

The Big Picture: Crowdfunding

Crowd-based funding is among the fastest growing segments in the financial industry. Which funding alternatives are available? And might one be right for you?

A new perspective

THE BIG PICTURE

Crowdfunding

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How it works



Types of crowdfunding

DONATION-BASED

Individuals make charitable donations to support a good cause, with no expectation of receiving anything in return. Examples: GiveForward, FirstGiving, GoFundMe.

REWARD-BASED

Individuals give with the expectation of getting something in return, usually in the form of goods or services rather than money. Examples: Indiegogo, RocketHub, Kickstarter.

LENDING-BASED

Individuals give loans, not donations, with the expectation of the loan being paid back, with interest, which can then be re-loaned. Potentially the most disruptive for supplanting the role of banks. Examples: Kiva, Ripio Credit Network. There are two main kinds:

Peer-to-Peer (P2P): Platforms match lenders and borrowers, often for the purpose of setting up a microenterprise, depending on their preferences:

- **Active:** Lenders want detailed information on the borrower so they can pick who they want to invest in.
- **Passive:** Lenders indicate the level of risk they are willing to assume and are allocated an enterprise accordingly.

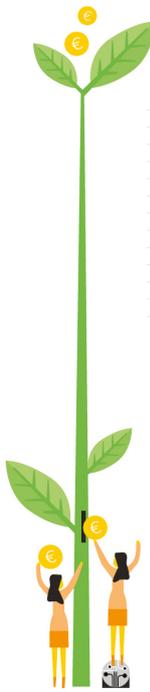


EQUITY-BASED

Individuals invest in a project in return for a stake in the business, similar to the way stock or venture capital works. Examples: AngelList, EarlyShares, Crowdcube.

INITIAL COIN OFFERING (ICO)

Individuals purchase shares of an enterprise in the form of a virtual currency like bitcoin or ethereum to gain access to deeper, more liquid secondary markets.



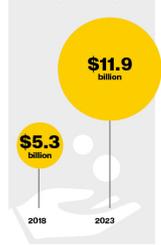
Traditional banking vs. crowdfunding

Different factors work in each one's favor.

	Bank	Crowdfunder
Extra liquidity in market	▼	▲
Trust	▲	▼
Advanced technology	▼	▲
Personalized services	▼	▲
Regulated	▲	▼
Established legal status	▲	▼
Security	▲	▼
Privacy protections	▼	▲
Niche market	▼	▲
Strong distribution networks	▼	▲
Independent from existing network operators	▼	▲
Emerging market contexts	▼	▲
Helps unbanked poor	▼	▲
Entrepreneurial	▼	▲

Transaction value worldwide

Current and predicted funds raised through crowdfunding.



Success factors for crowdlending

For borrowers

Borrowers are more likely to win financing when:

1. They're in the same geographic region as the lender.
2. They're women.
3. Their funding needs are humanitarian (related to health, education, housing or personal use).

For non-humanitarian enterprises, borrowers are more likely to win financing:

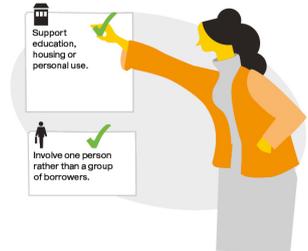
- the less they ask for.
- the faster they repay it (shorter terms, regular intervals).
- the better their reputation and the lower their credit risk.

For lenders

Default rates are lower when loans:

Support education, housing or personal use.

Involve one person rather than a group of borrowers.



sources: "Crowdfunding: Entrepreneurial or Humanitarian Needs? The Influence of Signals and Biases on Decisions" by M. Molekis, I. Alegre and M.A. Canela. "Crowdfunding Success: The Case of Kiva.org" by M. Molekis and M.A. Canela. "Could Crowdfunding Be Right for Your Business?" by Christian Euinger. Statista (accessed Dec. 2018).

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This infographic published in [IESE Business School Insight 151](#) shows the types of crowd-based funding that exist, as well as their advantages and disadvantages compared with traditional banking.

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