

crowdfunding
+ culture

Seedrs

Equity crowdfunding
partnership model

ECORYS

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| Name of platform | Seedrs |
| Geographical focus | Europe |
| Active since | 2012 |
| Crowdfunding model | Equity |
| Type of crowdfunding | All or nothing |
| Platform website | https://www.seedrs.com/ |



Executive summary

Seeds is an equity crowdfunding platform with offices in The Netherlands, Germany, America, Portugal and a head office in London. Since its foundation in 2012 it has grown to be one of the leading equity crowdfunding platforms of its kind, with the most active investors in private companies in the UK. Seeds also offers the entrepreneur a single point of contact with all investors.

The platform has successfully completed over 450 funding rounds with an average of 189 investors per project. Seeds does not specifically focus on any business sectors, the site only lists projects that fit in with its ethics and which are likely to reach their funding targets.

On average projects are funded, 37% by business angels or partners/institutes and 63% by individual investors. In addition to the large amount of funding, the partnerships/institutions and business angels bring a wealth of knowledge, experience, increased publicity, awareness and support.

A wide range partners have been attracted to work with Seeds, including ING Bank, where the bank advises entrepreneurs who are inapplicable for loans, of the services Seeds and crowdfunding can offer and the benefits they can bring. This has led to significant growth in Europe, especially in the Benelux region, with Seeds looking to replicate the partnership in different geographical areas.



About Seedrs' partnership model

This case study relates to the crowdfunding platform Seedrs, reviewing its current practices in the European crowdfunding market in the cultural and creative sectors. The report highlights best practices and areas for improvement, which other crowdfunding platforms can implement and learn from. It focuses on partnerships and how they have helped develop and expand the business into one of the leading equity crowdfunding platforms.

Seedrs launched in July 2012 and has grown to become one of the leading online equity crowdfunding platforms of its kind, with the most active investors in private companies in the UK. Equity crowdfunding is currently more suitable for raising large amounts of finances whilst reward-based crowdfunding is more suited to smaller campaigns. This is also confirmed by the results of the data analysis in this study. Whilst still an option, this immediately limits the number of projects suitable for equity crowdfunding in the culture and creative sector (CCS). Whilst the platform funds a range of projects including those in the culture and creative sector, no specific focus is placed on any sector mainly because the platform is satisfied with the wide range of markets operated in.

Due to this diverse market activity Seedrs categorised all deals into 15 different sectors, with multiple markets covering cultural and creative activities.

Seedrs head office is located in one of Europe's capital of crowdfunding, London. Since its foundation, the platform has expanded and now has a design and development office in Portugal, along with more recently established offices in The Netherlands (Amsterdam), DACH region (Berlin, Germany) and America (New York), highlighting the rapid growth and expansion of Seedrs and equity crowdfunding. This growth is not limited to one country or continent but is a global movement that is gathering pace, as highlighted by the CEO of Crowdfunder.com and other key analysts.

Seedrs is involved in a multitude of partnerships, with a range of organisations throughout the world with this case study looking to draw on some of the key partnerships that have affected Seedrs and its current operations and future business plans. The partnerships are mainly with private investors or individuals, there have been very few partnerships with any government or public sector organisations.

Seedrs offers investors an alternative form of investment, where they can evaluate a business and fund those they believe most likely to succeed, allowing the investor to share in any success. Investments start from as little as €11.60 (£10), with an average investment of €1,975 (£1,700) and an average of 189 investors per project (2015), this moves away from dependency on large investments from a few venture capitalists. It also offers entrepreneurs the opportunity to raise finance for an equity share in their business. Businesses often raise capital through crowdfunding when starting up and when a conventional source of capital is unavailable. It enables companies to quickly raise large amounts of capital.

When wanting to raise capital through Seedrs, entrepreneurs are required to submit a pitch to the Seedrs team. This pitch should be as close to a final version as possible, including promotional videos, statistics, images and anything else that may help the project gain investment. The Seedrs team then reviews the pitches and selects the most likely to succeed. The Seedrs team and the project team collaborate to finalise the marketing campaign and launch the project on the website where it has 60 days to reach its financial target (the financial targets are intrinsically set by the project holders. The targets often relate to milestones which will substantially benefit the company).

If successful, shares are offered to investors and the project closed to any additional funding, Seedrs is then responsible for any communication between the platform and the investors. The platform lists any project it deems suitable from startups through to publically listed companies and has successfully completed over 450 funding rounds. A total of 11 projects were funded in the entertainment sector, 9 in games and 26 in travel and leisure, these are the categories closest to the CCS that Seedrs defines. At present, the majority of successfully funded businesses are UK based, however with recent investments and partnerships Seedrs is looking to expand and become one of the world's leading equity crowdfunding platforms.

Seedrs operates an "all or nothing" crowdfunding model, where entrepreneurs have 60 days to raise their investment. If a project does not reach its total investment target, they do not receive any funding. The model also allows for overfunding, when a campaign meets 100% of its funding target it has the option to refuse any additional investment or can accept additional financing in return for a corresponding equity share. This resulted in businesses such as Maily receiving over 140% of its initial £250,000 sought investment.

Once the target is met all successful projects are charged a completion fee of £2,000 and; a 6% surcharge on the first £150,000 raised, 4% on £150,000 - £500,000 and then 2% on everything over £500,000. They also charge a 7.5% fee to investors/backers on all profits made as a result of their investment. This enables Seedrs to offer a variety of supporting services, including:



Legal support – is offered to all successfully funded projects through Seedrs.



Marketing support – is offered to all campaigns, creating a relatable investable story for all projects.



Publicity – once a project is listed on Seedrs website, hundreds of thousands of potential investors are able to see the project and invest.



Single point of contact – Seedrs operates a nominee structure that simplifies the business's management of their many investors, and affords investors a range of professional investor protections. This structure means that Seedrs speaks to the project on behalf of all investors for ongoing administrative matters.

Rationale for the partnerships

There are many reasons for creating a partnership, it is vital to remember that both organisations will look to benefit from this partnership. The main rationale behind Seedrs creating a partnership is:

- **Promotion** - For Seedrs to succeed it needs potential investors and businesses to be aware of the platform and its services. Forming a partnership where additional publicity is achieved will help generate additional income through the new projects and additional new investors.
- **Additional campaigns** - partners that work with organisations seeking funding are able to advise the company of the services Seedrs offers. This gives Seedrs more potential campaigns to list on the equity crowdfunding site.
- **Additional investors** - Partnerships can bring additional investors. Partnering with Seedrs promotes the platform to all the partners stakeholders, additionally, partner investment in campaigns may help to provide further validation.

Seedrs has a huge number of partners of different sizes which offer benefits to fundraising companies, the Seedrs platform and it's investors. For any company entering into partnership with Seedrs it is essential that the relationship is mutually beneficial .

Partnership model

Seedrs' main partners are private sector organisations. They have a multitude of partnerships with various organisations, businesses and high profile investors. There is no defining and single partnership model, however some of the main partnerships identified are;

- ING Bank – any businesses that are unable to meet the criteria for a bank loan, which are suitable for the equity crowdfunding model are informed of the opportunities and services Seedrs provide. If interested ING put the company in contact with Seedrs in the hope that the alternative source of finance will allow the business to flourish. This benefits the crowdfunding platform with additional projects, it also presents the bank in a positive light, offering alternative services for organisations they are unable to finance. The partnership with ING is exclusive for Luxembourg and Belgium but could be replicated in other banks, Seedrs is currently exploring this opportunity.
- Incubators/accelerators – Seedrs works with a range of incubators and accelerators, the most notable being Seedcamp, Amazon Launchpad and iStarter. These partnerships invest in the most innovative and ambitious startup projects, with the aim of generating revenue.
- This additional revenue allows the company to quickly advance the project which would take months without the large upfront investment. Through Seedrs accelerators are able to complete their investment and let Seedrs deal with any legalities. Some incubators also offer market knowledge and business advice to start-ups which can help them expand rapidly.
- Independent Financial Advisors (IFAs) – provide independent advice on financial investments to their clients. Once the information has been passed onto the potential investor they choose the best investment opportunity for their capital. There are a number of IFAs who introduce their customers to investment opportunities on Seedrs. The aim of the independent financial advisor can be broad ranging, but generally it is to generate a financial return for their clients, therefore they only introduce their clients to the best and most promising investment opportunities.



- Venture Capitalists (VCs)/Business Angels (BAs) – there is a wide range of high level investors, the most notable are compiled onto a diverse Advisory Board. Included on this board is tennis champion Andy Murray who invests in projects he has a passion for, as well as seeking a return on his investment. These high profile investors bring additional capital and publicity. If a reputable, high profile investor is financing the project it is likely to lead to additional backing from other investors.
- Alumni Club – offers any projects that were successfully funded through Seedrs the potential to partner with new projects and provide advice on how to increase the chance of successfully crowdfunding. Alongside with this mentoring the alumni club are offered the opportunity to invest in any projects. This funding aims to produce a long term revenue stream where the company has successful experience in crowdfunding.

Seedrs also offers investors who are UK tax payers access to tax efficient investment opportunities, through Her Majesty's Revenue and Customs (HMRC) schemes, these include Seed Enterprise and Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS). These two schemes offer investors the opportunity to finance start-ups in certain industries and receive large amounts of income tax relief.

SEIS can offer up-to 50% of the investment back in income tax relief and an additional 50% return on capital gains tax, making the investment a lot more risk averse. According to HMRC's latest report both forms of tax relief have grown. Since SEISs implementation in 2012-2013 over 2,900 companies have received investment through the scheme, totaling over £250 million . 90% of Seedrs projects are able to offer tax relief to investors, through the government programs. This is likely to lead to additional projects applying for SEIS and registering on crowdfunding platforms, whilst increasing the number of investors and investment amount.

Partnership set-up

In many instances Seedrs partners have sought to partner with them due to their brand and reputation within the equity crowdfunding market.

ING sought to partner with two crowdfunding platforms, to offer entrepreneurs an alternative source of financing when a classic bank loan was not deemed the best solution. Erik Van Den Eynden, Head of Mid corporates & Institutionals ING Belgium stated: "The crowdfunding partnership fits in perfectly with ING's commitment to support entrepreneurs and the economy, not only through traditional bank funding but also through different solutions".

With the aim of strengthening customer support and business growth, ING have taken on the role of a collaborative partner and advisor, with this in mind ING pursued two crowdfunding platforms with European ambition and approached Seedrs and KissKissBankBank, establishing the partnership with Seedrs in July 2015. The crowdfunding platform sent a team to brief ING on projects which were most likely to succeed within the equity crowdfunding model, this ensured that all businesses that were not approved for a loan by ING were passed onto Seedrs.

In certain cases, venture capital firms are investing directly through equity-based crowdfunding platforms, but more commonly in partnership with them. Andy Murray initially made a few anonymous investments to test out the crowdfunding processes Seedrs implemented. He was pleased with the services provided by the crowdfunding platform and when Seedrs realised that it was the high profile tennis player making the investments they decided to speak with him regarding his continued investment in projects. Along with Andy's continued investment they offered him a place on the board of advisors where he offers strategic input to the management team.

The partnership with Andy Murray was of great importance to Seedrs as it was the first partnership with a major public figure, since then a wealth of high profile investors have joined the Seedrs advisory board, raising the company profile and number of investors.

Incubators like Seedcamp offer some of the most active venture capitalists the opportunity to invest in various projects from a multitude of sources. These partnerships are setup when the incubator finds a project deemed suitable for its network of investors.

Model of cooperation

Seedrs does not facilitate any partnership collaboration, communication or relationships, however they do not prohibit partners from communicating or working with each other. Seedrs is currently unaware of any partnerships that collaborate with each other.

The partnerships that the equity crowdfunding platform establishes are often long term with no end date, this allows for adjustable goals and objectives to fit the market and any changes to the businesses. When partnerships are deemed to be non-beneficial or unnecessary by both parties they are terminated.

Partnership evolution

When establishing partnerships it is essential to first establish a methodology of how the partnership will operate, this is then developed by both parties and restructured to best fit both organisations. For the longevity of partnerships it is necessary for constant evolution around business objectives and marketplace. It is important to include any best practices and lessons learnt when updating or creating new partnerships.

When Seedrs partnered with ING bank, clear objectives and the roles of each partner was required. To ensure this Seedrs travelled to ING's headquarters in The Netherlands, briefing the banking staff on suitable projects for the equity crowdfunding platform and projects which would be most likely to reach their investment goals.

This information allows ING to tailor their advice to the best placed organisations, informing them of the services and potential funding Seedrs can offer. Clearly defined goals were set, ensuring that Seedrs were not overloaded with non-viable projects which would waste time and resources. The objective and partnership is constantly evolving in line with developments of both Seedrs and ING to allow both to maximise the partnership's potential. ING sees the partnership as a way of offering less conventional sources of finance, whilst potentially gaining future clients. Seedrs can gain additional revenue from any successfully funded projects proposed by ING. As the market that Seedrs operates in changes, it is necessary to update the bank on projects that are most likely to hit their target investment.



Impact of Seedrs' partnership model

Impact on the uptake of crowdfunding

Due to Seedrs not targeting a specific industrial sector, the range and variety of projects varies significantly, with more than 340 businesses from 24 countries campaigning on Seedrs in 2015. This makes it difficult to assess how one project performs with or without the backing of a partner. Despite this we are able to make some general assumptions and draw the following conclusions on the impact of partnerships.

- Increased publicity - Any involvement with a high profile partner will increase publicity and media attention, leading to additional investment. Partnerships are often not made public knowledge unless the organisation expects to benefit from the publicity. Investment from one of the Board of Advisors such as Andy Murray is likely to lead to increased campaign awareness, along with this raised awareness, the funding from the strategic investor validates the potential of the project, which will lead to additional backing. Recently Andy Murray invested in three companies, all of which reached their funding targets.
- Increased reach and awareness - The partnership with ING bank saw an increase in projects and backers

in the Benelux region where the bank is prominent.

- The partnership with ING helped institutionalise crowdfunding as a source of financing for companies unable to obtain loans or more traditional sources of finance. As a recognised, reliable lender, ING's partnership with Seedrs is likely to lead to more equity crowdfunding where traditional investment opportunities are not available.
- Increased support for project holders – If a project knows of a Seedrs partner who can offer support, advice and mentoring, then they are likely to choose Seedrs to crowdfund. MyMiniFactory received a number of exceptional investors, these offered invaluable guidance and support as well as additional funding.
- Increased revenue – As more businesses and high profile investors partner with Seedrs, it will grow the company and its outreach which will lead to additional revenue.

Seedrs liaises with all investors for any successfully funded project, allowing the project to focus on running the business. This service makes Seedrs a lot more appealing than other crowdfunding platforms and angel investment as described by Veeqo.

Impact on the project holders

The partnerships have various effects on the project holders, as Seedrs regulates and chooses its partners the effects are mainly positive. The partnerships mainly provide funding or/and support for projects. On average 37% of projects are funded by business angels or partners/institutes and 63% by individual investors. As such, Seedrs plays an important role in connecting project holders with different types of finance (BA capital, banks, crowdfunding).

ING's main operations are in Benelux; as a result of the partnership there has been a rise in the number of projects in this region. Without the partnership with ING, it is possible that the project holders would not have known of the possibility of crowdfunding, or of Seedrs and the services offered. This highlights how a partnership in an under utilised market can raise awareness and provide the alternative financing option. This along with the opening of a Belgium office has led to a significant rise in the number of Benelux projects. Due to the success of the partnership with ING bank, Seedrs is looking to replicate this partnership outside of the Benelux region.

It is common for the project holders to be invited to networking events of partners and investors, which can foster business relationships with the partner and other guests.

It is common for incubators to invest in markets where they have knowledge, therefore a networking event for a startup can generate key contacts, where ideas, best practices and information can be shared.

Along with various networks, incubators and accelerators provide fledgling business and projects access to revenue and occasionally mentorship. Seedrs' partnership with Amazon Launchpad allows startups to launch new products on Amazon, allowing hundreds of millions of people across the globe to access the product. The partnership allows the project to list products on Amazon's reputable website.

Partnerships with leading venture capitalists such as Andy Murray are often beneficial for financing and publicity of the project. Andy Murray invested in Readbug, the 'Netflix for Magazines' which increased their total funding as well as allowing the project to market themselves as being funded by a leading VC. The backing of a high profile public figure also validates the project leading to additional investment.

Impact on the backers

Different partnerships will affect backers in different ways as each investor thinks and acts differently. Some will be risk averse and invest in traditional lower risk opportunities, whilst others have a higher risk profile and choose to invest in earlier stage startups where the potential return is higher, but so is the risk of failure. It is again difficult to measure the effects of a partnership on a project as all projects are so different. The main reason people invest in projects, is in search of financial return, or due to a genuine interest, or connection with a particular project. With projects and partnerships being so diverse we are unable to draw any statistical conclusions. Seedrs offers ordinary individuals the opportunity to invest into projects with reduced barriers; almost every investor Seedrs collaborates with is relatively new to equity crowdfunding due to the industry only being four years old.

Investors are more likely to invest in a project if a high profile successful investor also finances the project. A successful backer makes the project more appealing and is likely to increase the number and value of investments. Recently Andy Murray invested in three companies, all of which successfully topped their funding targets on Seedrs. It can be argued that the projects would have reached their funding targets without the endorsement from Andy Murray, however it is likely that his investment bolstered the funding of the projects.

Seedrs has seen a direct increase in the investment from the Benelux region, this is a result from the partnership with ING bank (and a new office opening in Amsterdam), with their main market being in Belgium, Luxembourg and the Netherlands. The increasing number of projects from this area is also likely to have increased the number of backers as the project holders promote the project locally.

Impact on the partners

Seedrs numerous partners will inevitably affect its operations. It is difficult to measure how any individual partnership directly affects Seedrs, or if Seedrs modifies its actions to maximise the effect of the partnership. All partnerships will increase publicity which in turn will lead to additional investors and projects. No specific partner has led to Seedrs targeting a specific market, their all-encompassing business model still applies.

The partnership with ING bank has helped Seedrs expand further into the geographical region of Benelux, this has helped grow the platform into one of Europe's leading equity crowdfunding sites. It will also have affected their decision to open an office in Amsterdam, enabling them to accommodate the forecasted growth in this market.

Conclusions

Critical success factors

When setting up any partnership it is essential they are mutually beneficial, to create this relationship it is important to set goals and objectives that align with both partners targets. When setting up the partnership, both parties must be mutually aware of expectations and the levels of input required for the partnership to be successful. If partners are not in agreement with the inputs and expected outcomes, the partnership is unlikely to be successful. For the partnership to succeed the goals and objectives must adapt, change and evolve in line with both organisations business strategies.

In order for Seedrs to be profitable it requires projects to reach their investment targets. If a partner can attract suitable projects and investors they are likely to increase the number of successfully funded projects and increase their revenue, therefore any partnership that increases the awareness of the organisation will likely benefit Seedrs.

The partnership with ING highlights that a successful partnership has many, diverse benefits to the main objective. As well as bringing additional projects the partnership has increased Seedrs presence in Europe, specifically the Benelux region.

Seedrs now benefits from an increased number of investors in Benelux and Europe. If done correctly a wide geographical spread of partners could raise awareness of the crowdfunding platform leading to further growth in the number of projects funded as well as a wider network of investors.

Crowdfunding partnerships in the future

The figure on the right highlights the substantial growth that the equity based crowdfunding model has experienced since 2013. Seedrs has experienced exponential growth, and with this growth new partnerships are created to cover new and expanding areas of equity crowdfunding.

Since operations began in July 2012 it has been a busy four years for the crowdfunding platform to become one of the world leading equity crowd funders. This growth has been in part due to the successful partnerships, they have helped raise awareness of the business and increased the funding and number of successful projects.

Equity crowdfunding in the CCS may not be as successful as other sectors due to the investors needing a level of expertise in the field. Seedrs have very few high profile persons related to the arts, and it may be partially due to the low publicity of this that there is are few successful CCS projects.

As the market matures and investors see it as a more viable form of investment the investor base and partnerships will grow to accommodate this. As there is currently no financial information regarding return on investment, Seedrs are unable to use any statistics to gain additional investors or partners, however natural growth is expected to see the platform grow and the number of partnerships increase further, in line with businesses strategies. For Seedrs it is likely there will be a growth in partners around the world to expand into new markets, increasing growth and its global status.

It is also the belief that once the government can see statistical evidence of the benefits of equity crowdfunding, in terms of job creation and economic growth it will see additional private sector partnerships and funding. It is thought that the government's willingness to invest in donation based crowdfunding is due this model of crowdfunding being over ten years old, with easy to measure results. It is harder to measure and gauge the results of equity crowdfunding, however when statistics are released on the positive affects of equity crowdfunding it is thought that the number of state partnerships will increase hugely. Seedrs is currently updating its portfolio report, which will include statistics on the projects Seedrs have successfully funded. This information will be made publically available for the government to measure the benefits of equity crowdfunding, however certain information, such as job creation is difficult to measure and will not be included.





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