

Crowdfunding: the next generation — four changes that will shake up the model

By VentureBeat.com

Crowdfunding has come a long way in a short period of time. What started out as a social experiment several years ago has been validated as a viable means for thousands of people to tap into their inner-entrepreneur. Recent data suggests that crowdfunding – defined here as a contribution toward a project in exchange for non-economic benefits — has enabled more than \$1.5 billion to change hands and tens of thousands of projects to get funded, ranging from “passion projects” to real companies.

Despite the recent, and resounding, success of firms like KickStarter (although that company’s seen quite a few failures too), many of these online platforms were originally thought of as places where you could discover quaint products, like an iPod accessory, or projects, such as funding a hiking trip, rather than the capital-formation facilities that they have become.

So how will *crowdfunding* continue to evolve?

1. Vertical platforms will emerge to focus on select market segments. We’ve already begun seeing these emerge. Recent announcements of new platforms include AppStori for mobile apps, Indie Backer for film, Gambinator for gaming, Petridish for science, and Emphas.is for photo journalists. These specialized platforms are likely to sprout in areas where the funding gap is significant or where consumers feel alienated from the process and want to engage. Though early, a growing number of success stories have already emerged: Recovers.org, which helps towns organize disaster recovery with web and mobile technology, and Peter Dench’s book, *English Uncensored*, both were able to leverage vertical crowdfunding platforms to reach their funding goals.

2. Crowdfunding platforms will evolve into “full-service” communities to better meet the needs of their members. Platforms that focus solely on consummating transactions, whether they are for benefits or equity, will either require lots of compelling projects to sustain the interest of their members, or a vast number of established contributors, to achieve success. By necessity, this will mean a need to develop both sides of the community credibly and quickly. Project creators and consumers want a way to better develop and enhance their relationship and, ideally, have it grow over time. This places an importance on engagement tools, including giving users the ability to freely and openly provide feedback to project teams, promote their projects, and track their progress. We’ve already seen an effort on the part of horizontal crowdfunding platforms like KickStarter and IndieGogo in enhancing the user experience through new features, such as expanded social tools that map users back to projects.

3. Creativity and innovation through online crowdfunding will be supported not just by individuals but by organizations as well. Technology and innovation have become a strategic advantage, not just for companies, but for industries and regions. Subsidization of these activities is taking place offline through government grants, accelerator programs, corporate entities, universities, and so on. We will continue to see some of this “community-based support” move online as project teams enlist the support of their local communities, not just individuals. One example of this is Donors.org and its shift from targeting individuals to connecting corporations. Platforms will expand to gather community support from a variety of entities that have a vested interest in project success.

4. Benefits-based crowdfunding will complement equity-based platforms. Fred Wilson of Union Square Ventures recently said the JOBS Act is fundamentally changing the VC industry, making it a “bad business”. The anticipation is that cash-based equity platforms will not only squeeze traditional tech investment but also may make non-equity platforms obsolete. On the contrary; I believe it’s likely that these non-equity, community-based platforms can serve as a vetting device for investors, new or traditional. In other words, these two universes can co-exist as they address different needs and objectives. In fact, we have already seen the introduction of hybrid models, reflected by firms like Fundable, which permit contributions for benefits and equity through one marketplace.

So, whether you consider yourself a supplier or a consumer of products – tech or otherwise – be prepared to take a more direct, and personal, role in shaping creativity and innovation much sooner in the process. That is, if you haven’t done so already.

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