfunding sector. As long as the crowdfunding sector can ‘keep its nose clean’ it will succeed. The sector needs to ‘act in a transparent, fair and trustworthy manner’ in the future.

While the table may not be able to agree wholeheartedly on the ‘wisdom of the crowd’, they all believe crowdfunding will continue to grow in the near future.

FIND OUT MORE ABOUT CROWDFUNDING

Tech City News regularly covers the latest developments in crowdfunding and investments. [Click here to access a dedicated section.](#)

INTERESTED IN ATTENDING OR HOSTING A FUTURE ROUNDTABLE?

We hold roundtables every month on topics including immigration law, cloud computing, recruitment and connectivity. We’re always interested in hosting new debates, to find out more contact Becky Golland: becky@techcitynews.com or call 0208 133 5391.

KPMG IN TECH CITY

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