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# Workshop

## „Managing Decisions in the Era of Creativity“

Nov. 11 and 12, 2010, in Karlsruhe

- Micro-Financing of Creative Ventures:  
Crowdfunding and more -

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## Definition of „Venture“

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- From Wikipedia: A venture is a demanding undertaking, often used synonymously with adventure.
- From dictionaries: The term venture is generally connotative with *risky, daring or speculative projects, challenges or undertakings*.
- Current use: Derived from these connotations venture is often used for entrepreneurial challenges or projects, but a venture is not necessarily a start-up company.
- Keyword is **“Risk”** (therefore: **“risk capital”**).

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# Examples for Ventures in Creative Industries

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## I Projects

- Projects of performing arts (a film, TV or theatre project; a music CD etc.)
- a book project (e.g. novel or sci-fi thriller)
- projects of visual arts (creation of a painting, sculpture, installation etc.)
- a TV or radio feature
- an exhibition or fair.

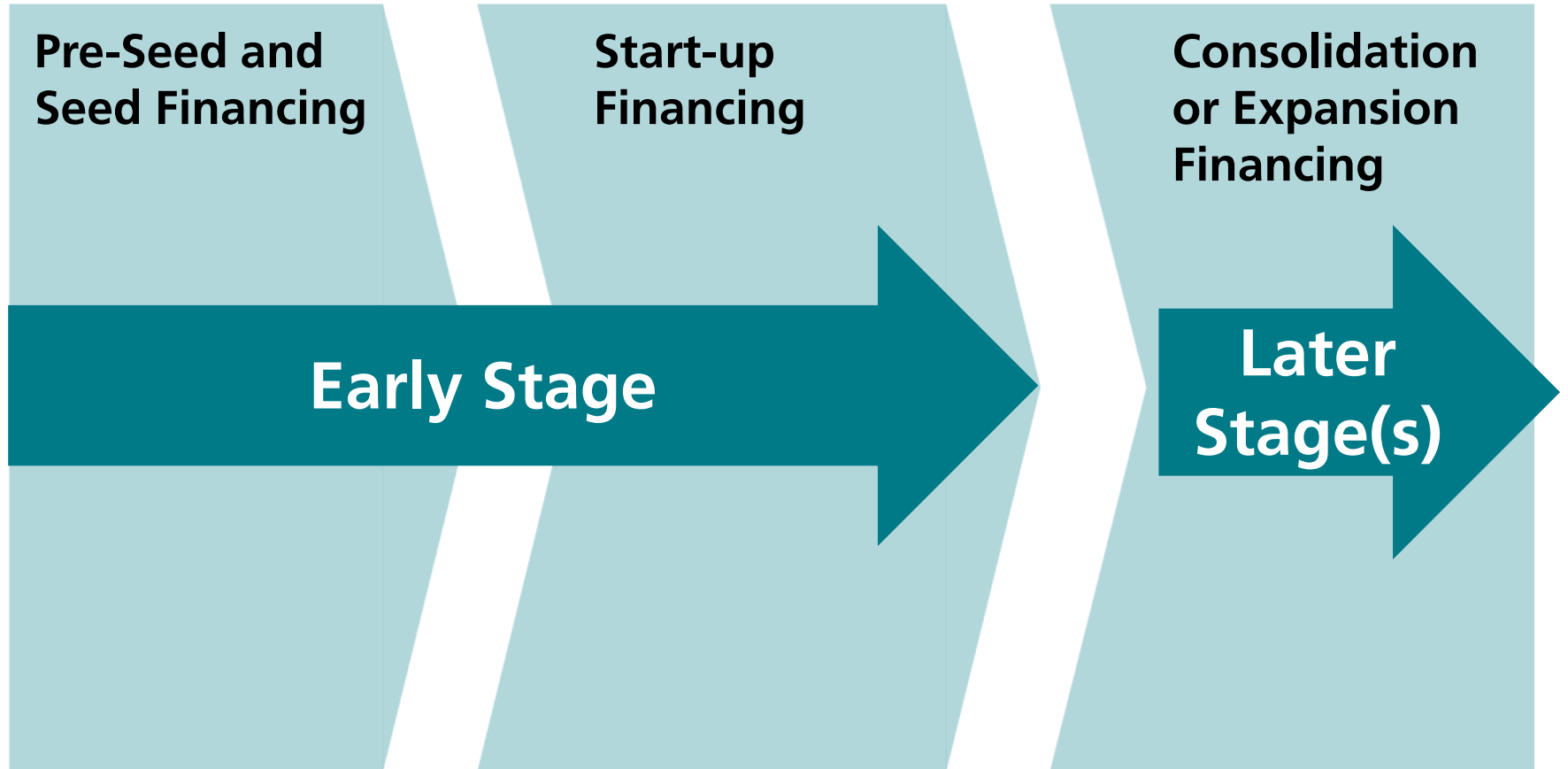
## II Foundation of Entities

- Foundation or construction of a museum or theatre
- of an orchestra
- of a graphics or advertising agency
- of a design studio (for fashion, architecture, industrial design etc.)
- of an art or antiques gallery
- of a publishing or printing house
- of an alternative radio or TV station.

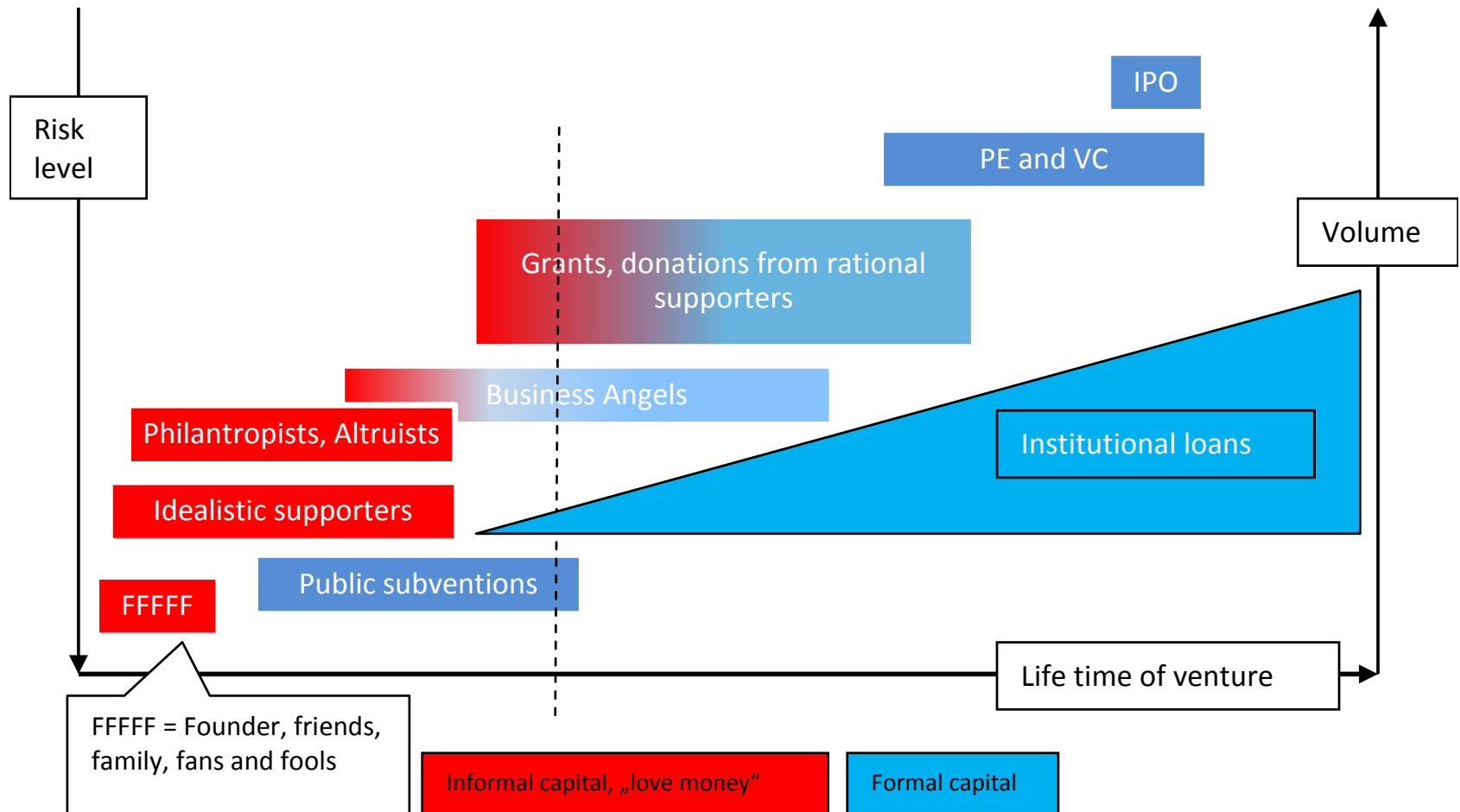
# Financing Stages of a Venture

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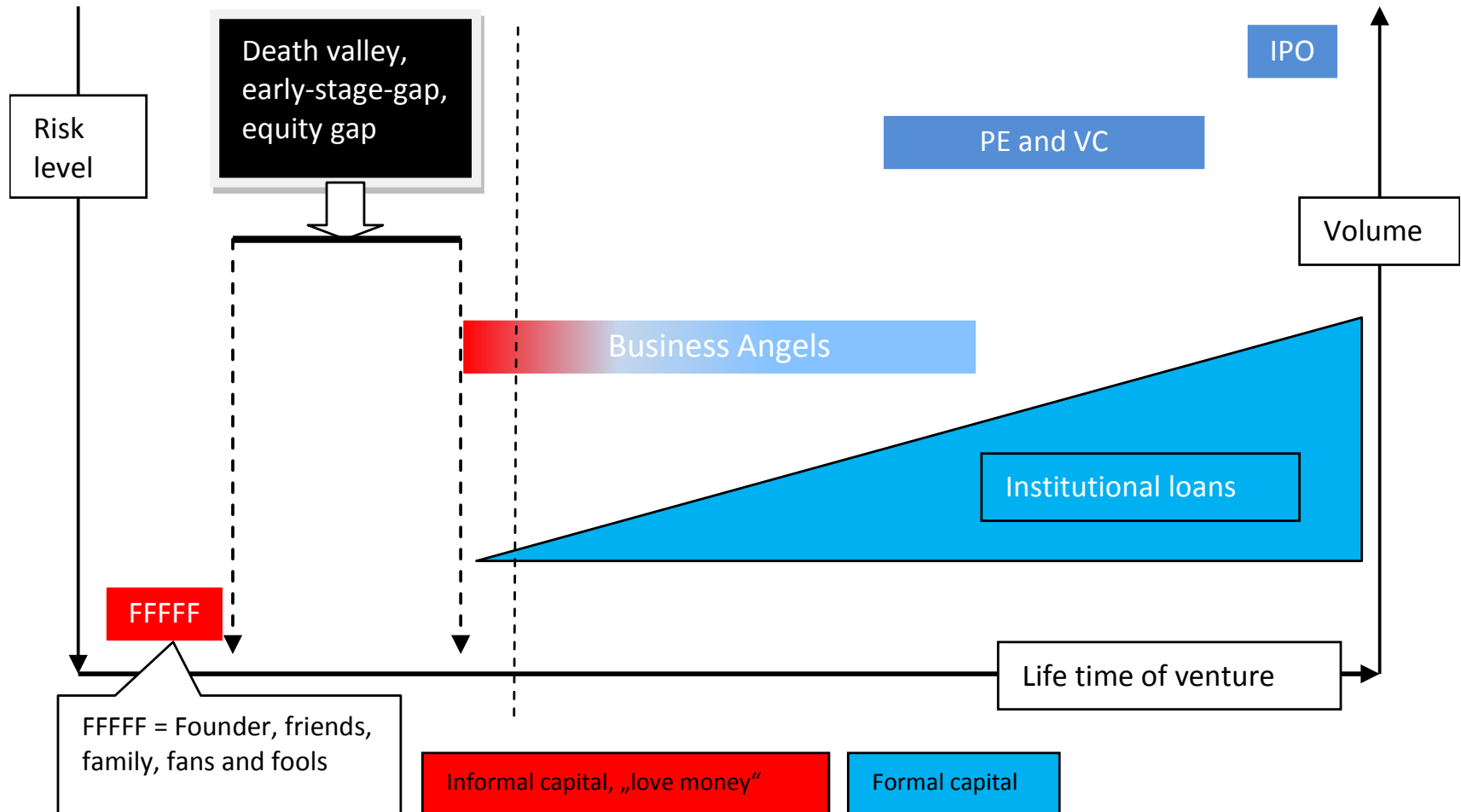
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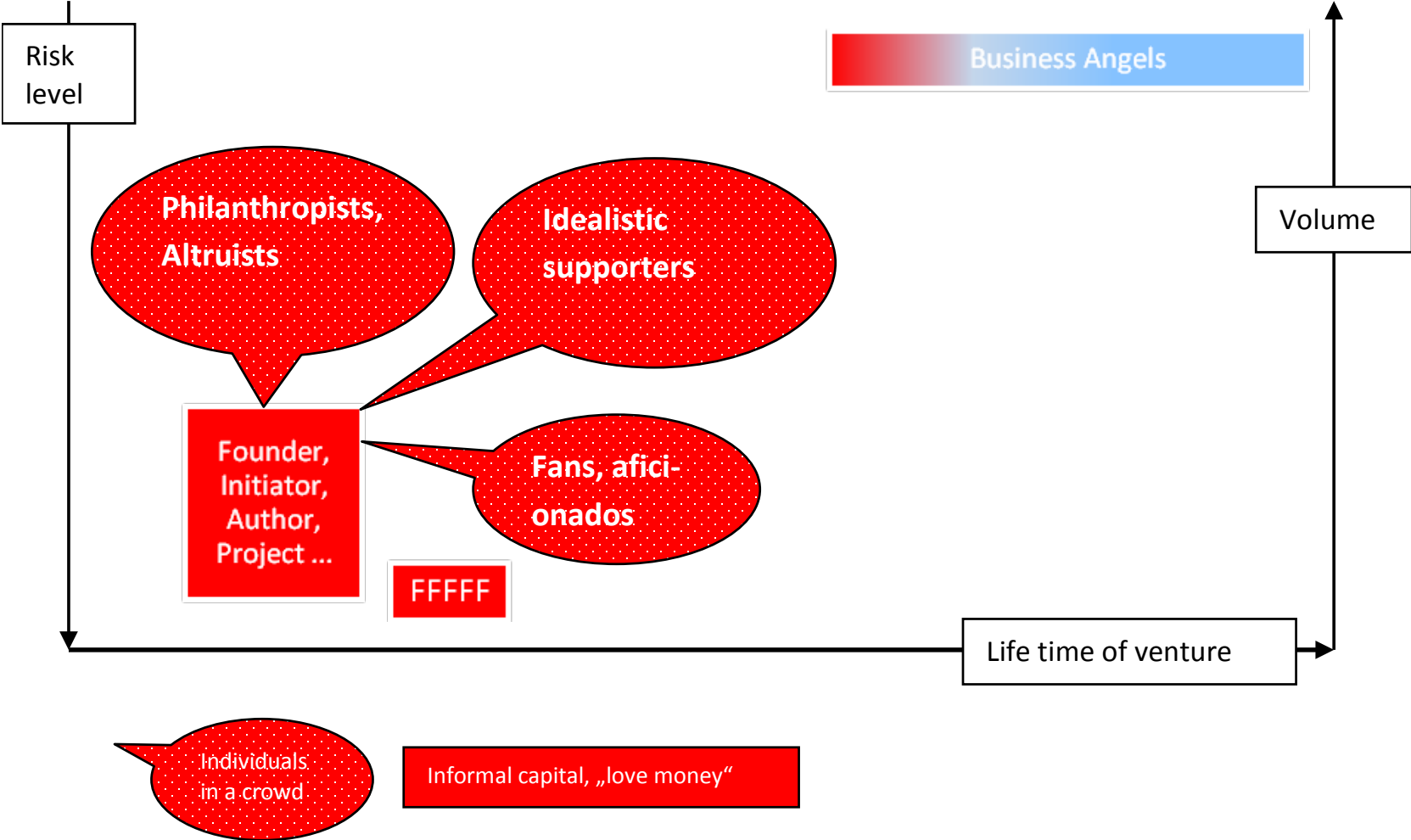
# The Ideal: Conventional Complementary Sources of Venture Financing



# The Reality: the Early-Stage-Gap in Venture Financing



# One Solution: Informal Early Stage Funding of Ventures



# Principal Types of Informal Financiers

Types	Examples	Characteristics
FFFFF	Initiator, friends, family members, fans and fools	have personal, emotional relation to the initiator
Believers , idealistic supporters	members of specific communities (political parties, social networks, religious groups, ideologies, political movements ...)	are enthusiastic about the idea or project emotionally, independent from the initiators's person
Philanthropists, altruists	successful entrepreneurs, top managers, artists, politicians, banks etc. or not-for-profit legal entities	have strong influence, support the idea or project for general societal or political reasons and/or for image making
Beneficiaries, rational supporters	entrepreneurs, business lobbyists, politicians, various societal groups etc.	appreciate rationally the usefulness of the idea or project, benefit themselves materially or immaterially but keep in the background
Business Angels		all of the above but also seek financial return, offer expertise and help



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# Importance of Informal Capital Sources

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- Informal capital can contribute to bridging the equity gap.
- The informal segment's capital volume is much higher than the volume of the formal PE market!
- Informal capital is less risk averse.
- Less bureaucratism than with formal capital.

# Principal Forms of Venture Financing

	Types	Grants, donations	Loans	Mezzanine	Equity	IPO, public shares
Informal Sources	FFFFF	■	■		■	
	Believers, idealistic supporters	■				
	Philanthropists, altruists	■	■		■	■
	Beneficiaries, rational supporters	■	■		■	■
	Business Angels	■	■	■	■	
Formal sources	Corporate venturing (companies)	■	■	■	■	■
	Seed and venture capitalists		■	■	■	■
	Banks	■	■	■	■	■
	Public authorities, state funding	■	■	■	■	■
	Supra-national entities (EU, UN, Worldbank...)	■	■			
	Private shareholders		■	■	■	■

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# Micro-Financing and Crowdfunding (CF)

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**Micro-Financing** means any form of financing fragmented into small chunks, provided by both individuals and institutions, e.g.

- One micro-loan of 100 € from one lender to start a sewing or retail business in Bangladesh, to be complemented by a larger chunk after successful start-up.
- Micro-loans from 1000 lenders (100 € each) for an revolutionary film project.
- 5000 micro-donations of 10 € each from the web community for writing an online novel.
- Millions of micro-donations via Web for Obama's presidential election campaign.

**Crowdfunding (CF)** is micro-financing given by a great (often anonymous) number of **individuals** (by a „crowd“)

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# Platforms and Channels for Crowdfunding (CF)

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## Traditional and established platforms and channels

- NGOs like Greenpeace, Red Cross or other charity organisations send out postal mass mailings of fund raising advertising letters with bank transfer forms.
- Classical collections of cash via collecting boxes in the streets, in churches etc.
- Others?

## Newer platforms and channels

- Collection of micro-donations to aid natural disasters, charity for handicapped or poor etc. through interactive TV gala events.
- Web 2.0-based advertisement and collection, supported by social networks and online-micro-payment systems (PayPal et al.).
- Cellphone-based collection systems to be expected in near future.
- Others?

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# And the Return for the Donators of Crowdfunded Ventures?

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## Today:

- Normally no financial returns
- Ideological satisfaction being part of a community of supporters
- Fun in benefitting from the product or service to be provided (e.g. book or computer game)
- Satisfaction in seeing the success of one's engagement
- Reception of a copy of book or film or CD
- Reception of a certification or acknowledgement signed by the (famous) initiator or author
- Public listing of supporters' names
- In cases of micro-loans: reimbursement of distribution, eventually including interests
- Sometimes: small pieces of dividends.

**In future?** Creativity needed.

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# Investment Motives of Business Angels give Hope for Crowdfunding

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- To have fun (81 %)
- to help young entrepreneurs (50 %)
- capital accumulation (46 %)
- to keep role in entrepreneurial process (40 %)
- to have influence on investments (21 %)
- to support projects of societal relevance (17 %)
- to help family and friends (10 %)
- tax reasons (6%)
- to receive regular income through dividends etc. (4 %)
- for personal societal image (4 %)

**Some of these motives may apply to other informal financiers and CF donators, too.**

( Source : Jaugey/Rost: Business Angels in Deutschland. Diplomarbeit 1999; „important motives“ only, n= 48)

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# Observed Chances and Advantages of Crowdfunding today

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1. CF adds to the spectrum of innovation financing. This should be exploited!
2. CF allows start of ventures which have no lobby so far or which won't find other funding (important for alternative or non-mainstream ventures).
3. Low threshold for participation: relatively easy mobilization of the crowd of enthusiasts.
4. Short term realization of ventures, exploiting current opportunities.
5. High PR effect: The crowd may be ideal multiplier, setting a market and attracting other supporters later.
6. Very informal, lack of regulations and fix procedures.
7. No certifications or verification for donation required.
8. Freedom for recipient to do what he likes; no liabilities or obligations towards the donators.

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# Observed Risks and Disadvantages of Crowdfunding in today's perspective

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1. Very risky for the lenders/donators (uncertain returns, risk of total loss).
2. No influence of donator on use of donation; risk of fraud.
3. Some formal capital lenders may be deterred to complement the CF tool or may defend it because they dislike its image.
4. Formal capital market and business angels may regard CF as competition and refuse collaboration.
5. High risk of conflicts with the donators when venture becomes successful and earns money.
6. Lack of rational assessment by donators prior to investment, so disappointment in cases of failures may spur growing refusal of the CF instrument.
7. Liability issues for the donators in case of the venture's failure.



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# Challenges of Crowdfunding and „to dos“

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- Establish CF as a serious early stage financing alternative, acknowledged by society, industry, state and formal capital markets.
- Transition and links to the more traditional or formal segments of the capital market to facilitate complementary or follow-up funding.
- Defining and establish bridges and links to state support instruments.
- Develop and establish procedural standards for
  - collection and certification of contributions,
  - guaranteeing and monitoring proper use of collected resources,
  - transparent and fair reimbursement of contributions (where necessary)
  - transparent and fair distribution of dividends or other returns.
- Give CF a more serious image (rather than the present, somewhat alternative or even anarchistic image) in order to facilitate positive signalling to more formal investors or supporters.
- Avoid inflationary use which may devalue the CF instrument.

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**End**

**Thank you for your attention**

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