

## 201. Crowd Funding



The Basques have a tradition of Poteo, where a group contribute to a kitty, elect a treasurer, then tour the tapas bars of the town paid for by the treasurer out of the kitty. There are similar European traditions for contributing to leaving presents at work. Could the same idea work on a larger scale? Could a group buy a football club or even a company? The problem to date is that the savings from a group are not enough for large investments. But if there are enough small savers? In February 2008, 26,000 people, responding to a web call, each put in £35 into a newly formed co-op and bought a football club, Ebbsfleet United. Two months later many of the members – pioneers of a new form of financial collaboration - travelled to Wembley and saw their side win the FA trophy.

Traditional forms of collective funding have been either through a share issue (in the case of market investment) or through charitable donations (in the case of the grant economy). Both are tightly regulated. For social investment projects, a public share issue can cost between £150,000 and £500,000 and take as much as a year to progress through the various hoops which have been put in place over the years to prevent abuses.

With charities it is different. It is the charity which is closely scrutinised, and once approved it can raise funds through campaigns, publicity, and the persuasiveness of its cause. The thinking here is that if people are asked money to benefit others rather than themselves there is much less likelihood of the kind of deception to which an unregulated private market would be prone. As long as an official eye is kept on the accounts and activities of the charity, the appeals for donations need not be scrutinised with the same toothcomb used for a share prospectus.

But this clear distinction between the private investment interest and philanthropic giving is becoming blurred. Social companies may have the same goals and beneficiaries as a charity, but as a not-for-distributed profit trader its share issues are subject to the same complex processes as a private company.

Or a group with a shared interest may want to act collectively as consumers, or workers, or investors in a project. The traditional form here has been a co-operative, but co-operatives, too, are regulated when it comes to investment. A local wind co-operative has to pass through the costly and lengthy process of a prospectus if it wishes to have a share issue, even if, as in Denmark, the investors consume their own energy. For co-ops, based on one member one vote, raising equity capital has always been a problem.

Co-ops are not charities. They act in the interests of their members. But in that they are acting collectively, they are part of the social economy in a way which is distinct both from the private economy, and from charities. For consumers a co-op is a form of collective purchasing. For workers it is a form of collective employment. For all those investing it is a particular form of collective financing and ownership.

### **The generosity of crowds**

The web gives scope for radical innovations in the sphere of finance. In the grant economy, the cost of fund raising is estimated at 15%-33% by the US Association of Fundraising Professionals and the Better Business Bureau. Internet donor sites radically reduce this, by providing a platform for fundraisers, lists and assessments of non profits, and lower transactions costs

for donations. The US site First Giving, for example, provides a platform and an electronic means of payment that has enabled 1.2 million people to give \$72 million for 15,000 non profits, for a basic cost of 7.5% per transaction.

On the First Giving site, issues of trust are addressed by allowing fundraisers to set up their own pages (for a sponsored walk or event for example) which they use to contact their friends. The non profits in question are also required to be registered in another site, Guidestar, that is a not for profit itself committed to increasing transparency in this sector. With 1.7m registered non profits, Guidestar verifies their claims, benchmarks their salaries, and oversees their performance. Sites of this kind act simultaneously as a version of the Charities Commission, as a directory of potential recipients, and an information platform.

We could expect donor sites to develop other features – donor forums, star and/or donor ratings, Good Giving Guides, Amazon-type links ('those who have given to x have also given to y and z') and interactive links between the donors and the non-for-profits themselves. They promise to change the process of soliciting funds (a viral fund raising), of giving, and of the continuing relations between the givers and receivers.

The relationship of donor or donee is one where there are far reaching possibilities. In the social economy – where it is not money but impact that is the driver – there is always a problem of tangibility. Normal funding appeals will provide vivid examples of the kind of work undertaken by a charity, but the funds for the most part go into a common pool. Sometimes there is an attempt to earmark the gift for something particular – a child for example, or a goat, but even if they can be earmarked in this way (and the goat has a largely virtual individuality) the post gift relationship is limited.

The web is a means of making this virtual individuality real. Blogs, video connections, and forums allow continuing connections. The act of giving in this case is not the transfer of funds for a good cause, but a gateway to greater engagement. Donating to save a particular area of rainforest, for example, now allows a donor to see exactly how this or that part of the rainforest is progressing. The donation merges into a subscription, and indeed into membership that may carry certain rights such as voting how funds should be used. It provides a micro thread for continuing civic engagement.

### **Crowdfunding and politics**

It also opens up new forms of political funding and engagement.<sup>1</sup> During the 2004 presidential campaign, Democratic contender Howard Dean used the power of the internet to galvanise grassroots support. Organisations such as

Meetup.com and MoveOn.org were crucial in getting supporters to donate time and money to the campaign. Supporters formed local groups and interacted with Howard Dean on policy and strategy.

The model has been developed by Barack Obama, who has been able to raise vast sums via the internet. According to the Federal Electoral Commission, Obama has raised \$454 million (dwarfing his Republican opponent John McCain's total of \$210.6 million). Overwhelmingly, this has come in the form of small donations of \$200 or less. Indeed, some 223 million has been raised this way. A further 43 million has been raised in donations of \$200-\$500.<sup>ii</sup>

### **The consumer as investor**

When we turn to the market economy, these kinds of innovations are already transforming the way in which investment takes place. The traditional model has been for banks and other aggregators of capital to fund businesses that sell to many consumers. Funding is concentrated, whereas consumption is distributed. What happens if funding could be raised from potential consumers? In such as case the distinction between financier and consumer begins to break down.

New forms of consumer investment are appearing first in the cultural industries. In film, music, sport and journalism, what we call crowdfunding is emerging as a way of allowing those previously seen as consumers to engage in the financing, production and distribution of products or services in which they have an interest. The consumer is being redesignated as a multifaceted fan. Organisations, such as Sell a Band, A Swarm of Angels and My Football Club allow fans to invest in projects in return for involvement in the production and management of the project, shared ownership and in some cases a share of future profits.

### ***Sellaband***

Sell a Band (sellaband.com), is using crowdfunding as a means of supporting and promoting aspiring artists. It is a German website founded in August 2006, that on the one hand allows artists to create a profile and upload their music, and on the other lets anyone stream the music and if they like it, invest in one or more lots of \$10 in an escrow account for a 'part' of a future CD recording. If 50,00 parts are sold, the accumulated \$50,000 is released, the band is provided with a recording studio, and an album is produced.

Each owner of a part ('a believer') receives a CD (which they may sell) as well as a share of advertising and revenue from ordinary market sales. All revenues are split three-ways between the artist, the 'believers' and Sellaband.

'Believers' and artists can raise additional revenue by selling the music at concerts, on artists' websites and other retail outlets. As of October 2008, 8,600 bands/artists have used the site to try and raise funds, of which 24 have sold the necessary 5,000 'parts'.

### *A Swarm of Angels*

'A Swarm of Angels', is based on a similar model for film making. It is at earlier stage of development than Sellaband but seeks to go further in terms of involving the investors as collaborators and co-creators. The project, started in 2006, aims to gather a 'swarm' of 50,000 collaborators, each contributing £25 to finance, make and distribute a £1 million feature film free to 1 million people using a creative commons license. Viewers would then be free to edit and remix the content. To date the initial stages of the project have been completed. The 1,100 'Angels' have been asked to vote on names and themes of the two films under development, and the intention is to use the 'angels' to edit scripts, stills and frames and to design graphics and animations.

### *My Football Club*

In the case of records and films, there is a specific product that requires finance and markets. Any investment can be classed as a forward purchase of the product (like membership of a book club) and therefore escape the requirements of a mainstream investment. Purchasing a football club is different. What is on offer here is involvement in the financing, operating and watching a flow of structured inter-connected events.

The idea of My Football Club stemmed from a question about consumption. Why is it, asked its originator, a sporting journalist and advertising copywriter called Will Brooks, that stops us clubbing together to buy things normally only available to the rich – a farm for example, or a radio station? Why does consumption have to remain individual?

One of his interests was football. Why not a buy a football club? He launched a website in April 2007 and invited people to subscribe £35 to buy a club. In a little over 3 months he had 20,000 subscribers and had raised £700,000.

Myfootballclub.com was formally established in August 2007. It was immediately approached by a number of professional clubs, and decided (by ballot) to buy and manage Ebbsfleet United, a football club in England's Blue Square Premier League.

There are three key features of this financing. First, myfootballclub is a co-op, operating according to one member one vote. £35 is the annual fee to become a member. Second its Articles specify that there will be no distributed profits

– this was necessary to avoid the hoops otherwise required by the Financial Services Authority. Third, the members in this case have the right to be actively involved in the running of the club, from the price of tickets, to team selection, player transfers, the player wage limits, even the choice of manager.

The striking thing is that only 1200 of the present 31,500 members are local supporters. 3,000 live in the US, 900 in Australia. In all there are members in 130 countries. They are linked together by an interactive website, serviced by a team of 6 full timers, with active hosting by a committee of 7 (elected initially from 104 nominees). The sites forums receive 25,000 postings a month. Any proposal with 150 supporters can be put to a vote, and to date over 100 votes have taken place. The site is redefining the experience of ownership.

### **Crowdfunding and the social economy**

In the case of the grant economy web based funding lowers the cost and transforms the flow of information between the two parties of the traditional grant economy – donor and project. In the case of these cultural industry initiatives – all of them operating the private market economy – the connection of investor and consumer in many ways removes them from the market. They still have to hire studios, have CDs cut, and pay footballers. They may sell their surplus CDs on the market, and charge spectators to enter their football ground, but the drive in each case is not to earn money (let alone a profit) . It is rather to advance an enthusiasm and – in the case of myfootballclub – to be involved in the business of running the club. In this sense the web is a path away from the categories and relationships of the private market into productive collaboration in the social economy.

Once they have established their collaborative crowds (and in all these cases the data base is the spine of the organisation) they are able to raise further funds cheaply and rapidly. CTM, the Italian consortia of 130 fair trade consumer co-ops, was able to raise €10m in a month by circulating the 21,000 associated members. The form of financing here is like that found in the household economy – where groups or clubs or networks agree together to contribute to a kitty for a common cause.

Already websites are emerging that provide a platform for this kind of group funding. The UK based Pledgebank allows people to make a pledge if a certain numbers of others act likewise by a given date. The pledge might be to use a new rural bus service, to help out at a festival, or to start a community newspaper. But it may also be a straightforward financial pledge. A member of myfootballclub who described himself as joint owner of Ebbsfleet United pledged to contribute £20 towards the cost of a new striker

for the club if another 1000 did so by the 21<sup>st</sup> June 2008. Another 1,000 did so and a new striker was bought.

Funding 2.0 is still in its infancy. The examples we have given are less than three years old. But they point in directions of great potential for the expansion of the social economy. If 20,000 people can buy a football club, why can they not establish a fair trade company or buy houses for the homeless? In these cases, as with any project which is not a one off, the challenge is how to keep the communities together. Just as they can form quickly, they can as quickly disband. The challenge for myfootballclub is how to make the experience of ownership rewarding enough for people to renew their membership. The quality of the website, of its forums and of the votes that take place are the things that will decide whether membership is sustained. But if it succeeds then the Ebbsfleet Pioneers will have created a new form of 21 century co-operative, a co-operative of enthusiasts, which, like the Rochdale Pioneers before them, represents a radical innovation in finance and the practice of corporate and community governance.

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<sup>i</sup> Sourced on 23<sup>rd</sup> September 2008. Available at: <http://www.firstgiving.com/>

<sup>ii</sup> Federal Election Commission. Sourced on 23<sup>rd</sup> September 2008. Available at: [http://www.fec.gov/DisclosureSearch/mapApp.do?cand\\_id=P80003338&searchType=&searchSQLType=&searchKeyword=](http://www.fec.gov/DisclosureSearch/mapApp.do?cand_id=P80003338&searchType=&searchSQLType=&searchKeyword=)