



**FOR BEGINNERS**

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# **THE COMPLETE GUIDE**

**What is crowd funding?**

**Different types of crowd funding**

**Benefits of crowd funding**

**Risks of crowd funding**

**How to build a successful crowd funding campaign**



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# Crowdfunding for Beginners: The Complete Guide



Crowdfunding offers excellent potential for startups and growing businesses. However, gaining marketing exposure and raising external funding from investors is very challenging and stressful.

In this guide, I will explain to you everything you need to know about crowdfunding such as its types, benefits, risks and how you can build a successful crowdfunding campaign.



# What is Crowdfunding?

If you're new at startups, you would want to pitch your idea to potential investors. Contacting friends, families, investors, and corporations yourself is one way to do that. Otherwise, you could have modern technology to do that for you. Here's where crowdfunding takes place: through pitching the concept to as many people as possible, it reaches out to everyone through digital marketing. This is achieved through social media, online advertising, or online groups.

Crowdfunding makes use of small amounts of capital from a big quantity of people to finance a business venture. Crowdfunding uses the easy accessibility of various networks of individuals through the use of social media and crowdfunding websites to bring investors and entrepreneurs together. This will increase the opportunity of entrepreneurship with the aid by increasing the pool of investors outside the traditional circle of owners, relatives and venture capitalists.

According to ***P2P Market Data***, UK is considered as number three in the world (with America as the first and Asia-Pacific as the second) with a worldwide market share of 3.40% with a funding volume of \$10.4 billion. It has one of the most well-established markets for crowdfunding in the world.



# How does crowdfunding work?

Crowdfunding offers entrepreneurs the opportunity to raise hundreds of thousands or millions of dollars from anyone with money to invest. Crowdfunding provides a forum to those with an idea to pitch it in front of waiting investors.

Investors can choose from hundreds of ventures and invest as little as £10, and a minimum investment of at least £10,000 can be raised by small businesses/startups, with no maximum amount a company can raise. From a percentage of the funds collected, crowdfunding sites produce revenue.



You'll need to look for more information if you find a project that you're interested in. The business, individual or social enterprise looking to raise money should tell you:

- How much they want to raise
- How much it has raised so far
- The share of the offered company (if relevant)
- What the money will be used for
- How long is the pitch be open for
- How many people have invested in it already

Only if the business raises the full amount can the investment go forward. A two weeks cooling-off period is suggested if ever you change your mind.



# Different Types of Crowdfunding

## Equity-based crowdfunding

In a private company that is not on the list of stock exchanges, equity crowdfunding raises money from the crowd by selling securities (shares, debt, revenue share, convertible note and more). In exchange, investors buy stock in the corporation. The investors who have placed shares in it will benefit if the startup progresses admirably. However, investors will also lose a portion of their investment if the company comes short or fails.



## Loan-based crowdfunding

With loan-based crowdfunding, in exchange for a fixed interest rate, you lend money to individuals or businesses. It's also referred to as peer-to-peer or peer-to-business lending (P2P or P2B). P2P lending allows individuals and businesses to lend and borrow money by linking lenders with borrowers directly via an online peer-to-peer lending network instead of using a conventional bank as an intermediary.



## Reward-based crowdfunding

You offer money in return for a reward linked to the project or cause you're supporting in reward-based crowdfunding. This is when donors get anything for their contributions in return.

The benefits vary according to the amount of the donation, which incentivises greater donations. They can earn a token such as mugs, tumblers, any product or service depending on how much money you offer to a campaign, often at a discounted rate.



## Donation-based crowdfunding

Donation-based crowdfunding is when you give a campaign, company or person money for nothing in return (although in some cases, you may be promised something in return). For instance, you create a crowdfunding campaign to buy new machines for your growing company.



# Benefits of Crowdfunding

## **It provides access to capital.**

You might think that at an early stage, you can only raise capital from accredited investors, venture capitalists, and banks outside of their network. However, this is not true.

Crowdfunding is an incredible alternative way to fund a company, and it can be achieved even without giving up equity or accumulating debt. Rewards-based crowdfunding platforms enables you to collect community funds in return for merely offering their tangible goods or other gifts.

## A well-diversified investment portfolio.

Experts do not recommend giving just one company all your crowdfunding funds and advise on choosing multiple businesses to share your money between them. This practice is called portfolio diversification, and it comes as a rule of thumb. However, even in this situation, it is challenging to minimise the risk of losing your capital.

To minimise the risk of loss, carefully research the companies in which you are going to invest. Carry out your **Customer Due Diligence (CDD)**, study the history of a borrower's background, and evaluate the technological and financial sides of a proposal.

Consider different crowdfunding trends to keep the portfolio balanced and well-diversified. Study every inch of the business model used by a crowdfunding service provider and don't hesitate to ask questions.

Also, startups with multiple developers are rising faster than those with an owner.



## It serves as a marketing tool.

An active crowdfunding campaign is a great way to introduce the overall mission and vision of a venture to the market, as it is a free and easy way to reach multiple channels.

Many crowdfunding platforms have frameworks for social media mechanisms, making it easy for the website and other social media accounts to get referral traffic.

This usually enables ventures to receive thousands of organic visits from unique users and prospective funders.

For viral marketing, these users are also significant, as they can share and spread the word to their connections.



## Support for innovative startups.

Crowdfunding has the potential to encourage innovation. By providing new sources of capital to innovation-driven businesses and thereby reducing the funding gap for innovation.

Crowdfunding also offers feedback to the entrepreneur, a way for the public to engage in the innovation process.





## It allows crowdsourcing of brainstorming.

For small companies and start-ups, one of the biggest challenges is to be able to plug all the gaps that a company may have at an early stage.

By having a crowdfunding campaign, you have the potential to engage the audience and collect suggestions, feedback, and ideas.

This feedback is essential, as it can help understand some aspects of their business that were previously unthought and unheard of.

## Tax incentives.

With crowdfunding, investors benefit from lowering the tax burden. Backers are required to follow the same rules as for investing via stock exchanges with the legislative framework still evolving in this area. Investors must disclose a profit or a loss they have received after selling a stake in a business.

## **It's easier than traditional applications.**

Applying for a loan or seeking after other capital ventures are two of the most challenging processes that entrepreneurs go through, particularly during the early stages of the company. Fortunately, the application process for crowdfunding is so much easier compared to these traditional methods.

## **It provides the opportunity of pre-selling.**

Launching a crowdfunding campaign enables you to pre-sell an item or idea that is not yet out on the market.

This is a great way to measure client response and analyse the market to decide whether to pursue or decline a given concept.



# What are the risks of crowdfunding?

Crowdfunding is an entirely new concept, and investing in young businesses can be very risky.

Some risks of investment-based crowdfunding are:

## **Risk #1: Launching the campaign for crowdfunding too early**



Startups need to get to know their competition before beginning a crowdfunding drive. Specifically, they need to consider who their target market is what motivates this market to engage with their product/brand, and how best to connect and engage with them. And if crowdfunding platforms may carry funders outside the startup's network to the campaign, startups should expect to get all the backers required to succeed in the campaign.

This ensures that a strong social network should be formed before it can be introduced. Crowdfunding veterans often reference network milestones as requiring at least 1,000 named targets, with 30% pledged to help them before the start of the initiative. Getting to those numbers will take longer than expected. In general, we suggest that startups should not begin their campaigns until they meet these targets.

## **Risk #2: Underestimating the work and time required to manage a fundraising campaign**

It is all-consuming once you start the campaign. By tweaking and releasing new benefits, listening to comments and suggestions, keeping social media campaigns going and seeking to achieve media coverage, it involves too much work.

Also, until your campaign target is within reach, there is constant pressure to do more.



## **Risk #3: Missing the price point**

For startups planning a pre-sales campaign, a major risk is the absence of a price point that can produce the most sales.

Place the price too high, and you risk selling less than is sufficient to achieve the campaign goal.

Place the price too low and "leave money on the table" while avoiding not being able to cover the expense of the order.

The only way to stop charging the incorrect amount is to aggressively follow the 30% pre-campaign funding alluded to in Risk#1.

This direct consumer interaction would encourage you to repeatedly evaluate and get input on your price points and revenue model.





## **Risk #4: Underestimating the cost of fulfilment.**

Without credible and precise cost figures, you cannot set the correct price for your pre-sales campaign. In your cost estimates, provide contingency measures to replace main vendors or products in case the supply chain fails to deliver.

Assess if your forecasts cover the risks in the worst-case situation. If you run a good campaign and fail to deliver on the promises you made, donors will eventually lead to a lawsuit or bankruptcy.

## **Risk #5: Selling a product that is a poor fit for crowdfunding**

Not every good or service is fit for crowdfunding. Ultimately, the main goal of any crowdfunding effort is to create support and engagement.

However, in a crowdfunding campaign, some types of goods and services are less appealing than others. In general, goods and services targeted for corporate use are more time-consuming than consumer-oriented promotions.



## **Risk #6: Running afoul of the rules on the crowdfunding platform**



Campaigns who disagree with the terms and conditions of their crowdfunding website may have their campaign suspended. They can also face challenges in accessing their funds, even though the initiative achieves its goals.

Any situation is adverse, so before beginning the campaign, make sure your team tests your strategy against the guidelines of the site.

This will help entrepreneurs escape this monetary and reputational distress.

# How can you avoid the risks of crowdfunding

To avoid the risks of crowdfunding, only invest the money you can afford to lose.

Take note that you should invest no more than 10% of any money you have available for investing in any one year.

Before investing any money utilising a speculation based crowdfunding stage, check the **Financial Services Register** to ensure it is authorised.

Take note that the FCA does not regulate donation and reward-based crowdfunding platforms.

The money you'll invest should be kept in a different account to the crowdfunding site's bank accounts before it's handed over to the business.



Also, crowdfunding sites have limited protection under the **Financial Services Compensation Schem**, so you might have the claim compensation from them if the site goes bust.

*Below are some other tips to help you avoid the risks of crowdfunding.*

## **Upfront investment**

Significant investment is required even before a project begins on a crowdfunding platform. It's essential to know whether your business can manage it by setting realistic budgets and deadlines before agreeing to use crowdfunding to collect funds.

## **Protect your intellectual property**

In contrast to traditional ways of raising finance, where there are several possible investors to whom a business presents its ideas, crowdfunding involves many individuals knowing a lot about the business and its idea.

Because of this, it offers different companies a chance to replicate ideas before the real investors have seen it through fruition.

Because of this, you need to get the right intellectual property protection for your ideas before posting their campaign online.

This may appear as a trademark, patents or copyrights. You should also read the legal disclosure on your chosen crowdfunding platform and get legal advice before making your ideas public.





## Be on the lookout for fraud

Unfortunately, crowdfunding isn't immune to fraud. Fake sites are all over the web, with projects and ventures, especially in the charitable sector, being duplicated and funds are redirected to fraudsters.

Always check the credibility of the crowdfunding platform you're planning to use before submitting.



# What are the tax benefits of crowdfunding?



If you invest in small companies, there are two main schemes which offer tax breaks: the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS). Both schemes allow you to deduct a percentage of the amount you invest against your tax bill and any profits are tax-free. However, there are conditions such as having to keep your investment for a minimum period of time.

To know more about EIS and SEIS, you can read this [\*\*guide\*\*](#).

# How to Build a Successful Crowdfunding Campaign

## Choose the right platform.

Startups need to get to know their market before launching a crowdfunding campaign. It would be best if you considered who your target market is, what motivates this market to engage with your product/brand, and how to connect and engage with them.

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## **Offer more than just an idea.**

When you're about to launch your campaign, have more than just an idea in your mind.

Some ventures do not require a real product; however, if you do, have a working concept that you can show to prospective investors.



## **Know your target audience.**

Before you create marketing materials or upload your campaign, do the homework you need to get to know your target audience.

Identify what your audience wants. You need to do actual research and collect data to help you get to know more about the people you're targeting.



## Create your marketing materials.

Once you figure out your target audience and what they want, produce high-quality print and online marketing materials.

You don't need to copy any videos or fliers from another company—you need to tailor the materials to yourself and your post. Avoid tacky, cheesy pieces unless they really suit the project.

## Set your goals.

It's essential to think about how much money you need to get your company up and going, and how much people you know might be willing to pledge.

While you might be catching the interest of new people with your campaign, most of your support will come from those who already know you.

Be realistic and take note that if you've begun the initiative, you can't change your goal.



## Build trust and communicate openly.

Communicate with your investors during the whole process. Be transparent with them.

## Accept feedback.

Although feedback is frustrating, it is necessary for you to make progress, especially if you're working on a project. The more feedback and reviews you receive, the more you'll be able to determine your pain points and improve your product to get it ready for the production.

## Do Email Follow-up with Your Donors.

Don't forget all of the promises you've made during your campaign, whether they were made to the entire investor community or to certain people.

If you follow through with your commitments, not only can you build credibility with your future projects, you will also avoid disappointing your investors and clients.





## Get Creative with Your Promotion.

Social media is an essential if you want to share your ideas and ensure a successful crowdfunding campaign. There are hundreds of channels that you can use, but that doesn't mean you're supposed to have a profile in all of them.

Developing a communication plan and a PR approach will help you pick the best platforms and get to everyone you need. You can share not just your crowdfunding campaign through social media, but also talk about your venture, startup or project, write posts, share news about your idea, and schedule your Facebook lives to answer questions from your audience.

Also, don't skip the opportunity to explore Instagram, Twitter and LinkedIn, connect with various communities and help make your crowdfunding campaign even more effective.

# Summary

If you are searching for funding for your business, Trendscout is an excellent crowdfunding platform that can help you.

Trendscout is a platform based in the heart of London, linking angel investors and entrepreneurs, specialising in the development of purposeful, considered collaborations that drive profit and growth.

Hundreds of startups are reviewed by our team of experts every year. We evaluate the potential, mission and ethical practices of every business we work with, ensuring that every startup we represent aligns with our values.

With over 30 years of business and expertise, our network of creative startups and founders helps us to identify up-and-coming opportunities before they hit the masses.

If you're interested in investing in crowdfunding, you can **make an appointment with us today**. Rest assured that someone will assist you every step of the way.





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