

THE CROWDFUNDING REVOLUTION

Social Networking Meets Venture Financing

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The Web site for this book is at www.thecrowdfundingrevolution.com.

ISBN 9781-77544-678-1

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MAIN IDEA

Crowdfunding is a new and more collaborative way to secure funding for projects. It can be used in a variety of ways:

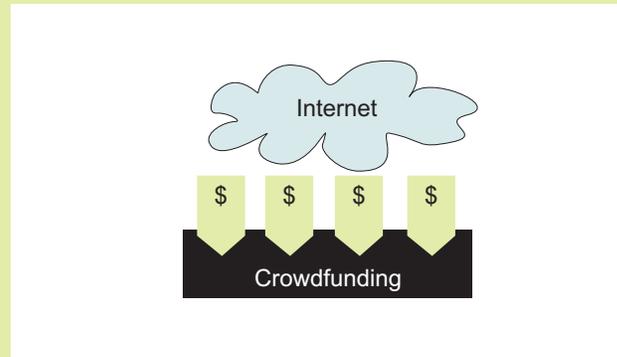
- To solicit donations for a worthy cause anywhere in the world.
- To generate funding for a project with the contributors then becoming partners in the project or adventure being undertaken.
- To pre-sell copies of a book or CD in order to fund the cost of production and distribution.
- To finance a startup or even an established company in return for an equity stake in the company's future cash flows.

In essence, crowdfunding is the fusion of social networking and venture capitalism. In just the same way as social networks have rewritten the conventional rules about how people communicate and interact with each other, crowdfunding in all its variations has the potential to rewrite the rules on how businesses and other projects get funded in the future.

Crowdfunding can be viewed as the democratization of business financing. Instead of restricting capital sourcing and allocation to a relatively small and entrenched minority, crowdfunding empowers everyone connected to the Internet to tap into both the collective wisdom and the pocketbooks of everyone else who connects to the Internet.

"In the same way that social networking changed how we allocate time, crowdfunding will change how we allocate capital."

– Kevin Lawton and Dan Marom



The Road Here

Crowdfunding isn't something that's going to come together in the future. It's already here and it's already starting to make an impact on how businesses and other organizations fund various projects.

Crowdfunding has become viable and feasible due to the combined impact of four distinct factors which are features of today's business landscape:

- 1 The rise of the crowd
- 2 The decline of conventional financing
- 3 The rise of outsiders with good timing
- 4 The emergence of early stage funding

All of these developments have led to the rise of crowdfunding as a viable way to fund startups and individual projects alike. Crowdfunding is a vibrant new way for companies to be funded, for projects to attract backers and for those who are passionate about something to show their support in a practical manner.

"Every few hundred years in Western history there occurs a sharp transformation. Within a few decades, society rearranges itself – its world view; its basic values; its social and political structure; its arts; its key institutions. Fifty years later, there is a new world. And the people born then cannot imagine the world in which their grandparents lived and into which their parents were born."

– Peter Drucker

The Road Ahead

As various forces combine to squeeze old-school venture financing into obscurity, the potential of crowdfunding accelerates correspondingly to fill the gaps. This is especially true because the emergence of crowdfunding is not driven by a single trend – it is the natural result of five business trends which are rewriting the rules of business right across the board:

- 1 The power of virtual infrastructures
- 2 The possibility of mining collective IQ
- 3 The intersection with crowdsourcing
- 4 The arrival of new investment models
- 5 Changes in regulations and policies

Crowdfunding is a new and better mechanism for capital allocation. It is a much more efficient way of doing this because it is based on the collective will of all participants in the market rather than just a privileged few. There are none of the biases which have inevitably arisen in previous capital allocation systems. The natural and inevitable transition to intellectual and financial decentralization will happen and new leaders will emerge.

"When it comes to the future, there are three kinds of people: those who let it happen, those who make it happen, and those who wonder what happened."

– John Richardson Jr.

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