



5 Types of Crowdfunding for Business

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5 Types of Crowdfunding to Make Your Business “Investable”

Crowdfunding is a powerful force that will drive the 21st-century world economy. It is at the forefront of the new environment in which we now live. Its impact will change the way businesses, governments, and consumers interact with the world. It will touch every part of our daily lives as we know it today.

The concepts that formed the bedrock of modern civilization and society are changing, perhaps beyond recognition. It's already evident by the massive paradigm shift of jobs, work and employment. Whether we like it or not, change is happening right in front of our own eyes. It is imperative that you understand these changes because they are here to stay and they WILL impact you personally. You can choose to look the other way, or embrace these changes to benefit not only your business but society in general.

For the past two or three centuries, most of the world has been in a process of emancipation. Starting all the way from slavery, through women's voting rights, equal pay, and equal rights, to the most recent Fintech changes to alter the financial industry as we know it. What is interesting, is that with the advent of technology combined with the shifting of society as a whole, a new society is being created.

Employment Emancipation

We can see it in Brexit, the U.S. elections, the world's turmoil. At the heart of many of these issues is the lack of jobs. The lack of security. The lack of employment. Corporations, with their continuous investment in automation to replace jobs, are more than ever aggravating an already fractured system. Therefore, the availability of jobs will shrink rapidly over the next years, and decades, to come.

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Any corporate savings created by this influx of technology will only result in them pocketing their profits as a result of these drastically reduced costs. Instead of waiting for “jobs” to come, the sooner people accept the changes that are already here, the sooner they can adapt and decide to move forward.

Uber as a Foreshadow of What is to Come:

The old days where you had to work for someone, in a place, for a specific number of hours is quickly being challenged by the gig economy and the shared economy. Where people decide when, where, and for whom they will work, resulting in a more flexible, and efficient lifestyle.

Even though we have barely scratched the surface, Crowdfunding has the potential to accelerate this new “freedom” economy by empowering the new entrepreneurs to have access to markets and consumers without any barriers to entry.

What is most powerful about how crowdfunding works and the new entrepreneur, is that the old oligarchy and social cliques will no longer be a requirement for business success. The sheer fact that you have direct access to the consumer will obliterate hundreds of industries used to keep the “man down” as their “gatekeeper” mentality, which allowed them to rule society for centuries, is now under direct fire. Elitism is now open sourced for the taking.

Your Tribe as Your Entrepreneurial Currency:

However, this new entrepreneurial mindset will require adaptation and a new approach on how you start, build and sell your business. The old way of just putting products out there, hoping to bring customers in, is quickly going down the wayside.

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The new business world is all about your community, your tribe, how you engage with them. It is now a two-way conversation. You can no longer peddle products in the hopes someone will buy. Now, your tribe has a voice, a saying, willing to help, guide and work with you as you grow your products and services. Your job is to find that voice, to find those needs, to bridge the gap between what your tribe's pain points are and the solutions you offer. The old days of tire kickers are slowly dying a tragic death.



Therefore, crowdfunding ideas successfully – *whether it'd be a business, a project or a product* – is based on understanding collaborative models. You are the catalyst to bring people together around this idea, product or cause where enough people care about to fund it and turn it into a reality.

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This is what the new economy is all about. By removing the oligarchy, the money keepers, the barriers to entry, you instead create a democratic business that requires no capital but instead it is the pockets of your crowd, your tribe, your believers that will convert your ideas into realities...therefore treat them well, serve them well, and the rest will be, as they say, history.

Types of Crowdfunding

1. Rewards-based crowdfunding
2. Donation-based crowdfunding
3. Equity crowdfunding
4. Debt crowdfunding
5. White Label crowdfunding

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Let's define crowdfunding for each business model in more detail.

1. Rewards-based crowdfunding

This is the most common type of crowdfunding. *Backers* contribute to different levels of offers and the average amount usually falls around \$1 to \$1,000. There are many different Rewards Crowdfunding platforms, Kickstarter being the best known. This type of crowdfunding seems to work best with product-based campaigns that require less than \$100,000 in funding. The typical campaign lasts around 1-3 months.

2. Donation-based crowdfunding

The second best-known type of crowdfunding is donation-based. Here, *donors* generally give small amounts for a particular cause. It can span from international projects such as helping kids in Africa, to supporting tragedies like the Boston bombing where \$2 million was raised for the victims. GoFundMe is the most popular platform but there are many others on the rise. This type of crowdfunding seems to work best for social causes that require less than \$10,000 in funding. The typical campaign lasts around 1-3 months.

3. Equity crowdfunding

The third type of crowdfunding, which is beginning to pick up steam, is Equity Crowdfunding. In this crowdfunding model, *investors* actually receive stock in a private company in exchange for capital. There are many different Funding Portals (as they are called) AngelList, EarlyShares, and Crowdfunder being the best known. This type of crowdfunding seems to work best for companies that need launch or growth capital greater than \$100,000. The typical campaign lasts several months and they must follow strict SEC rules. In this form of crowdfunding, entrepreneurs can set investor caps, minimum pledge amounts, etc. as well as approve or deny investors who wish to view their business documents.

4. Debt crowdfunding

The fourth type of crowdfunding is debt crowdfunding. Here, *lenders*

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5. White Label Crowdfunding

The final type of crowdfunding is the White Label Crowdfunding. Here entrepreneurs can pre-sell their products or services to *buyers* even before the product actually exists. This type of crowdfunding usually requires that you set-up your own platform on your own domain. There are many pros and cons. The pro is that you own the traffic that you drive to the site as well as the list you build from your marketing campaigns so you can keep selling these buyers over and over again. The con is that you will need to manage a website, the technical aspect as well as drive your own web traffic to increase your chances of success.

Wrapping It Up

- In rewards-based crowdfunding, backers give a small amount of money in exchange for a reward.
- In donation-based crowdfunding, donors donate a small amount of money in exchange for gratitude and the feeling of supporting a cause they believe in.
- In equity crowdfunding, investors invest large amounts of money in a company in exchange for a small piece of equity in the company.
- In debt crowdfunding, lenders make a loan with the expectation to make back their principal plus interest.
- In white label crowdfunding, buyers pre-purchase your products or services before they are either manufactured or ready to be delivered.

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