

A

NEW ERA

IN



BY DEBORAH L. COHEN

THE JOBS ACT WILL LET INTERNET INVESTORS BUY STOCK.

IT'S A CHANGE EXPECTED TO TRANSFORM THE WAY STARTUPS
AND SMALL BUSINESSES RAISE MONEY.

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nder the JOBS (Jumpstart Our Business Startups) Act, raising money on the Internet through crowdfunding promises to be a tantalizing option for small businesses seeking capital. This new federal law stipulates that, for the first time, business owners will be able to offer shares of private stock to everyday investors.

Earlier, regulations had limited entrepreneurs, inventors, artists and others attempting to drum up capital using social media on Internet platforms such as Kickstarter and Indiegogo to a rewards-based model. It worked like this: The fledgling venture created a profile to build Internet buzz, pledged online backers a product, discount or other reward in exchange for seed money, and hoped for the best.

Sometimes results far exceeded expectations: Last May, an outfit called Pebble Technology eclipsed its \$100,000 goal, raising a staggering \$10 million on Kickstarter by offering early access to customizable watches that sync with smartphones, allowing them to view incoming texts and notifications on the watches. More often than not, however, fundraising has been modest. Consider Kult Kitchen Pickles, which in December used the site to secure more than \$3,000 for its kraut and kimchee business, just over its \$2,600 target.

Many entrepreneurs believe the JOBS Act will make the process more lucrative for (and more attractive to) crowd-funders. But no one will really know for sure until the act

takes effect; Douglas Ellenoff, a securities lawyer who has closely studied the new legislation, expects that equity-based crowdfunding under the JOBS Act will begin later this year.

“The Securities and Exchange Commission has a lot going on,” says Ellenoff, noting the agency is busy interpreting an avalanche of new regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act. “Crowdfunding, while it’s important and on the agenda, is not going to get preferential treatment.”

Once all the details become known, entrepreneur Winston Ibrahim will consider offering stock in his privately held business—Philadelphia-based Hydros, which makes water bottles with built-in filters—to online backers based on opportunities spelled out under the new law. Those who purchase shares will probably be enthusiasts already sold on Hydros and its ability to deliver clean, portable water in the United States and abroad.

“You’re actually buying a piece of the company,” says Ibrahim, who co-founded Hydros in 2009 and has raised several million dollars under existing securities regulations. “It really galvanizes an evangelistic fan base.”

The JOBS Act, passed by Congress and signed into law by President Obama in April 2012, provides significant benefits to startups (like Ibrahim’s) and small businesses that are attempting to raise capital at a time when traditional lending sources remain difficult to tap.

Before the new law, the sale of private stock was restricted by SEC regulations to friends, family and so-called “accredited investors,” which are defined as institutions and high-net-worth individuals considered savvy enough to understand the potential risks of investing in nascent businesses.

Now, with certain limitations, businesses can raise up to \$1 million in a 12-month period from mainstream investors. The law isn’t expected to fully take effect for a few months, when the SEC, which polices stock transactions, completes the regulations for crowdfunding that offers equity.

Among other conditions, the amount sold to a single investor cannot exceed the greater of \$2,000 or 5 percent of that person’s annual income or net worth if his or her earnings are less than \$100,000. For higher-earning investors, the amount may not exceed 10 percent of annual income or net worth, up to a maximum \$100,000 investment in crowdfunding per person per year.

Supporters say lifting the equity restrictions on crowdfunding promises to democratize the investing process and foster what will probably be a boon to small business growth.

“This is for mainstream businesses, this is for consumer-related products, this is for people who do

Entrepreneur Winston Ibrahim sees great potential for crowdfunding for his startup, which makes water bottles with built-in filters.



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not historically qualify for funding from banks,” says Sherwood Neiss, an entrepreneur and crowdfunding enthusiast who helped draft the legislation and shepherd it through Congress, where it had bipartisan support.

Neiss, a principal in the Miami-based consulting firm Crowdfund Capital Advisors, expects that much of the fundraising facilitated by the new legislation will be amounts of \$250,000 or less. “It’s the hardest capital to find,” he says.

Many websites already are gearing up to target small businesses seeking capital via crowdfunding. Among them are Fundable (fundable.com), Crowdfunder (crowdfunder.com) and Seed Invest (seedinvest.com).

Wil Schroter, founder and CEO of Fundable (fundable.com), said the ability to offer stock using crowdfunding sites will be welcomed by businesses that previously hit a wall trying to raise more than \$50,000 using the rewards-based model.

WANT TO JOIN THE CROWD?

Websites are rarin' to help companies find investors.

by Jim Motavalli

Numerous crowdfunding sites are active, raising nearly \$1.5 billion in 2011. But Internet fundraising could really explode once the JOBS Act takes effect. Check out some leading websites below.

KICKSTARTER (KICKSTARTER.COM): The granddaddy of crowdfunding sites and the go-to location for creatives with more ambition and talent than money. Kickstarter (which collects a 5 percent fee) is an all-or-nothing site, meaning that if funding falls short, investors keep their money. Slightly less than half of all projects are funded.

EARLYSHARES (EARLYSHARES.COM): This site, launched in 2011, likes ambitious entertainment projects and partners with—among others—reality TV producer Five by Five Media (*Fashion Star*, *The Hero*). The company wants to be a player in feature films, too, providing last-mile funding for major Hollywood budgets. EarlyShares is ready to go when the JOBS Act kicks in: The website has 75,000 potential equity investors lined up and 2,300 companies see it as an opportunity. EarlyShares plans a 6 to 9 percent fee, depending on the amount of money sought.

CROWDFUNDER (CROWDFUNDER.COM): Poised to be a big name with a heavyweight team in place, this business crowdfunding platform has partnered with Gate Global Impact to offer shareholding opportunities to investors later this year. Crowdfunder’s portfolio also will include debt offerings, which don’t offer ownership but, like loans, provide the assurance of repayment with interest on a schedule. Crowdfunder might have an inside track for success under the new law because advisory board member Sherwood Neiss co-authored the JOBS Act’s crowdfunding framework. There are no registration fees while the site is in beta, which could end once the JOBS Act takes effect.

KAPIPAL (KAPIPAL.COM): Kapipal’s staff created a manifesto on how crowdfunding should work. So far, this easy-to-use service has no fees, and it’s a good place to start if you’re intrigued by this form of fundraising. Kapipal is for folks with modest dreams—like \$500 to help fund a wedding, but it can accommodate more ambitious plans, too. “Kapipals” launch a private website and share the URL with family and friends who send money via PayPal.

ROCKETHUB (ROCKETHUB.COM): RocketHub embraces offbeat projects and has scored notable success with its video series Extra Credits. This is a well-trafficked site with a grassroots focus, an international following and no signing fees. Entrepreneurs keep the money even if funding goals aren’t met.

ANGELLIST (ANGEL.CO): This site is all about connections, putting together high-profile venture investors with eager startups. AngelList is waiting for the JOBS Act regulations and doesn’t offer equity crowdfunding to unaccredited investors yet, but is likely to do so once the law kicks in. It currently has no subscription or membership fees.

FUNDABLE (FUNDABLE.COM): Fundable partners with modest startups, and its success stories include an elevation simulator for bicyclists, a project that raised \$20,000—double the goal. Investors can pledge as little as \$1, as long as they have no bigger reward in mind than a company T-shirt. This all-or-nothing website charges \$99 per month during active fundraising. If you meet your goal, you also pay 3.5 percent of the amount raised, which covers credit card processing (Fundable doesn’t take a cut). Fundable CEO Wil Schroter celebrates the freedom that will be offered by the JOBS Act. “People can now publicly say they’re raising money and on what terms,” he told SoCalTech.com.

Jim Motavalli, a regular contributor to SUCCESS, wrote about 21 sales stars in the October issue.

PERFECTING YOUR PITCH

To score big bucks with a crowdfunding solicitation, craft a creative video that appeals to investors' emotions and needs.

by Harriette Halepis

Crowdfunding is a way for businesses to get capital from, well, practically anyone. The concept isn't new (it has been around at least since early churches pushed tithing), although the modern term *crowdfunding* means fundraising on the Internet. A powerful pitch is the key to a successful crowdfunding campaign. Kickstarter.com, Indiegogo.com and other crowdfunding websites simplify the process of getting a pitch in front of backers willing to plunk down cash on a venture, but what goes into a successful solicitation?

And the answer is: an impactful video. A video, required by virtually all crowdfunding sites, is vital regardless of what your campaign offers supporters in return—a product sample or other thank-you gift or shares of private stock in your startup under the JOBS Act, expected to take effect this year. Further keys to success with that video are knowing your target market and crafting your message in a way that makes folks itch to give.

SHOOT A GRABBY VIDEO

Videographer Chris Henschel, a seasoned pro at shooting crowdfunding pitches, has these tips for entrepreneurs and small-business owners planning campaigns.

- **Create a video no more than four minutes long.** Kickstarter campaigns that greatly exceeded their solicitation goals bear this out, with videos typically ending around the 3.5-minute mark.
- **Audio quality and creativity matter.** Revise your video until it's polished.

"Once you go north of that, there are very few companies that even have a product or an offer... to accommodate that [level of support]," says Schroter, whose site currently charges small businesses a flat monthly fee of \$99 to maintain business profiles and crowdfund under current regulations. "They almost inevitably have to use equity."

To be sure, giving away shares in a business even when limited by law to small slices of the pie with no influence over company strategy could create additional headaches for owners and top management who already have their hands full trying to keep momentum going. Among other issues, they will face the burden of regular contact with shareholders.

"The concern and care that you'll have to take in an investor that owns a part of your company is another level of management complexity," says Nik Rokop, managing director

- **Showcase a product or service clearly and effectively.** To that end, you must know your audience; Formlabs' Kickstarter campaign for its Form 1 affordable 3-D printer was geared toward designers and engineers who understood the need for the device. Formlabs' goal was \$100,000, but the company's campaign raised *more than \$2.9 million*. If your product is designed for home chefs, your message might emphasize tasty results and time savings; if you're hawking an automatic aquarium cleaner, emphasize fish health, time savings and improved viewing through the pristine glass tank. Test your video on folks unfamiliar with your product (ideally they should fit your target market), encourage constructive criticism and take their comments to heart, which might mean shooting more footage and re-editing your video.

Your message and its delivery are crucial, too. As a former radio show host, psychotherapist Richard Rapoport knows something about being on-message. And he says entrepreneurs should attempt to tap into a "universal human need to feel appreciated, acknowledged and cared for—the yearning to be a part of something important." People delight in the cachet of being among the first (or at least part of the initial groundswell) to support an innovation that can sweep a community, nation or beyond. To sweeten the appeal of your product or service, Rapoport suggests:

- **Connecting with potential investors by letting them know you share similar values.** They'll invest, and even better, they'll help you spread the word. Why would they do that? Because of humans' narcissistic need to advertise their values (how else would the bumper sticker have survived all these years?). As a result, branded tote bags made of either recycled water bottles or organic cotton might be the perfect reward to someone who invests in a campaign with an environmental angle. The folks providing the first seed

of the Knapp Entrepreneurship Center at Illinois Institute of Technology in Chicago. In addition, traditional venture capitalists—the non-crowdfunding variety—potentially interested in buying a larger piece of the business might not appreciate having to acknowledge these smaller stakeholders. So they might be less likely to back you, something you should weigh before taking the plunge into crowdfunding.

Other complexities relate to the law itself, which places significant regulations on businesses offering stock through crowdfunding; it is designed to protect the general public from fraud and online scam artists. These regulations include requiring stock issuers to disclose detailed information about the company, its operations, performance and officers. In some cases, businesses will need to produce audited financial statements.

money will proudly use that tote, and when others ask about it, those initial investors will become your evangelists.

- **Showing emotion and employing an enticing tone of voice in your video.** Be genuinely enthusiastic as you drive home the reason your product or service solves a problem or satisfies a need. You (or anyone appearing in the video) should rehearse until you can speak and move in a relaxed manner so the pitch seems natural and sincere.
- **Inspiring viewers to want, even feel compelled, to support your effort.** Convince them that they and others—because, to woo investors you must convince them a strong market exists—*must* have this new way to save time or money; improve health, hygiene or comfort; enhance their appearance—whatever your business can do for them. Make them feel they'll miss out if they take a pass on your pitch.

SPREAD THE WORD

But an outstanding video isn't enough, Henschel warns: "You can make the greatest video ever, but if no one sees it, who cares?" Even the best videos won't get noticed if they are not widely viewed. To that end, startups should use one or both of the following tactics.

First, Henschel recommends that startups creating Kickstarter campaigns aim for the site's Curated Pages, which list projects that are supported by major organizations, blogs and other creative communities ranging from the Sundance Film Festival to Vimeo, a video-sharing website used by novices and experienced videographers. Editors wanting to freshen curated pages will look for new startups to endorse (and stellar videos offer the most tempting fruit); those endorsements will blast your message further through the virtual world.

The best way to wind up on Kickstarter's Curated Pages is to send a query email. Contact information can be found on organization or company websites. If people learn that an organization near and

dear to them has endorsed your campaign, they may jump on your bandwagon with a pledge, too. Virtual word-of-mouth can be incredibly persuasive.

And second, getting a celebrity to invest in your company or support your company in other ways is a terrific buzz-builder. So you don't know any celebrities? Well, it's not as tough as you might think to get a product in front of one.

Start by narrowing your focus to someone who has an intrinsic interest in what you sell, advises Steven Barlevi, celebrity business manager and former chief financial officer of Epitaph Records. In other words, know who loves your niche, whether it's gadgets, high-fashion clothing or bling, or a social cause such as the environment, literacy or animal rights.

Actor and travel buff Ashton Kutcher has invested in a variety of startups, including Airbnb.com, which connects people with places to stay in 190-plus countries. Actors Blair Underwood and Laurence Fishburne have worn jewelry by designer Aklia Chinn on- and off-screen, boosting her career. If you have a new solar-powered something-or-other, you might reach out to Kevin Bacon, who supports environmental causes. You're essentially following Formlabs' example: ensuring your pitch appeals to the right audience.

Once you've settled on whom to approach, Barlevi suggests reaching out through a publicist, personal manager or agent. Contact information for a celebrity's entourage can be found through IMDb.com or through organizations such as the Screen Actors Guild. Be prepared to sign some kind of a licensing or endorsement agreement, and then hitch your wagon to a celebrity's star power. Publicize the endorsement on your website and through social media (YouTube, Facebook, Twitter, etc.) to help your pitch go viral.

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Fundable and the other crowdfunding sites that plan to facilitate equity offerings will be subject to oversight as well. The JOBS Act stipulates that crowdfunding websites must register with the SEC as well as do their part to ensure that potential investors review materials about the companies profiled on their sites.

Some supporters believe the extensive regulations for investor protection may be overblown. A significant percentage of the investment in a business soliciting crowdfunding capital comes from people who already know the principals, says Chris Tyrrell, manager of Princeton, N.J.-based Nehemiah Investments and a board member of the Crowdfund Intermediary Regulatory Advocates, which lobbies federal lawmakers on behalf of crowdfunders.

He expects the JOBS Act to foster a surge in local investing, enabling many community-based projects with few other financing options to raise capital. "The real strength of crowdfunding is that it's really not 'a' crowd, it's *your* crowd," Tyrrell says.

Ibrahim, the water-bottle entrepreneur, is already trying to make a splash with supporters who might be persuaded to buy shares eventually. He has set up a profile on Fundable and has 35,000 Facebook fans following news of the business.

"It's a new frontier, a new opportunity," he says. "The equity model makes sense to me in a big way." **S**

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