Working the crowd

Small investors are increasingly making a big difference for startups, writes **Claire Heaney**

TIPS FOR USING CROWD-FUNDING SITES

- Research the sites to see which is better suited to your product or service.
- Put in place social media platforms to get the message out.
- Tap into your network of family and friends first to get some momentum.
- Have your supply chain sorted should you be swamped with orders.

(Clockwise from main) Knog International's Leah Hughes; Scott Kilmartin; Djordje Dikic; and Cedar Anderson. Main picture: MIKE KEATING

FROM beehives to ice-cream vans and bicycle bells, crowd funding is unlocking cash and building a tribe of followers for new businesses trying to get products to market.

The concept — where many people invest small sums in a business to help it grow — has been around for a long time.

But in recent years there has been a proliferation of platforms to support start-ups, businesses looking to raise more money to expand and not-for-profit and social enterprises.

One of the most celebrated success stories in Australia has been father-and-son beekeepers Stuart and Cedar Anderson, who used crowd funding to get their revolutionary Flow Hive to market.

Based at Bangalow, near Byron Bay, they raised nearly $17 million through a campaign using the Indiegogo platform early in 2015.

Melbourne-based international cycling company Knog used Kickstarter to raise more than $1 million to get its innovative bike bell, Oi, into the public domain.

Before Christmas, entrepreneur Scott Kilmartin raised $16,000 using Indiegogo to get an old ice cream van on the road, having set a $13,000 target.

Mr Kilmartin said the campaign was as much about marketing and building excitement for Grace and the Short Batch Ice Cream brand as it was about raising cash.

Knog's head of brand and marketing, Sam Moore, said the Richmond-based industrial design company copped flak from people who felt an established company was taking away from cash-strapped start-ups by crowd funding.

"When we examined the Kickstarter model, we considered whether a project like ours would contribute to less funding for start-ups," Mr Moore said. "From viewing the growth in Kickstarter as a whole, it became clear to us that generating interest in Kickstarter (and the crowd-funding model) can only assist rather than detract from the smaller entrepreneurs."

Established brands drew people to Kickstarter, Mr Moore said, growing the community of backers.

"So the 20,000 likely backers our project will bring to Kickstarter will generate another 6000 plus future pledges," he said.

Melbourne University start-up business Palette funded its early innovation through Kickstarter and Indiegogo campaigns.

With mates Paul Peng and Rocky Liang, Palette chief Djordje Dikic developed the Cube — a sleek, portable device that captures details of colour on any surface so it can be matched later.

Palette, then known as SwatchMate, raised money from two campaigns to develop the Cube. "It is awfully stressful because you have a huge sense of responsibility, because the primary backers are your family and friends," Mr Dikic said.

"Then there are all these anonymous strangers. It is a nice bit of pressure which gives you the ability to get started and get moving."

They chose the Kickstarter platform because it was the premium option and it was launching in Australia, so they were able to exploit the marketing push.

Mr Dikic said the key was planning ahead to ensure that if they ended up with many orders, they could meet the demand. After some early success, they were contacted by paint company Dulux.

On the back of the collaboration, they were able to raise investment to bring to market the Snapshot — a hard-wearing product based on the Cube technology, which allows people to match colours with swatches.

One of the keys to the success was the great team, Mr Dikic said. "Paul and I were friends from our first engineering project and we never changed partners."

Less seamless was the Kickstarter campaign for the Coolest Cooler. In 2014, Seattle-based Ryan Grepper came up with the idea of creating an all-in-one Esky-style cooler, blender, charger, speaker, bottle opener and picnic set in a single design.

Thousands of people started pouring money in to his campaign, but Mr Grepper struggled to deliver the product. It is now a case study in what can go wrong.

Mark West, the co-founder of crowd funder Seedly, said crowd funding could be part of a start-up business's market-testing phase. "It's a great way to validate new ideas within a particular market," Mr West said. "Successful crowd funding is relative to careful strategic planning, much like any marketing campaign."

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Take a long-term view for investing in uncertain world

THE SHORT CUT
with ANDREW MACKEN

I WAS recently asked why investors should allocate any money to equities at all?

The premise of the question was simply the assumption that equity prices were heading for a fall.

And why were equity prices heading for a fall?

Interest rates are rising, valuations are stretched and the property markets of many major Australian cities are unquestionably in bubble territory.

The answer? If you knew for sure that equities were heading for a fall, then you should not own equities today. But the problem is, you cannot know for sure where equity prices are headed.

No one does. We observed a great example of this dynamic in the global equity markets last year.

Cast your mind back to the first three weeks of January: global equity prices had fallen by more than 11 per cent in three weeks. The Federal Reserve had just hiked interest rates in the US for the first time since 2006; and there were renewed concerns over a financial crisis in China. Given the global equity index had tripled since the depths of the GFC in 2009, there were very real concerns that we were heading into another significant equity market downturn.

And how did the remainder of the year play out? Global equities rallied by more than 22 per cent from the lows achieved in February. This is an astronomical rally, which stemmed from co-ordinated Chinese, Japanese and European stimulus.

Meanwhile, the Fed placed its monetary tightening bias on hold until last month.

And finally, the surprise Trump and Republican victory in the US doused an already hot market with further fuel.

The probability of the global market returning anything above a flat result last year was low after the start it had in January.

And yet, the ASX 200 — which started the year by falling 10 per cent by February — ended the year 7 per cent higher. Global markets also chalked up strong gains.

Imagine we played a game in which you pay me $3 to roll a die once, and I repay you the number of dollars equivalent to the number shown by the die.

Obviously, you want a six but the chances are low at only 16.7 per cent. In effect, the equity markets last year rolled a six.

There was a low chance of it happening but it still happened. And this is why investors need to allocate some of their portfolio to equities.

No one knows what the market will deliver year to year. Staying on the sidelines feels safer and ensures that a negative return will not be sustained.

But staying on the sidelines ensures you will not participate in the upside when the market rolls a six.

And we know that over very long periods of time, equities will deliver positive returns above most other asset classes.

Standing here today, there are plenty of headwinds on the horizon for average equity returns.

Making money in equities will likely be more difficult in the future than it has been in the past. But remaining on the sidelines will prove very costly — as it always has.

Andrew Macken, Portfolio Manager, Montgomery Global Investment Management