



## How to get your idea funded? Go online

**Websites invite entrepreneurs to solicit backers — or crowd fund — with social media**

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Nathan Cooper's big idea: Print a ruler on a pencil. Why? Because he hated fumbling for one while doing his math homework. But who would listen to an 11-year-old kid?

Plenty of people, apparently. Thanks to 446 mostly strangers at crowd-funding site

Kickstarter.com, the San Diego sixth-grader hit his \$350 goal in the first day. People loved his enthusiastic video as a precocious infomercial pitchman.

He ended up with \$5,135, or 1,367 percent more than requested.

Kickstarter, Indiegogo and other sites encourage creators to tap their social networks to attract strangers. Rarely is money paid back, and backers don't get shares in the company. Instead, they pick from a variety of rewards, like the product, a T-shirt or a simple shout-out of thanks.

"It's incredible! I still can't believe it! You all are amazing," Nathan told his backers in December along with the bad news that production delays meant Ruler Pencils would arrive after Christmas. Backers understood. Pencils shipped by the end of January, two months late.

Funding and participation in crowd funding are way up, with the largest, the 3-year-old Kickstarter, reaching its first million-dollar project in February. Its second one hit four hours later.

The momentum has accelerated dramatically in the past year as artists, inventors and entrepreneurs discover this new access to startup money. It also offers cheap publicity and the real test: Will people buy it?

“The brilliant thing about crowd funding is it does market research for you. If you post a product, you can find out accurately what people want. What crowd funding does is say, ‘Hey, put your money where your mouth is,’ ” said David Bratvold, founder of San Diego-based news site

DailyCrowdsource.com.

But crowd funding a project obviously doesn’t guarantee success, he added. According to Kickstarter, more than half of the projects don’t get funded. Creators must do a lot of work to publicize their projects, plus they need to make accurate calculations on cost and delivery.

“The biggest thing is that most of your support comes from your social circles. Just because crowd funding exists doesn’t mean it’s an instant way to make money. The part nobody likes to talk about is that it proves your content,” Bratvold said.

## **Analytics and stats**

Brian Watrous and Daren Myers had spent their own money to develop RAu, an all-natural chocolate drink. The San Diego residents turned to Indiegogo to get the drink into stores. It was a great experience because of what else they were exposed to.

“Through their site, they provide analytics on our campaign,” Watrous said. “We can see stats such as page views, Facebook likes, and how many times funders referred our page to other potential funders. We did not expect this information, so it was a pleasant surprise. We only expected a professional platform for funders, and we got that and more.”

Once the project is funded, that’s when it could get difficult. Jun Axup, the La Jolla biochemistry graduate student behind the successful magnetic DNA plush dolls, is grateful that she raised four times more money than she had requested.

“I personally discovered a few expenses that I originally did not budget for, but luckily I received more money than I was requesting, which helped a lot,” she said, adding that overseas Chinese New Year celebrations threw off manufacturing and delivery plans by a month.

## **Three payoff avenues**

There are three main types of crowd funding: debt, equity and rewards.

Rewards may be the best known. Kickstarter alone tallied nearly \$100 million in pledges last year, with 46 percent of the 27,086 projects succeeding. That’s way up from the prior year, when \$27,600 was pledged and 43 percent of 11,836 projects succeeded.

Debt crowd-funding sites, like

Prosper.com and LendingClub.com, are loans that backers expect to be repaid with interest.

Equity crowd funding, which offers ownership in a company, is not legal in the United States. But Congress is expected to approve legislation this week allowing individual investors to commit between \$2,000 to \$100,000 depending on income, while small businesses could receive \$1 million through crowd sourcing.

“The legislation going through Washington will make more of this legal. That will greatly increase its popularity in both the number of investors and entrepreneurs,” said Ralph Mayer, a past president of the San Diego chapter of Tech Coast Angels who is on the board of the Angel Capital Association, which oversees 275 angel groups nationwide.

“We support the concept of it. Like anything else, it’s obviously here and it’s going to stay, and it’s going to get a lot bigger. Will everything about it be positive? Obviously not,” Mayer said. “The single biggest piece of advice I have, whether it’s a product or you’re hoping to make money, (is) only invest money you can afford to lose.”

## **Fraud and failing to deliver**

With any financial endeavor, there is a darker side. Some creators have been overwhelmed and haven’t delivered the perks. And there is the threat of fraud. Backers of the Vere Sandal project on Kickstarter are still waiting for their shoes more than one year after the project was funded. Another project, the Tech Sync Power System, was mysteriously pulled before the deadline as commenters raised questions on viability.

Sites like GoFundMe, a San Diego crowd-sourced fundraising site, encourage campaigns to link to Facebook accounts for legitimacy. Only campaigns reviewed by its staff appear on GoFundMe’s public search. Indiegogo uses an algorithm based on merit and data to pick which projects to feature on its front page. RocketHub reminds users that by tapping family and social networks, there is social pressure to keep “creatives” honest, plus the community will help enforce honesty and transparency.

While the companies offer little support after the project succeeds and money is transferred, they do leave the original campaign online forever so backers and creators can comment and offer updates.

“It’s a tremendous amount of work to run a campaign and stay excited. Beyond that, fulfilling the reward is just the beginning because you still have to move forward with the project,” said Justin Kazmark, a Kickstarter spokesman. “But now you have a community of supporters.”

The support from mostly strangers has encouraged Ruler Pencil’s young creator, Nathan Cooper, to pursue his next project. He set up

RulerPencil.com, where he sells pencils today (free shipping if you meet him on the playground). He wants to add more colors and maybe develop a mechanical pencil to appease users who gripe about shrinking rulers. But he’ll need more money for that. Will he do Kickstarter again?

“Oh yes,” he said just as enthusiastically as his original pitch in his homemade videos.

## **The sites**

### **Kickstarter**

Targets anyone with a creative project. Backers choose from rewards.

Size: 27,086 projects last year with a 46 percent success rate. Nearly \$100 million pledged.

Vetting process: No charities (“Kickstarter believes creativity deserves its own space”), must be U.S. citizen, have defined goal and project must fit in one of 13 categories: Art, Comics, Dance, Design, Fashion, Film, Food, Games, Music, Photography, Publishing, Technology and Theater.

Fee: 5 percent plus 3-5 percent for Amazon, which processes credit cards.

The catch: Projects must reach full funding, otherwise backers don't pay up.

Most funded: Double Fine Adventure game, \$3.3 million from 87,142 backers in February 2012.

Notable: 33 projects at this year's South by Southwest Festival were Kickstarted.

Site: [Kickstarter.com](http://Kickstarter.com)

### **Indiegogo**

Targets anyone with a creative, cause-related or entrepreneurial idea. Open to international users.

Size: Hosted 70,000 campaigns since its January 2008 launch. "Indiegogo is now distributing millions of dollars each month."

Vetting process: Must have bank account.

Fee: From 4 percent to 9 percent.

Notable: Part of Startup America Partnership to work with White House in creating jobs and helping entrepreneurs.

Site: [Indiegogo.com](http://Indiegogo.com)

### **RocketHub**

Targets independent artists and entrepreneurs.

Vetting process: Anything goes but must be legal, in good taste.

Fee: 4 percent, plus 4 percent transaction fee.

Notable: Successful projects can apply for free to the RocketHub LaunchPad for a chance to work with a publicist.

Site: [RocketHub.com](http://RocketHub.com)

### **Appbackr**

Targets the mobile industry with a focus on mobile apps. "Backrs" buy rights to a set number of units before the app hits the store. When those units sell, backr gets paid.

Notable: Placed second in PayPal X Developer's Challenge Award in 2010.

Site: [Appbackr.com](http://Appbackr.com)

### **GoFundMe**

Targets anyone with a fundraising project that is either personal or charitable.

Notable: The San Diego site says the largest amount raised was \$51,520 for a personal cause. The average is \$2,310.39.

Website: [GoFundMe.com](http://GoFundMe.com)

## Petridish

Targets scientists who need money for research or expeditions.

Notable: Newcomer charges 5 percent on projects but will give 5 percent in matching funds to backers who share the project on Facebook or Twitter.

Site: [Petridish.org](http://Petridish.org)

## Voices of experience

**Brian Watrous, co-founder of RAU drinks:** Have your perks ordered early in the campaign or already lined up before launching it. You don't want to make your funders wait too long after the campaign ends to receive their perks.

**Jun Axup, creator of Biochemies DNA dolls:** One of the hardest things to do is determining the price of your rewards. You want to make it reasonable so that the backers feel like they are getting a good deal, but you also need to keep in mind cost of shipping, packaging, etc., which can really add up. I personally discovered a few expenses that I originally did not budget for, but luckily I received more money than I was requesting, which helped a lot.

Nathan Cooper, president of Ruler Pencils: If you're going to do a project, you should really know when you're going to get the rewards to your backers. I said I was going to get them out in November and it wasn't until January to February. And seeing the videos helps.

## Crowd-funding tips from the experts

- Video campaigns raise 114 percent more than those without video.
- More than 90 percent reaching their target have good perks; 70 percent have three to eight perks.
- Communicate. Send out updates every one to five days. Reply to comments.
- Solicit friends and family to get the first 30 percent to 40 percent raised.
- Be clear with what you're trying to accomplish.
- Have creative rewards that are fairly priced, such as offering a behind-the-scenes glimpse at the creative process.
- Don't be shy about getting the word out.

Sources: [Indiegogo](http://Indiegogo.com) and [Kickstarter](http://Kickstarter.com)

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