



How to Prepare an Effective Crowdfunding Pitch

By Joanna L. Krotz | [Business on Main](#)



Crowdfunding — whether through donated contributions or equity investments — is coming of age as a game changer for startups. Here's how to create a persuasive pitch.

On April 11, 2012, a young engineer named Eric Migicovsky posted a project request for \$100,000 on funding platform Kickstarter. He hoped for development funds from “the crowd” for his [Pebble](#) prototype, a Bluetooth smartwatch that wirelessly connects with Android and iPhone smartphones to display email, calendar alerts, social media updates and caller ID; play music; run apps like GPS; and, yes, even tell time.

His project rang the cool vibe for Kickstarter's famously creative geek community.

By May 18, Migicovsky had reeled in an astonishing \$10.2 million from nearly 70,000 backers — the first \$1 million in only 28 hours. Kickstarter's donation model exchanges perks, rewards or products — not company equity — for contributions to fully funded projects. In this case, depending on the amount they donated, backers will receive one or more Pebble watches before market release, adding up to thousands of presold products.

“We're trying to stay in touch with our backers as much as possible,” Migicovsky said in a video at the 2012 LeWeb, Europe's largest technology conference. “We've posted 11 or 12 updates about new features, and we've asked backers to vote on a fourth color for the Pebble, after white, red and black, at #ColorMyPebble.”

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Overnight sensations take years

Of course, the Pebble quickly became legend, proving that not only does crowdfunding work, but it can fuel serious money.

Nonetheless, Migicovsky's success was years in the making, starting with wiring cellphone parts together in college in 2008, developing an early BlackBerry model called inPulse, working for a year at a prestigious incubator, and burning through about \$375,000 in angel money. Then the Silicon Valley VCs who'd been keeping tabs on Pebble's progress walked away. They didn't see enough consumer demand (note how wrong VCs can be).

So Kickstarter was Migicovsky's last resort, and this was after he'd already marketed a working product that generated buzz. His protracted journey — which includes manufacturing delays and iOS glitches, even with the \$10 million — offers lessons for anyone who assumes crowdfunding will float all boats.

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Working the options

“The worst mistake you can make is thinking that it'll be easy,” says strategist Jason Best of Crowdfund Capital Advisors. “You have to create a campaign. Anytime you raise money, it's hard, real work and requires a way to be able to engage the customer community.”

Best would know. A successful serial entrepreneur, he was a key advisor in developing the framework for “crowdfunding investing” or “securities-based crowdfunding,” which was mandated by the Jumpstart Our Business Startups Act, or JOBS Act, passed in 2012.

Unlike donation-based or product presell crowdfunding, this new option lets small investors purchase actual equity in growing enterprises. Designed to help entrepreneurs raise critical early seed money, crowdfunded investments cannot go forward unless projects are fully funded at whatever financial goal the entrepreneur sets, capped at \$1 million a year. The Securities and Exchange

Commission is still reviewing regulations, so though the investing model became legal as of January 1, 2013, it won't debut until rules are released, likely sometime later this year.

Even so, registration of Internet domain names containing "crowdfunding" already has spiked from 900 to 8,800 in 2012, according to the North American Securities Administrators Association, an investor protection group. Clearly, both forms of crowdfunding are ramping up, as the older donation model turns more sophisticated and competitive.

"Crowdfunding provides an elegant supply chain that moves from donation to reward to equity — once regulations are set — to an IPO onramp to take the company public," says Elizabeth Smith Kulik, a New York City-based global real estate consultant who has just launched [ProHatch](#), an all-or-nothing funding platform for business, philanthropy and personal projects.

This, then, is the opportune time to explore what works as you:

- Formulate your plan
- Identify funding communities that are simpatico with your idea
- Develop a narrative and video
- Perhaps fund a project yourself to experience the process

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Shaping the pitch

Crowdfunding reverses the usual entrepreneurial process by designing and building a product before you seek financing, explains Lee Barken, energy and cleantech practice leader at Haskell & White, a San Diego accounting firm. It provides "market validation and identifies people who actually want to buy your product," he says.

You still need a convincing business plan. But with a funding pitch, you're not so much impressing spreadsheet types as engaging customers.

Here are more tried-and-true tips:

- Figure out how much funding you'll need to raise.
- Create your social networking platform, along with a business plan, well before you post, advises consultant Best. Most crowdfunding will come from fans and followers on social media, as well as from friends and family.
- Develop an engaging story. Personality, voice and storyline count; humor is optional, but it better be good. "Tell your story directly and share your personal passion for the social or business value," says ProHatch's Kulik.
- Understand the funding platform rules, including whether it's an all-or-nothing model, what your timeframe will be, whether there's a penalty for missing your goal, and what percentage of your funds are paid to the platform. Read all the fine print.
- Choose your reward. Until the SEC releases investor regulations, your only crowdfunding choice is donation-based, so spell out what perk contributors will receive. Be specific about timing, as well as shipping options and delivery. "Offer rewards in the \$10-\$30 range, as it is likely that most of your funding will come from there," says Kulik.
- Keep your pitch concise. "Make your video short, clear, authentic, with a call to action," says filmmaker and crowdfunding strategist Ian MacKenzie. "The optimal length for pitch videos is three minutes."
- Keep in touch with backers and keep expanding your social network. It's hard but critical work.
- Be prepared for a financial review or audit, advises Barken. Plus, he points out that many crowdfunding accounting issues have yet to be defined, such as how sales taxes will be collected. Stay tuned.