

### Title

Investment Crowdfunding: An Innovative Tool for Small Inventors and Entrepreneurs

### Byline

This publication has been developed to help other inventor/entrepreneur groups to put on an online competition to help prepare inventors/entrepreneurs to launch a full crowdfunding campaign.

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### What is Investment Crowdfunding?

Investment Crowdfunding is an innovative form of fund-raising that provides real time knowledge on whether the general public would be interested in buying a product or idea created by an inventor/entrepreneur. More simply, crowdfunding is a way the common inventor or underfunded entrepreneur can raise start-up funds to invest in launching a product.

### Investment Crowdfunding Poses a Unique Opportunity to Small Entrepreneurs

In developing a product or idea, one of the earliest hurdles is raising money and understanding the public's interest. Traditionally, many inventors/entrepreneurs borrow money from family and friends, but this method of fund-raising does not give a good picture of the public's interest in the product. A high percentage of campaigns launched fail because the campaign does not meet the minimum standard for success. The clear benefit of investment crowdfunding is being able to understand the real purchase interest in a product and receiving actual investments for funding the launch of a product. We, the Michigan Inventors Coalition (MIC), developed an investment crowdfunding technical assistance contest to help prepare inventors and entrepreneurs in refining their pitch presentations and successfully launching a crowdfunding campaign. In running the crowdfunding contest, it became obvious which contestants were prepared and possessed the potential to successfully launch an international investment crowdfunding campaign with expert guidance.

Investment crowdfunding provides an opportunity to access capital that until the last 5 years has been unavailable to small businesses, and product launch capital can now come from beyond the friends and family that start-ups often turn to. Investment crowdfunding also allows for a way to test the market, build brand awareness, promote one's product or service, and build a customer base. Investment crowdfunding can readily fill and/or pair with traditional capital, including bank funds, credit unions, grants, or VC/Angel funding. In fact, initiating a crowdfunding campaign opens the door to VC/Angel funding. Community partners, another avenue for initial start-up support, are community-specific due to the unique contexts across communities, but potential partners include:

- Existing sources of capital;
- Chambers of Commerce;
- Downtown Development Authorities (DDAs);
- Economic Development Organizations (EDOs);
- Small Business Development Centers (SBDCs);

- Small Business Associations (SBAs);
- Community Development Financial Institutions (CDFIs);
- Entrepreneurial development programs;
- Foundations;
- Professional associations;
- Investment and social clubs;
- Local organizations, such as religious centers, philanthropic organizations, etc;
- And local, state, and federal governments.

#### Overview: Michigan Inventors Coalition's Pilot Investment Crowdfunding Event

The Michigan Inventors Coalition (MIC) observed the opportunity and need to support its members and inventors/entrepreneurs in preparing to and receiving help organizing and facilitating an investment crowdfunding campaign. MIC encountered a few challenges while pursuing this process. Therefore, this section seeks to address the challenges in organizing an investment crowdfunding technical assistance contest, providing advice to other organizations interested in facilitating a similar event.

1. Pick an event date far enough in advance to pool contestants, market the event, and identify potential investment technical assistance partners.
2. Prepare an informative event announcement. Both contestants and partners should be aware of and easily understand their respective expectations for participation in the event. This is very important for a successful project.
3. Ask interested prospects to respond to the call for contestants via email so your organization can send them an application to assess whether they are prepared and suited to initiate an investment crowdfunding campaign. You, the inventor/entrepreneur support organization, have the expertise and capacity to determine which applicants have a project that is ready to launch to production. Many inventors/entrepreneurs think they are ready but are not.
4. Send contest information to the selected contestants to prepare for the event. There are very few materials contestants must prepare for the contest, including a PowerPoint or a video showcasing the product, how it works, why it is a needed product, and why it is a sellable product.

#### Resources and Tips

Technical assistance is one of the challenges in the movement at the time this is being written. There tend to be 'hotbeds' where individuals and/or individual organizations are active and have developed support mechanisms. Often the best way to initiate the process of identifying investment crowdfunding technical assistance is to talk with others in your area who have raised capital using investment crowdfunding and contact their networks. The National Coalition for Community Capital (NC3) has a Technical Assistance directory that lists industry professionals from across the country<sup>1</sup>.

Additionally, there are over 50 investment crowdfunding platforms, including many who specialize in particular types of business or capital structures. Of those, less than 10 account for the majority of business across the country, and, for inventors, sites like WeFunder, Start Engine, and Our Crowd tend to do more product raises.

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<sup>1</sup> National Coalition for Community Capital, n.d., <https://www.nc3now.org/>

Investment crowdfunding support and training organizations are far fewer, and are often paired with specific entrepreneurial programs or geographies. Two nationally-accessible investment crowdfunding technical assistance organizations include Crowdfund Better and Crowd-Max Publishing.