The state of equity crowdfunding

EQUITY CROWDFUNDING INSIGHTS AND ANALYSIS

Bloomio

Introduction

Retail investors are constantly searching for alternative investment opportunities to maximize profits and to diversify their portfolios. Startups are becoming one of the most appealing assets in this process. The period of venture capitalism sitting in the hands of a privileged few, who invested ticket sizes from 100K onward only to then accept the freezing of their investment for years until either IPO or acquisition, is gradually fading.

Crowdfunding allows any individual investor to tap into the venture capital industry with just a few swiss francs, dollars or euro. Despite the natural evolution of the industry, we believe at Bloomio that the potential of crowdfunding is still underestimated and that the democratization of the crowdfunding industry has yet to reach its peak.

To better understand the barrier to entry and pain point of the equity crowdfunding industry, in conjunction with IMD MBA students, we developed an industry study with qualitative and quantitative research data.

Crowdfundign allows any individual investor to tap into the venture capital industry with just few swiss francs, dollars or euro

Summary

The study

As a winner of the 2017 IMD startup competition, Bloomio had the unique opportunity to collaborate with a MBA class to enhance its business plan, enrich its customer offerings and to complete a full market landscape analysis. Understanding customers needs, their concerns, and their pain points is a measure of a company's ability to drive above-market performance. To develop a deep consumer understanding, we conducted the insight study, employing both qualitative and quantitative techniques, which are presented in this document.

Insight Study

QUALITATIVE: One-on-one interviews with fintech executives and startup founders to gain a greater understanding of the points of contact and the barriers between these two stakeholders.

QUANTITATIVE: A survey developed following the findings of the qualitative study, and conducted with over 700 respondents to define the appeals of and the concerns related to equity crowdfunding.

ADVANCED ANALYTICS: From a market landscape assessment to research outcomes analysis, we leveraged the most advanced analytical tools to ensure a clear and straightforward reading of complex information.

About IMD

IMD is an independent business school, with Swiss roots and global reach, expert in developing leaders and transforming organizations to create ongoing impact. For the last 7 consecutive years, IMD has been ranked TOP 3 in executive education worldwide – FIRST in open programs (Financial Times 2012-2018).

9.000+
EXECUTIVES
ANNUALLY COMING FROM

100+
COUNTRIES

170
GLOBAL ORGANIZATIONS
CHOOSE IMD

100,000
ALUMNI GLOBAL

1st
WORLDWIDE
OPEN PROGRAMS
7 YEARS IN A ROW
Financial Times | 2012-2018

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Market analysis

While growing massively, crowdfunding still represents a minor share of the overall venture capital industry

2017 was a great year for Swiss Venture Capital. The Swiss Venture Capital Report 2018[1] highlighted a record-breaking year with 938 M CHF invested in startups in the Helvetic Cantons, following a continuous growth that brought the market from just over 300 M CHF in 2012 to close to 1 B CHF, which is expected to be broken in 2018.
A the same time, equity crowdfunding[2] is registering a triple digit growth on YoY comparison with the year's total invested amount summing up to 135 M CHF.
The growth of both traditional VC and investing through crowdfunding show that the activation of the crowd doesn't replace the traditional financing method. Rather, it supplements traditional practices, and it positively brings additional capital to the industry and to the startups seeking funds to improve products and services.
However it is important to remark how, despite the massive growth of crowdfunding, it remains less popular when compared to traditional VC.

1 https://www.startupticker.ch
2 https://blog.hslu.ch/retailbanking/crowdfunding/

Different type of Crowdfunding

CROWDFUNDING:
The crowd is activated to transform an idea into a real product, and it does it by bringing the needed capitals. You have a band and want to produce your first demo? You invented a pair of sneakers made of recyclable plastic? Crowdfunding allows you to pitch backers to provide you with the needed funds to activate your project, in return for a series of perks. These can go from a digital "thank you" to a stock of the products or service will be brought to life.

EQUITY CROWDFUNDING:
The process is the same as crowdfunding where individuals provide the money to face a capital need. The key difference liaises in the return expected for this financial support. While, in crowdfunding, backers are not seeking a financial return, individuals approaching equity crowdfunding are investors expecting a profit.
They provide money to a business in exchange for shares of the company and, if the company is successful, they can sell their share for a premium.

The interviews

About 40 stakeholders were interviewed by IMD students. VC executives and startup founders shared their views on the unexpressed needs in the VC industry and on equity crowdfunding

SWISS STARTUPS AT SEED STAGE

20+ STARTUPS
at different stages interviewed and surveyed

PAIN POINTS

„We don't want just the money. We want the network"

Founder, Series A stage
Deep tech

MARKET VALIDATION

*„We continually struggle with raising capitals.
Having access to a quick funding process is extremely valuable to us."*

Founder, Series A stage
Deep tech

EUROPEAN RETAIL INVESTORS

Learned perspectives of
15 + PROFESSIONAL AND RETAIL INVESTORS
through interviews and surveys

PAIN POINTS

„Information disclosure is pertinent"

Retail investor in Switzerland

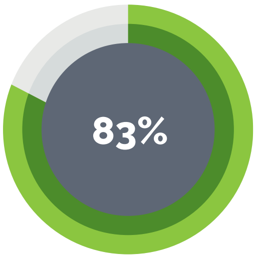
MARKET VALIDATION

„I would join and invest in a crowdfunding platform that can offer me a quick investment fruition."

Retail investor in Madrid

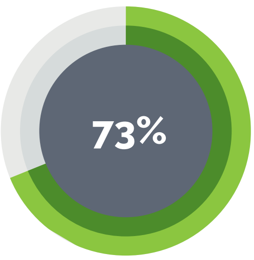
Four common topics emerged in all the discussions held with investors when prompted about crowdfunding

LACK OF TRANSPARENCY:
This is the largest concern across different investors. While any crowdfunding platform conducts due diligence of the startups raising funds, the process does not foster trust as a result of investors questioning the impartiality of the assessment.



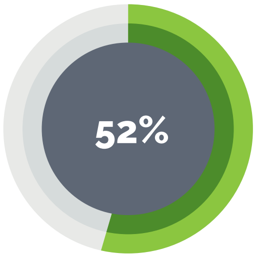
Lack of transparency and information about the start-ups

QUALITY:
What is available to everybody isn‘t necessarily high quality. This is the underlying reasoning behind the skepticism of crowdfunding. However, the more frequent cases of unicorns raising through crowdfunding prove the fragility of this point.



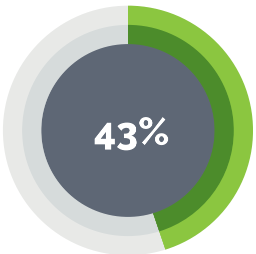
Quality of the start-ups featured on the platform

LENGTH OF THE PROCESS:
Investing through crowdfunding requires a series of processes to ensure a clear KYC and AML. While the process can be long, it is crucial for meeting regulatory requirements and for the security of the startups and other investors.



Lenghty signups and vetting processes

SECURITY:
This concerns reflects both some grey zones related to regulations and the security of the database itself. The interviewees expressing this worry agreed that it fades out with fully regulated platforms and advanced and transparent technology such as blockchain.



Security of the platform

The Quantitative Study

While analyzing the qualitative study, a few concerns emerged amongst VC investors. But crowdfunding is not only about professional VCs: it is about the crowd. A larger audience survey was deemed the best option to capture insights from retailer investors both with and without previous experience in investing in startups.
A common thread emerged from the discussion with professional investors that highlighted improving the world as one of the incentives for investing in startups. This led to our decision to donate 1 CHF to the Ocean Cleanup foundation for any respondent who confirmed interested in the initiative.

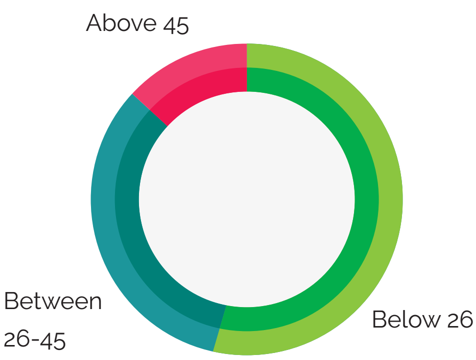
About the OceanCleanup

The Ocean Cleanup is a non-profit organization, developing advanced technologies to rid the world's oceans of plastic.
By utilizing the ocean currents to our advantage, our passive drifting systems are estimated to clean up half the Great Pacific Garbage Patch in 5 years' time.

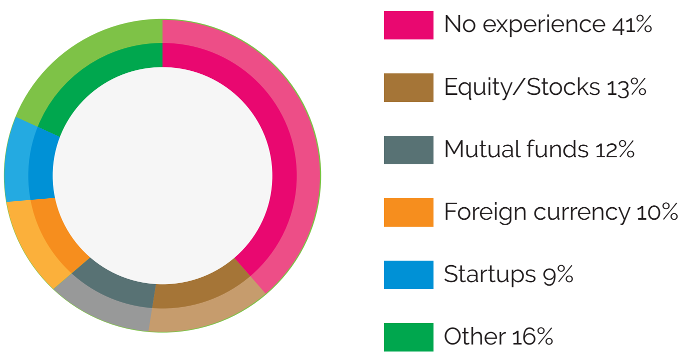
The survey

The survey was available online and promoted via our site, www.bloomio.com, and social media.

741 respondents



Previous investment experience:



Finding 1
Awareness remains a key barrier for retail investors trying to tap into the Venture Capital arena

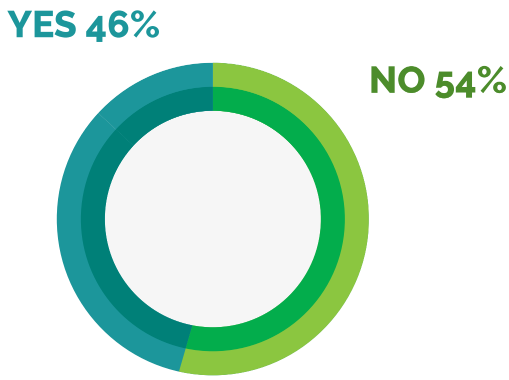
While the majority considered investing, only a minority actually went through with it.

57%	**THOUGHT OF INVESTING IN STARTUPS**
9%	**INVESTED IN STARTUPS**

Despite a very strong interest in investing in startups, our results show a very low number of people who put thoughts into action. We noticed that awareness is the main cause.
Many potential investors still see venture capital as a reserved territory for angel investors and venture partners, for companies or individuals who could invest in the hundred thousands, if not in the millions.
This is historically what the industry looked like: minimum investments of $100K+ during the seed stage, $2M+ for round A are big for individual investors.
The appearance of crowdfunding platforms in the scene brought a completely different reality, where individual investors could tap into the venture capital arena with tickets smaller than 100 dollars, democratizing an industry that was at one point reserved to a very limited elite.

Most of the respondents were not aware of the existence of the crowdfunding platform, which could open them the doors of equity investment.

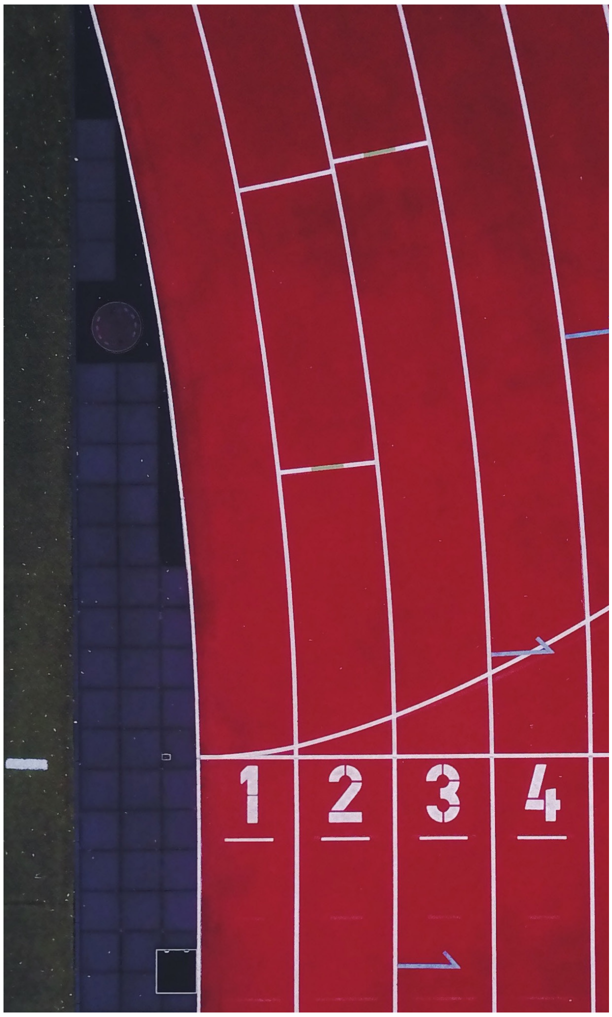
ARE YOU AWARE THAT THERE ARE PLATFORMS WHERE YOU CAN INVEST IN STATUPS STARTING FROM JUST 50 $?



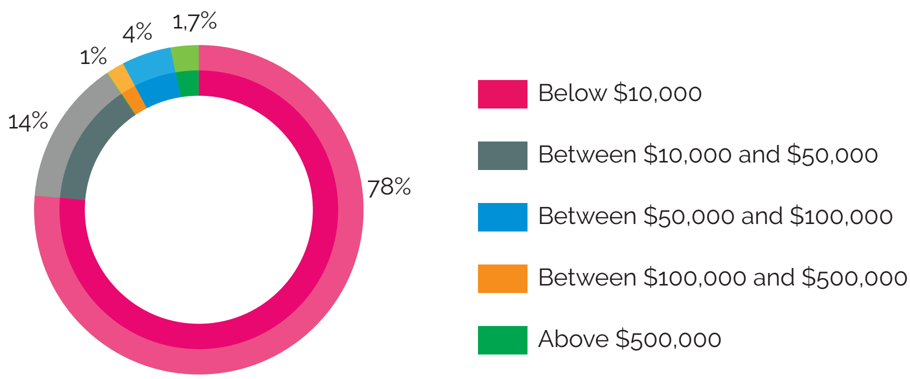
Finding 2

The amount available for investment is a barrier to entry for many of the main investing activities, or at least this is the perception many people have.

This is especially true when it comes to traditional venture capital, where minimum ticket size is in the range of 100K $. Many platforms allow nowadays a wide range of investment activities starting from just few dollars. As highlighted before, lack of awareness represents the main stopper here, but it is not the only one. Investing in stock market, bonds or startups it is not only about availability of resources; it is about knowledge and expertise. Accessing brokers, fund managers and experts who could spot the investment better fitting your risk/profit profile, looks like impossible to these who have less than 10K $ available for investing activities. Furthermore, limited resources seem hampering one of the winning strategies to perform in alternative investments: portfolio diversification. To address the higher risks, indeed, it is crucial to diversify investment, and this means further portioning the amount available for investment.



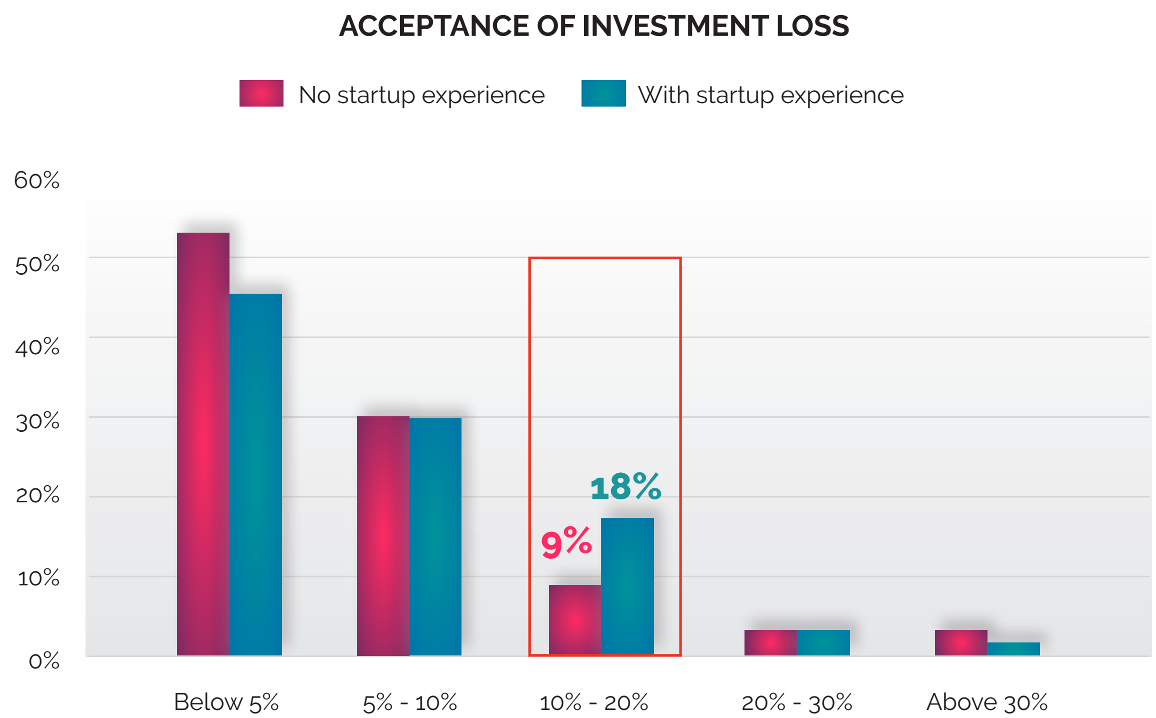
WHAT IS THE YEARLY AMOUNT OF MONEY YOU CONSIDER FOR INVESTMENT ACTIVITIES?



Finding 3
Different risk attitudes between investors with previous experience in investing in startups

Investing in startups is risky, and to venture means to anticipate risk and danger. This is, indeed, what investing is about: balancing risks with profit probability. The higher the expected return, the higher the risk.
Startups are a hit-or-miss investment opportunity, but few alternative investments out there could return so high a profit. The case of Andreessen Horowitz, who invested \$250k in Instagram to cash out at \$1B when it was bought by Facebook, is often referenced. A 312x return in less than two years.[3]

While majority of respondents, both with and without startup experience, show a high intolerance to risk — aiming to put at risk less than ten percentage of their investment — the difference between these two groups is visible amongst these who are ready to accept an investment lost between 10% and 20%. In this cluster, the respondents with experience in startups are twice the ones who never ventured.



3 Peter Thiel, Zero to One: Notes on Startups, or How to Build the Future, p. 64

Finding 4
Fear of being scammed is the main barrier for investing in startup, especially amongst investors with no direct experience

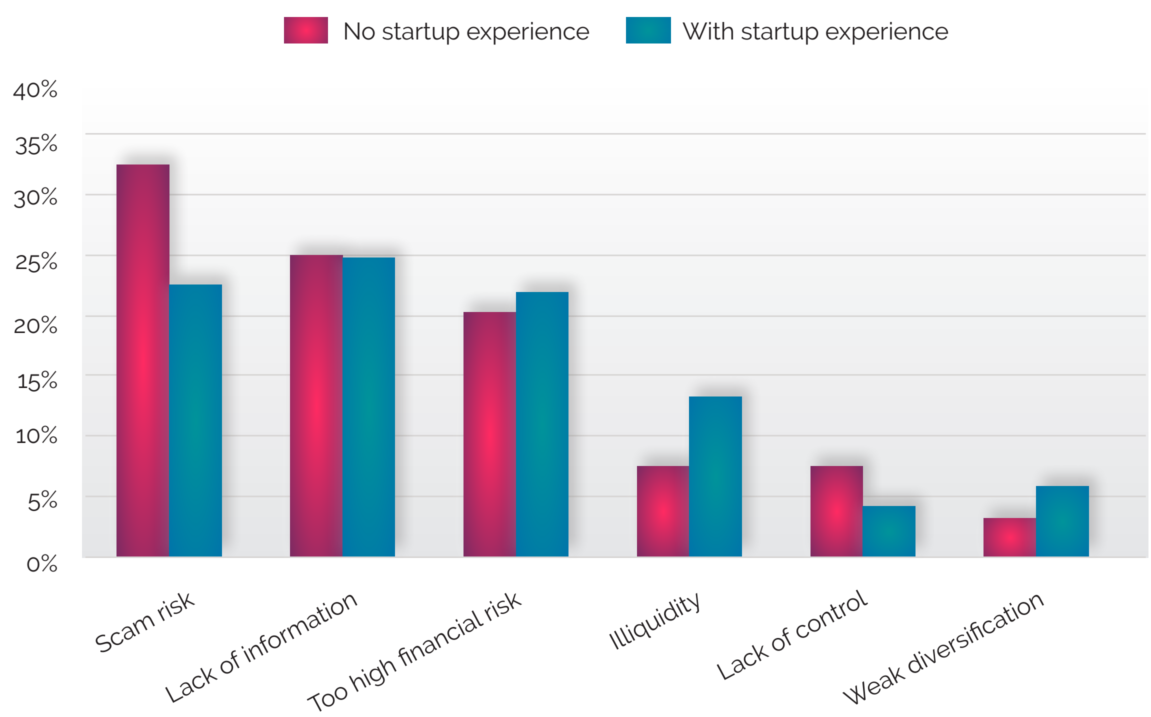
In a perfect world, all crowdfunding projects would deliver on their promises and return a profit. But we don't live in such environment. The history of venture capitalism is full of stories where startups were unable to scale and to turn an idea in financial success.

Less common, but strongly impacting people's mindsets regarding startups are the cases of scams. The iBackPack, the revolutionary backpack able to recharge any device, raised nearly $800,000 across both Kickstarter and Indiegogo only to then vanish.

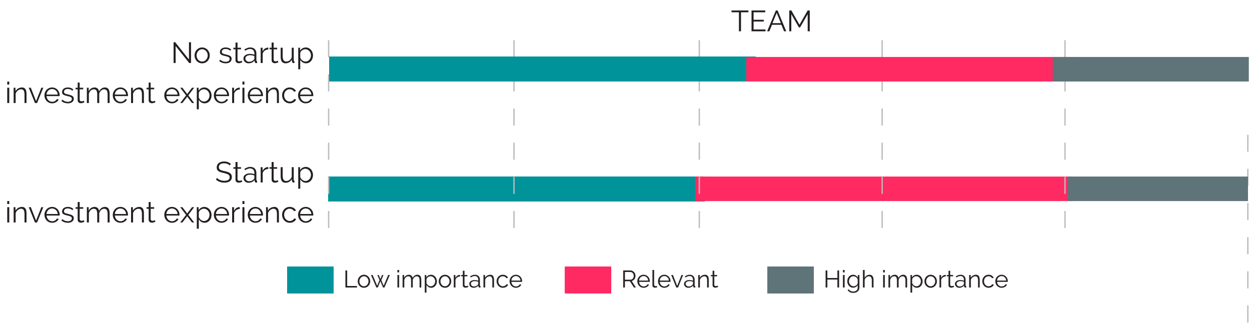
This, and cases like this, have caused fear of scam to be the number one concern across investors. Even though this apprehension is shared as a great concern by both investors without direct experience in startups and investors with experience in investing in startups, amongst the latter, it is the lack of information the main concern. The reason for this deviation comes from the knowledge of how regulation is enhancing its presence in crowdfunding and how the platforms themselves are increasing the financial and security standards.

Other differences emerging between the two type of investors concern illiquidity. Those who have experience in VC know that even identifying a profitable investment, this doesn't secure a cash flow in the short term and that, timing of cashing out could become one of the main issues behind the investment.

THE BIGGEST CONCERN WHEN INVESTING IN STARTUPS



THE IMPORTANT THINGS TO LOOK AT WHEN INVESTING IN STARTUPS



Finding 5
Experienced investors recognized that the team plays a major role in securing the success of a startup

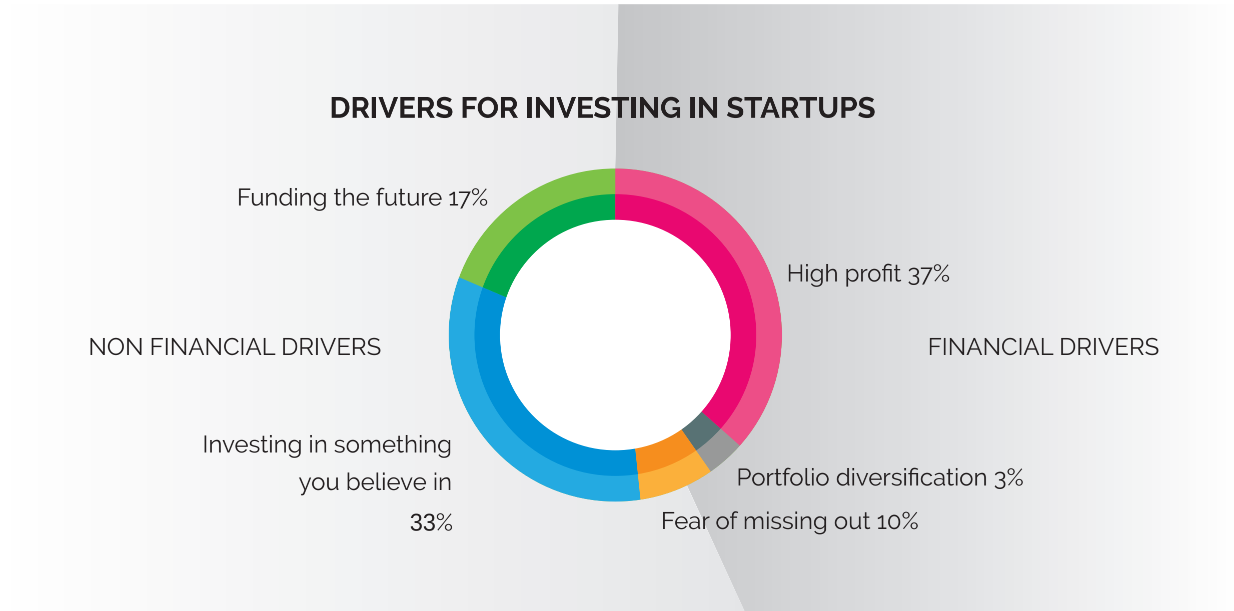
Respondents were then asked to rate the key items they look at when investing in startups from low to high importance. Unlike established businesses where looking at facts and figures is the first step before committing an investment, for startups most of this is not possible. There might not exist yet revenue to evaluate, and consequently trends should be recognized in non-standard metrics (eg. # of pre-registering rather than # of customers, social media followers instead of number of confirmed partners).

The picture emerging from the research highlights that there is no magic KPI, and that decision should be made on a case by case basis. Investors know that no matter how great an idea could be, the path to success might be impassable. Each startup requires a different assessment approach.

Still worth mentioning is the main difference between our two types of investors: the team. Experienced startup investors know that this could, in most of the cases, be the key to success or the cause of failure. Most startups need a change of strategy, business plan, or even product during their life in order to succeed. A strong team offers the highest chance that this change could be managed and that challenges could be turned into opportunities.

Finding 6
Investing in startups is not merely about profit

Profit is the essence of any investment and, with the potential very high return rates startups can offer, it is no surprise that the main driver for tapping into the venture capital industry is high profit (37% of the respondents).
It is, instead, unique of startup investment that more intangible reasons play a crucial role. Financing startups it is about bringing to life revolutionary and life-changing technologies and "investing in something you believe in" (34% of respondents) and "funding the future" (17% of respondents) are key drivers of these type of investments.
Looking at the companies that in the last decade most drastically changed society and behaviours we see realities like Youtube, Dropbox, Amazon, Airbnb. We see startups that completely took down consolidated industries and opened the door to a new era.
This leads to another unique driver of startup investments: the fear of missing out (10% of the respondents). Walking away from a startup that has the potential to disrupt the industry that is entering in, and to deliver a massive return to early investors, is a strong emotional driver to invest. This is an irrational behaviour that borders between financial and non financial drivers. They are surely concerned about missing high profits but they are not less frightened to be recognized as the ones who turned down the opportunity to invest in Twitter or Salesforce.



Unsurprisingly, the high potential for profits behind startups is the driving reason for tapping into the venture capital arena. For investors putting their own assets at risk, there needs to be the motivation of a return on the capital invested. This is a pre-requisite than a driver.
When we look at secondary drivers, we see that investing in startups is about to improve the world and the society. Startups are about bringing new services and products to address unmet or unexpressed desires. It is about funding companies who could change, improve and enhance the world we live in, and the services we use in every day life.
As, one of the most famous actors and investors says, it is about solving challenging problems:

Why investing in startups?

KEY DRIVERS FOR INVESTING IN STARTUPS

1. High profit

2. Investing in something you believe in

3. Funding the future

Bloomio‘s approach

Bloomio is a blockchain-based crowd-funding platform from Switzerland that connects private investors with early stage startups, and venture funds willing to invest into those startups. The platform not only allows startup founders to have direct contact with individual investors and VCs, but also provides online trading by creating liquidity in a free market among all participants.

Bloomio’ vision is to disrupt the funding model for a startup by enabling individual investors to tap venture capital business with a small investment amount of just around hundred dollars. A large number of angel investors mainly focus on large size deals of more than $100K, leaving little room for individual investors to enter the early stage startup market.

To enter the platform, startups must either undergo a scoring process by 3rd party analysts or make specific disclosures so as to provide enough information to potential investors.

Bloomio enables an effective way to raise money for ideas with a unique feature for investors to exit their investments through trading of tokens, representing startup shares.

Appendix

ARE YOU AWARE THAT THERE ARE PLATFORMS WHERE YOU CAN INVEST IN STATUPS STARTING FROM JUST 50$?

NO	56%
YES	46%

WHAT IS THE YEARLY AMOUNT OF MONEY AVAILABLE FOR YOUR INVESTMENT ACTIVITIES (IN $)?

BELOW $10,000	78%
BETWEEN $10,000 AND $50,000	15%
BETWEEN $50,000 AND $100,000	4%
BETWEEN $100,000 AND $500,000	1%
ABOVE $500,000	2%

WHAT MAXIMUM LOSS CAN YOU BEAR WHEN INVESTING?

	NO STARTUP INVESTMENT EXPERIENCE	STARTUP INVESTMENT EXPERIENCE
BELOW 5%	53%	46%
5 – 10%	30%	29%
10-20%	9%	18%
20-30%	4%	4%
ABOVE 30%	4%	3%

THE BIGGEST CONCERN WHEN INVESTING IN STARTUPS

	NO STARTUP INVESTMENT EXPERIENCE	STARTUP INVESTMENT EXPERIENCE
SCAM RISK	33%	23%
LACK OF INFORMATION	25%	25%
TOO HIGH FINANCIAL RISK	20%	23%
ILLIQUIDITY	8%	14%
LACK OF CONTROL ON THE INVESTMENT	9%	4%
WEAK DIVERSIFICATION	4%	6%
OTHER	1%	5%

THE IMPORTANT THINGS TO LOOK AT WHEN INVESTING IN STARTUPS

NO STARTUP INVESTMENT EXPERIENCE

	LOW IMPORTANCE	RELEVANT	HIGH IMPORTANCE
PREVIOUS EXPERIENCE OF FOUNDERS	57%	27%	16%
CONFIRMED INVESTORS CONSENSUS	60%	25%	15%
DISCLOSURE OF FINAN-CIAL FORECASTING	55%	30%	15%
BUSINESS PLAN	48%	31%	22%
DISCLOSURE OF USAGE OF FUNDS	52%	28%	20%
EQUITY PERCENTAGE OFFERED	54%	30%	16%
VALUATION	50%	32%	18%
PRODUCT READINESS AND PROTOTYPES	51%	30%	19%
TEAM	49%	30%	21%
LEVEL OF COMPETITORS	51%	31%	18%
MY INSTINCT	50%	31%	19%

THE IMPORTANT THINGS TO LOOK AT WHEN INVESTING IN STARTUPS

STARTUP INVESTMENT EXPERIENCE

	LOW IMPORTANCE	RELEVANT	HIGH IMPORTANCE
PREVIOUS EXPERIENCE OF FOUNDERS	60%	28%	12%
CONFIRMED INVESTORS CONSENSUS	60%	31%	9%
DISCLOSURE OF FINANCIAL FORECASTING	55%	33%	12%
BUSINESS PLAN	43%	39%	18%
DISCLOSURE OF USAGE OF FUNDS	49%	31%	19%
EQUITY PERCENTAGE OFFERED	52%	31%	16%
VALUATION	52%	36%	12%
PRODUCT READINESS AND PROTOTYPES	45%	40%	15%
TEAM	40%	39%	21%
LEVEL OF COMPETITORS	55%	25%	19%
MY INSTINCT	55%	30%	15%

WHAT DO YOU RECOGNIZE AS THE MAIN DRIVER TO INVEST IN STARTUPS

HIGH PROFIT	37%
INVESTING IN SOMETHING YOU BELIEVE IN	34%
FUNDING THE FUTURE	17%
FEAR OF MISSING OUT	10%
PORTFOLIO DIVERSIFICATION	3%

Bloomio

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