

Crowdfunding – an alternative business financing source

Elliot Schiller

We've all heard the word "crowdfunding", but does it really apply to our business? The first ever Canadian report on crowdfunding was released at the end of 2016 by the National Crowdfunding Association of Canada, and it predicts that once all of the numbers are finalized, crowdfunding will have reach \$190 million in 2016. If raising funds for your business could give you the fuel that you need to propel you to new heights, then crowdfunding — collecting financial contributions from many strangers not usually connected to the financial sector — represents an alternative to traditional forms of financing your business dream.

Crowdfunding is primarily accomplished over the Internet via various crowdfunding platforms, for a fee, or as the old adage goes, "There Ain't No Such Thing As A Free Lunch (TANSTAAFL to Robert Heinlein fans)". Equity crowdfunding is available in British Columbia, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick and Nova Scotia. It is currently under consideration by other provincial and territorial securities regulators.

Many factors contribute to a successful campaign, including the number of people who see your campaign, and whether they buy into your idea. Telling a compelling story and raising awareness about your campaign are vital, so tools such as social media have an important role in promoting your campaign. Be sure to do some research to find the right crowdfunding platform to showcase your idea.

There are four distinct crowdfunding models:

Donation/ Reward Model

This is the original model that most of us are familiar with which the non-profit sector was the first to successfully employ. It continues to be the largest crowdfunding category worldwide in terms of existing platforms; however, it does not represent the majority of capital raised. Further, only 10% of these campaigns have raised over \$10,000 (USD).

Lending Model

The Lending Model takes on many forms. There is the traditional lending agreement where there is an expectation for a monetary reimbursement in the form of interest, with a loan that may or may not be guaranteed. Then, there is the forgivable loan, which just as its name implies may or may not be reimbursed based on pre-defined conditions. Next, there is the pre-sales agreement, where the finished product is promised in return for the contributor's funding.

Needless to say, The Lending model poses a number of problems, including breaches of securities regulations and also raises questions about IP ownership and creative control. Not all forms of this model are always allowable in all or in some cases any jurisdictions in Canada.

Investment (or Equity-based) Model

The Investment Model has been the most successful in terms of the number of campaigns and the average funding raised per campaign. This model accounts for over 80% of the global Crowdfunding campaigns having raised over \$25,000 (USD) each. However, the Investment Model poses many of the same serious problems as did the Lending Model, including breaches of securities regulations, IP ownership and creative control. As noted above, likewise, not all forms of this model are allowable in all or in some cases any jurisdictions in Canada.

Hybrid Models

As its name implies, there have been a number of creative hybrid models that combine some form of the above three models. For example, innovative distribution rights models that allow investors to participate in profit sharing without following a traditional investment model which is currently not legally permitted in Canada. Creative business people will continue to explore this model in the future to provide them with the funding they require to reach their goals.

While originally crowdfunding was used to raise money to fund the development of a well-defined, singular project, these new forms of crowdsourced private financing have lowered the barriers to entry not only for financing projects, but also for the average citizen to play the role of investor. Crowdfunding also has a unique dual function of providing both private financing and generating publicity and attention for a project.

While crowdfunding will not work for every venture, it can be a way to test and validate your ideas, promote your business, and provide you with the funding needed to take your business to the next level.



Elliot Schiller is a Director at Toronto's Teeger Schiller Inc., a firm specializing in government funding and systems selection/ implementation. His clients receive over \$5 M annually to support ongoing business innovation. E-mail eschiller@teegerschiller.com, visit www.FundingHelp.ca or phone 1-888-816-0222 Ext. 102

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David Teeger

Director

David Teeger C.A., C.A. (S.A.) graduated as a Chartered Accountant in South Africa, and upon arrival in Canada he obtained his Canadian C.A. designation and joined Richter & Associates, a management consulting firm, where he concentrated his practice on various business sectors including household goods, fashion, automotive parts, public associations, and retail chains. He performed many roles in his 15 years at Richter, including managing the professional services organization in North America and all business operations throughout Europe.

David's professional capabilities include computer audits, feasibility studies, system analyses and assistance in the selection, negotiation and implementation of computerized solutions.

As a founding partner of Teeger Schiller Inc., he has focused his practice on consulting to management. His team of professionals has helped businesses select and successfully install a variety of ERP business solutions and add-on systems including business intelligence solutions to give new life to existing computer systems. David's clients not only rely on him to successfully manage the implementation of their new systems, but to manage the change that occurs in their organizations as a result of the use of these new tools.



Elliot Schiller

Director

Elliot Schiller, Ph.D., C.M.C. began his career as a Chemical Engineer working for Grumman Aircraft, in Long Island, New York. He obtained his Ph.D. at the University of Pittsburgh with funding from the U.S. Atomic Energy Commission, and, after being awarded a Presidential Fellowship, he went on to perform research and development activities at Brookhaven National Laboratory.

Since coming to Canada, he has primarily assisted consumer products and retail organizations in a variety of strategic management initiatives, traveling around the globe on behalf of his clients. In 1987, Elliot joined Richter & Associates, and it is here that he first met David Teeger.

As a founding partner of Teeger Schiller Inc., he has focused the SR&ED / Grant Division on obtaining grants and tax incentives for over 100 companies in the small to medium sized business sector. His team has provided services to the discrete / processing manufacturing, material development, textiles, apparel, automotive and computer sciences sectors. Annually, Teeger Schiller Inc. secures more than \$5 million in government funding to assist its clients in having their business initiatives supported by government funding.



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