FINDING A FACE IN THE CROWD – CROWDFUNDING NEEDS TO GO BACK TO BASICS

2015 has been a year of firsts and record breakers for crowdfunding in the UK, with craft beer connoisseurs Brew Dog raising a record £10 million back in October, via their Equity for Punks campaign. Online canine community BorrowMyDoggy boasted an industry first last month after raising £1.5 million in pledges in under four hours during a live pitch. Game-changers Seedrs also had a record-breaking summer this year, as August proved to be their most successful month to date, after 17 deals tallied up an impressive £6.9 million. Moving into November, Property Partner smashed a new world record, by securing £843,100 in just 10 minutes 43 seconds, the equivalent of £1,311 per second. These figures are testament to a population that has fully embraced alternative finance in place of inaccessible corporate loans and frosty receptions from high street bank lenders.

However, with such staggering raises in record time - crowdfunding has grown 1000% in a five-year period, with projections that the sector could generate $3.2 trillion each year by 2020 - have we peaked too soon and in-turn, plateaued too early? "Where can equity crowdfunding go from here?" I hear you ask.

Well, financially speaking, it's definitely going somewhere fast. Equity crowdfunding in the UK was valued at £146 million in 2015, double the valuation in 2014. This is set to double again next year, which is great news for our thriving population of SMEs. In London alone, small to medium sized enterprises account for 99.8% of the private business sector. So this is all great, Britain's startup generation is quite evidently thriving. However, once you begin to dig a little deeper - as I often do when meeting thousands of budding entrepreneurs yearly - the gloss begins to wear off. Access to funding continues to be a major constraint for early-stage businesses, with 38% citing a lack of bank lending as the biggest growth barrier.

> “WATCHING A BUSINESS OWNER COMMUNICATE THEIR IDEA AND THEIR BELIEF IN THEIR PRODUCT, WARTS AND ALL, IS AN INVALUABLE INSIGHT INTO THAT BUSINESS AND THE WAY IT IS OPERATED

Whereas reams of red tape and reticence at the hands of high street banks have suffocated the amounts lent to new companies, crowdfunding has waded in like the fun uncle of finance who's rich and relaxed with his money - the complete opposite to your tight parents (the banks for those of you who don't get the analogy). The results are phenomenal - improved accessibility and speed of deal-flow like no other market catalyst. Understandably, crowdfunding is startup Britain's new best friend, reflected conveniently in a recent study that cites speed and the lack of "strings attached" as the main factors driving companies to raise capital through this very method.

As an industry, such exceptional growth would of course not be possible without the enthusiasm of investors. Investor attitudes have been instrumental in the rise of equity crowdfunding and with forecasts such as the above mentioned in store, their desire to fund projects seems to be gaining momentum. Driven by a heightened connection to where their pounds are actually going - personal passion for a product saw Coutts Passion Index rocket 80% - and the convenience of online investing, crowdfunding has enabled the armchair investor to adopt a Dragon's Den-mentality from the comfort of their own home. So now, next to the remote control lies three towers of cold, hard cash and a Deborah Meaden cut-out in every home across Britain. The democratised investor has arrived.

However, given the sector's meteoric rise, concerns have emerged that we could witness a crowdfunding bubble as a result of the speed and ease in which investors can inject money into growing companies. As it stands, regulation is loose and with this, mistakes ensue. Once we learn from these mistakes however, the rules will tighten around a mutually agreeable structure - something I welcome. This will be safer and more convenient for all in the long run, especially if the EU adapts the regulatory framework, as suggested by the FCA. To mitigate this risk and help remove the purely transactional entity that online crowdfunding has become, we need to go back a bit. Essentially, crowdfunding has hoverboarded its way to stardom so quickly, as a result of the technology it's defined by, it's lost a few vital factors along the way. What was a trailblazing concept is steadily sinking into a soulless repetition of transaction-led transfers and clicks. What has been lost is the people part - and as corny as it may sound - people still buy people. And I'm not on my own in this was of thinking. Loads of investors agree with me, take a 2014 report compiled by Nesta and the University of Cambridge, which found that 96% of investors in equity crowdfunding were swayed by the quality of a pitch.

The fundamentals of a live pitch are becoming obsolete as company heads rely on the detachment of an online crowdfunding platform. To revive the live pitch and add personality back into online crowdfunding, I am eager to champion the two working in tandem. Watching a business owner communicate their idea and their belief in their product, warts and all, is an invaluable insight into that business and the way it is operated.
To prevent crowdfunding from stagnating or worse bursting its shiny bubble, the industry needs to combine the immediacy of online funding with the undeniable value of a live pitch. We need to go back, to move forward. ●

Luke Davis CEO, Crowdfinders