Crowdfunding Fuels Innovation

Ryan Sauer

While it continues to be controversial in more conservative investment circles, crowdfunding is on its way to becoming a major source of venture capital for upstart companies.

With passage of the JOBS Act in April of this year, President Barack Obama and the U.S. Congress cleared the way for crowdfunding to be both legal and regulated. The JOBS (Jumpstart Our Business Startups) Act was designed to boost small business startup funding by easing several federal regulations. This allows small businesses to accept contributions from individual investors without creating an IPO. This is also known as crowdfunding and allows anyone to become an investor. The Securities and Exchange Commission is expected, by early 2013, to have rules in place for governing the raising of seed money for new business via crowdfunding.

Crowdfunding involves using Internet-based networks of investors to raise money for start-up businesses. Most investors who invest in a business through crowdfunding do not personally know the people running the company, nor do they have involvement with the company operations.

It could very well be a situation rife with potential problems. However, the regulations the federal government is putting in place are intended to protect the innocent from the unscrupulous. Many feel it’s a timely bit of legislating: unregulated or not, business people are using the Internet to solicit funds from investors.

How much impact crowdfunding will have on business and manufacturing [1] remains to be seen. Like such strategies as total quality management (from last century) and Six Sigma [1] (which has been successful for many companies over the past 30 years), crowdfunding has the potential to redefine how people conduct, or at least start, business.

Kickstarter Provides Potential Template for Crowdfunding Success

Of all the Internet sites devoted to crowdfunding, none has received the attention heaped upon Kickstarter [2], a site that brings investors and entrepreneurs together. It’s still in the early days for the site, but there has been a 44 percent success rate — i.e., the project made money — among businesses funded through Kickstarter. Most of those businesses were small and raised less than $10,000, however. The site also tends to deal in all or nothing stakes – 12 percent of projects never receive any funding, while the 82 percent that raised more than 20 percent of their goal were successful.

The site, which was created to fund artistic ventures, has actually been most successful in the area of technology, where the site fits well in an industry where rapid change is the norm. The gaming industry seems particularly posed to take advantage of crowdfunding, and is the source of Kickstarter's most successful venture to date.

Record Day for Crowdfunding

OUYA [3] is an open-sourced video game console for independent developers, built on an Android operating system. When the project developers recently sought funding through Kickstarter, they managed to raise more than $1 million in just more than eight hours. That was a record for Kickstarter. By the end of the first day, the project had raised $2.5 million, yet another record.

Another success is Pebble, a project for a customizable watch that raised $10 million from almost 69,000 backers. The Oculus Rift, a virtual reality video game headset, raised almost $2.5 million.

Whether these projects are ultimately successful remains to be seen, of course, but clearly the appetite is there among investors to fund niche projects of this nature.

Crowdfunding Counterintuitive For Some Organizations

As mentioned above, crowdfunding is controversial among more conservative investors and companies. Since about 60 percent of all crowdfunded ventures end in failure, it is simply too much of a risk for many organizations to take. It also requires a great deal of research and study on the part of the investor. In addition to the risk and the intrinsic costs of the research involved, crowdfunding is still considered relatively new and innovative, further increasing the counterintuitive perspective in the eyes of most conservative organizations.

It's very innovative nature flies in the face of such established and successful practices as Six Sigma. While Six Sigma focuses on improving efficiencies and processes within an organization, as noted in a BusinessWeek.com article, it is the very antithesis of risk–taking. This difference has become a major factor in innovative ventures such as crowdfunding.

The article concludes, however, that successful companies find ways to balance the two opposing functions of innovation and efficiency. The same article notes that a study published in the Harvard Business Review by Charles O'Reilly III and Michael Tushman concluded that "smart companies separate the more ambitious efforts at innovation from ongoing efforts at continuous improvement, allowing for different processes, structure and cultures to emerge within the same company."

Such "ambidextrous organizations" — who foster both change caused by innovation and the more conservative approaches embodied in strategies such as Six Sigma — may well position themselves for success in the future.

Ryan Sauer is a technology and start-up enthusiast. Through University Alliance, he works with Villanova University's [4] online business analyst, Six Sigma, and project management training programs. He is actively writes in these online communities to *enable professionals seeking career and professional advancement.*

Links:
[1] http://www.manufacturing.net/blogs/2012/08/manufacturing-is-getting-a-%E2%80%98kickstart%E2%80%99
[2] http://www.kickstarter.com/
[3] http://www.ouya.tv/
[4] http://www.villanovau.com/business-analysis-training/