

Congressional Hearing:
“Innovation and Micro Financing”

Committee on Small Business Subcommittee on Investigations, Oversight and
Regulations

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Submitted on June 5, 2013

Introduction

My name is Danae Ringelmann, and I'm one of the founders of Indiegogo - the largest global crowdfunding platform in the world. We launched in January 2008, before the word "crowdfunding" existed in our vernacular. Our mission is to provide an equal opportunity platform that empowers people to fund what matters to them - whatever that might be. Film, music, non-profits, small business, inventions, medical treatments, trips and more - all happen on Indiegogo every day. Today we distribute millions of dollars every week to campaign owners in every country of the world.

Why I'm Here Today

I'm here today because Andy Guggenheim asked me to share Indiegogo's story in pioneering what today is called perks-based crowdfunding. I will also be sharing the benefits of crowdfunding specific to Indiegogo's inclusive and meritocratic approach and with a focus on small businesses in America. I will also talk about lessons learned and share a bit about how we've had to innovate and mitigate risk in order to create a whole new industry.

As background, I was compelled to start a company that would democratize finance as I saw firsthand the impact of an inefficient and unfair financial system that needed to be fixed. I was a child of two small business owners who sweated it out for 30+ years. Not once, did they get a loan from the bank to expand, despite steady growth, loyal employees, and top-notch customer satisfaction. The reason they struggled was not for lack of performance, but lack of connections to gatekeepers. They were on their own, like most small business owners in America. When a bank rejected them that was it. There was nowhere else to turn except our own savings, own mortgage or worse, our credit cards.

So after witnessing my parents hustle and overcome intense challenges (e.g. making payroll without laying off anyone after September 11), I went into finance to understand how money worked and flowed. It was while I was on Wall Street, however, that I began volunteering with filmmakers and theater producers on the side and experienced first hand the struggles of fundraising. Even I - someone who worked at a bank - failed at helping brilliant artists with proven audiences get off the ground, not for lack of heart and hustle, but rather lack of connections to financial gatekeepers. When I failed to secure investment for a theater production after staging a one-time show in front of an audience that loved it, I realized that that the people who wanted the play to come to life the most - the audience and the actors - lacked the mechanism to make it happen themselves. Shortly thereafter, I quit finance and returned to business school at UC Berkeley to start a company that would democratize finance. It was there that I met my two co-founders Slava Rubin and Eric Schell who themselves had been struggling with fundraising. Together we created Indiegogo - now the oldest and largest perk-based global crowdfunding platform.

What's Crowdfunding on Indiegogo

Crowdfunding on Indiegogo is people-powered finance. It's individuals directly funding the ideas, businesses, artists, non-profits and causes they care about. There's no middle-man or traditional investor - like a bank or a VC, a media publisher or a studio, or even a grants-oriented foundation or government funding body. Crowdfunding is - simply - lots of people contributing a few dollars each to raise enough money together to push an idea or project forward.

While this concept might not feel new, the reason the industry has a new name "crowdfunding" is because people-powered finance has never been so efficient and effective as it is today.

Through the integration of social media and incorporation of online payments - two irreversible shifts in online behavior - Indiegogo campaigns for funding spread to like-minded folks (both people you know and don't know) far faster than ever before. If traditional fundraising helped you raise money from the first degree of people you know, crowdfunding on Indiegogo helps you turn your first degree connections into mavens, thereby allowing you to raise money from people interested in your project who are 2nd and 3rd degrees away.

Landscape of Crowdfunding

Within crowdfunding, there are a few models. There's donation and perks-based crowdfunding, like Indiegogo. In this case funders contribute money in exchange for perks - tangible or intangible goods and services of finite value. There is no investment made, no profit participation or upside.

There is also securities based crowdfunding like peer-to-peer lending, and equity crowdfunding for accredited investors only, and mainstream equity crowdfunding that will soon be permitted under the JOBS act. Today, I will focus on perks-based funding as that is the model Indiegogo pioneered in 2008.

How Indiegogo's Donation & Perks-Based Funding Works

The way Indiegogo works is as follows:

1. Create a Campaign

A person or organization with a project or idea in need of funding goes to Indiegogo.com and creates a campaign page. On Indiegogo, there is no application process nor arbitrary vetting of "quality" as Indiegogo believes that every idea has the right to try to raise money. Only campaigns that are illegal or in violation of our Terms of Use are removed automatically and systematically.

On the campaign page, the campaign owner:

- pitches their idea, team and impact (in both a text and a recommended video).
- sets a funding target and deadline (typically 30-40 days)
- outlines their use of funds.

- offers perks (optional), which can be anything from a thank you note or twitter shout out to a tangible item of finite value. A campaign for a business that creates innovative coffee mugs, might offer the coffee mug itself as a perk
- picks their funding framework, either:
 - “Fixed:” campaign owner receives money only if they reach goal
 - “Flexible:” campaign owner receives money whether or not they reach goal

(It’s worth noting that we encourage campaign owners to set a funding target that matches an amount they need to move their project forward. It does NOT need to be 100% of budget, as campaign owners can do multiple campaigns, or use their Indiegogo campaign to attract additional funding from other sources – more on that later.)

2. Go Live.

Once the Indiegogo campaign page is drafted, they can go live at any time. Once live, campaign owners share their campaign with their friends, family and followers via newsletters, social media and other outlets. For artists, followers are typically their fans. For businesses, it’s their customers. For non-profits and causes, its people passionate about their cause. On Indiegogo we typically see that campaigns that reach their funding goals raise the first 30% of funds from people they know.

Due to the social media integration embedded into the funding experience on Indiegogo, friends of friends begin to fund. (For example, when people fund, they are prompted to tweet or post to Facebook.) Thus 2nd and 3rd order funds begin to come in... leading eventually to “stranger dollars.”

Lastly, campaigns earn extra promotion and exposure on Indiegogo.com and our marketing channels as well. Indiegogo’s proprietary algorithm – the gogofactor – determines the amount of added exposure. The gogofactor, similar to google’s pagerank algorithm, is a measure of a campaign’s activity and its community’s responsiveness – i.e. two factors completely in the control of the campaign. Indiegogo’s promotion, therefore, is completely meritocratic. Just as we don’t decide who has the right to raise money, we also don’t decide who we promote – the campaigns and their communities do. No other platform offers this meritocracy.

As you can see, crowdfunding success on Indiegogo is earned. I call out the “friends-first-strangers-later” pattern of success simply to dispel any assumption one might have that crowdfunding is a field of dreams. People do not just post ideas, walk away and come back to find money in their account. If campaign owners build it, the proverbial “they” will NOT come. It takes work, akin to the work of grassroots and guerilla marketing tactics. This is an important fundraising dynamic to understand as it may inform your opinion on the risks of crowdfunding in general. More on that in a bit.

Benefits of Indiegogo – It’s not just about the money!

Many people first hear about crowdfunding as a new and alternative form of finance. This is true. But what many people don’t appreciate at first, are all the other benefits crowdfunding on Indiegogo brings to campaign owners, their funders, the entire financial ecosystem, and our economy.

Benefits to Campaign Owners:

For campaign owners market validation, risk mitigation, customer feedback and confidence are non-monetary benefits often great enough to drive small businesses to crowdfund even if they didn’t need the money.

1. Market validation: Crowdfunding on Indiegogo enables entrepreneurs raising money to test their market and prove demand. A vote with one’s dollar before a product or service even exists is a far better indication of true interest than any focus group or “facebook like” button could ever provide.

2. Risk Mitigation: Along with market validation, comes risk mitigation. In the case of Luminaid – a business started by Illinois-based Andrea Sreshta and Anna Stork that makes environmentally friendly, solar-powered lights for the developing world (as a safer alternative than kerosene) – crowdfunding protected them from the risks of over-production and under-production.

They used Indiegogo to raise \$51,829 to fund their first-run production. For a \$25 contribution, a funder would be sent a light a few months later. Because the funding came in up front, and because the amount raised was tied to an exact count, it was impossible for the Luminaid entrepreneurs to “over-manufacture” or “under-manufacture”, thus mitigating production guesswork and risk.

3. Customer Feedback: A crowdfunding campaign on Indiegogo enables entrepreneurs to gather direct feedback, both qualitative and quantitative. California-based Sonny Vu is a product designer who designed a product called the Misfit Shine - an activity tracking device that elegantly fits on your clothing. He and his team used Indiegogo to raise \$846,675 to fund his first-run production. He actually had already raised venture capital funds, but he still used Indiegogo to get “smarter, faster” on his product features, messaging, and pricing.

Throughout his campaign he swapped perks in and out, and learned that his funders far preferred the black version of the Shine over the silver version, and were willing to pay \$50 more for the black. He also discovered a new revenue stream – necklace accessories - after his funders suggested he add necklaces as a perk. To his surprise, the necklaces were quite popular. Based on feedback from his funders, he discovered new revenue streams and gathered quality feedback on features, messaging and pricing. That’s priceless information and data for a new business that hasn’t even launched yet.

4. Confidence: Perhaps my favorite non-monetary benefit of crowdfunding on Indiegogo for campaign owners, however, is the confidence a campaign owner builds. Karen Freer of Brooklyn, NY had always dreamed of opening a gluten-free bread company. But the idea of saving \$10,500 to launch seemed almost impossible. So rather than wait and save, she launched an Indiegogo campaign and raised \$10,771 from 95 funders. For \$1, she gave folks a hug. For \$10, a note. For \$50, several rolls of bread. Within a matter of weeks, she had the funds to launch her business. She was beside herself. What was a dream, instantly became a reality. Here's what she shared with Indiegogo in a note to our Customer Happiness team:

"I'd like to tell you something. Once I began my Indiegogo campaign, I truly saw my life start changing. Indiegogo has given me the confidence in my first business venture – and with that a great feeling of hope for my future. That is a true gift" – Karen, Free Bread.

Benefits to Funders: Empowerment

In addition to being a source of funding and a great way to validate a market, reduce risk, get feedback and gain confidence for campaigners, crowdfunding is turning funding from a "transactional" experience into a "social and relationship-based" experience.

When people fund what matters to them, they're not just buying bread or activity trackers in advance, they're creating their own reality around them... often times for as little as the price of a cup of coffee. As a result, they're more engaged and empowered.

A great example of this is the fastest growing political campaign on Indiegogo right now. Distraught by the way the government was handling the sit-ins in Turkey, three Turkish Americans felt compelled to take action. They started a campaign four days ago to raise \$55,000 to purchase a full-page ad in the New York Times calling for democratic action and a new dialogue on Turkey. As of Wednesday, June 5th at 10 am, 2,369 people from across the world had joined forces and funded this ad together, raising \$93,290.

Crowdfunding on Indiegogo, therefore, empowers. No longer do people have an excuse to complain about bad Hollywood movies, nor the lack of local coffee shops in their neighborhood. If they want to see good movies and have a local hang out with friends, they can fund them can get their friends and other like-minded folks to fund them too.

Why People Fund if there's no Return or Profit Potential

Indiegogo's research reveals that people on Indiegogo fund for 4 reasons. We call these reasons the 4 P's:

- People – they like the person or team running the campaign.
- Passion – they are passionate about the idea or project.

- Participation – they want to be part of something bigger than themselves.
- Perks – they want the perk

However, we have also found that there is a dynamic mix of motivations at play for any given contribution. For example, I recently funded an app called “NotBuyingIt.” It’s an app for the phone where you can take a picture of a piece of public media that you deem sexist and/or belittling towards women. The app posts the image to twitter with a hashtag #notbuyingit. With enough tweets, the goal is to make the advertiser revisit and remove their sexist ad. This app campaign is being run by Jennifer Newsom, an activist whose film “Miss Representation” sparked a movement to eliminate sexist media in the public. I funded this campaign for all 4 reasons – I want to support Jennifer Newsom and this project. I want to be part of the movement, without having to quit my day job, and I want the app (i.e. the perk).

Benefits to the Finance Industry and the Economy

The macro benefits of crowdfunding on Indiegogo to the larger finance industry and the economy as a whole are also grand.

1. Meritocracy. When people fund what matters to them, ideas that might once have gone unborn or remain undercapitalized due to lack of access to traditional gatekeepers, now have a chance. In London, a cat café recently raised £110,000 on Indiegogo to open. This café will be a place where people can get coffee and hang out with cats - or what some might call a very niche business. After sharing their crowdfunding success with a banker whose job it is to review loan applications for new businesses, the banker stated in shock “I would’ve never thought a cat café would have a market. Had that application come across my desk, I probably would’ve said ‘no.’ Clearly, I would’ve been wrong.”

Because funding success is based on hard work and community or audience engagement, not based on winning over an arbitrary gatekeeper whose goals, beliefs and biases may be different, crowdfunding on Indiegogo is making finance fair and efficient, once and for all.

2. Incubation Platform & New Role for Gatekeepers. Crowdfunding on Indiegogo is also fundamentally disrupting finance. Unlike disrupting technologies in other industries, which typically destroy the traditional industry, crowdfunding on Indiegogo is making the financial ecosystem stronger as it’s providing an incubation platform for the worlds’ ideas.

Just as crowdfunding de-risks a business or venture for the entrepreneur starting it, its also de-risking any follow-on investment that comes from a traditional investor. For example, the designers of Gravity Light – another lighting product that creates energy by lifting it up – couldn’t get a Venture fund to return their phone call when they needed to raise funds to prototype their product. So they turned to Indiegogo and raised \$399,590 from the people. After the campaign, venture funds couldn’t

stop calling the team. They had proven to them his business was a good investment by proving demand through their Indiegogo crowdfunding campaign.

3. Jobs. As a result of crowdfunding on Indiegogo, ideas and businesses that went previously unborn or under-capitalized due to lack of efficient access to funding will now have a chance to thrive on their own merit. As they grow, so will the jobs they create.

Samantha started her gluten-free bakery business Emmy's Organics on a small business loan. She had one store in the first year. With the opportunity to distribute her product in a regional grocery store chain – a huge growth opportunity – just 10 months into her venture, she needed to take on another loan to pay packaging changes (a requirement for distribution). Unable to secure a second \$15,000 loan - as her bakery was deemed too young and high-risk - she didn't give up and throw away the distribution opportunity.

Instead she turned to Indiegogo to raise \$15,000 in three weeks. She offered macarons as her perks. Her customers funded her, and brought in their friends as funders too. Within a month of her campaign, she had redone her packaging and started selling her product through the grocery store chain. This led to further growth, and within the year she was distributing her product in 40 states across America. To keep up with production, she had to move into a new kitchen and hire over a dozen employees. Had Indiegogo not existed, she might still be selling baked goods out of her one store front, employing just herself and her partner.

Indiegogo's Innovation around Risk

With a mission to be an equal opportunity funding platform, it was important to us to take an inclusive and meritocratic approach to crowdfunding. As I mentioned above, this is why we do not curate. We want all ideas to have an equal chance of success – a principle this country was founded on.

However, this inclusive approach also makes Indiegogo open to people wishing to use the platform in a way it was not intended – i.e. for fraud. Given that, Indiegogo has innovated on this front to keep the site clean and safe for the 99%+ users on the site who are using it for its intended purpose – to fund what matters to them.

We've developed proprietary screening technology and Trust & Safety algorithms on our backend to automatically screen out bad behavior. In addition, we employ a community policing system similar to eBay or Paypal that adds another layer of surveillance. Finally, the dynamic of crowdfunding (raising a lot of funds from a lot of people a little at a time) is a natural deterrent of fraudulent activity as convincing a lot of people to fund an idea typically takes a track record, social media activity and hard work to get funding going. This is one reason why it's a good thing that successful campaigns typically have to raise the first 30% of funds from people in their inner circles, as I mentioned above.

Future Innovation

As the SEC reviews the rules for equity crowdfunding, which we're very excited about as equity crowdfunding is in-line with our mission to empower people to fund what matters to them, I like to share that one of the reasons Indiegogo was able to pioneer perks-based crowdfunding is because the regulatory environment allowed us to experiment and innovate.

Since our launch in 2008, hundreds of platforms have followed, each with their own twist on crowdfunding. Clearly, a new market has been unlocked that might not have had overly burdensome regulations been in place.

Often regulation is put in place to protect all parties. While too little regulation could lead to another 2008, too much regulation could also be damaging as it could stifle innovation. Regulation setting is a tough challenge; there's no question about that. What I hope regulators keep in mind, however, is that business pressures and business uncertainties are often better drivers of innovation and protection, than regulations.

For example, Indiegogo developed proprietary screening systems and Trust & Safety algorithms to ward off fraud not because a law told us to, but rather because we wanted to stay in business. A safe site would attract more customers. An unsafe site would repel customers and lose us a lot of money.

Indiegogo's Vision:

At Indiegogo, we think crowdfunding is just in its infancy. Just as Twitter and Facebook democratized communication fomenting the Arab Spring, we hope Indiegogo and crowdfunding will democratize funding. We imagine a world where funding the ideas and people around you is a daily habit, like commerce and social networking. Perhaps one day, people will even be able to control where their tax dollars go. After submitting one's taxes online, I see a day where the next pop-up screen says: "to which local, state and national efforts would you like your tax dollars to fund?" A dropdown of options would be provided.

Anyhow, while it seems we've innovated quite a bit to get perk-crowdfunding off the ground and help make equity crowdfunding an option, there's still quite a bit of innovation ahead. It's an incredibly exciting time to be an entrepreneur in this space as we're helping change finance for good, both permanently and for the better.

In closing, it's probably worth pointing out that one of my co-founders Slava Rubin was an immigrant to this country, and my other co-founder Eric Schell is the son of a librarian. As the daughter of two hard-working small business owners, the three of us together struggled to get Indiegogo off the ground as we ourselves lacked the right connections to make it happen early on. I often think about how much quicker we might've been able to grow Indiegogo had we had Indiegogo to fund Indiegogo.

Thank you.

