

Social media aid entrepreneurs' capital quest

January 31 2013, by J. Scott Trubey

No bank or record label helped singer-songwriter Wesley Cook fund his third studio album, but a Chuck Norris meme - and the generosity of 171 fans - did.

Angel Poventud used his connections as a community activist and a slick video on a crowd-sourced funding website to help bridge a gap in financing for a house renovation. He hopes to convert a former vacant house into his new home in a southwest Atlanta neighborhood that's putting the worst of the housing crisis behind it.

Marc Gorlin and his company can crunch a company's sales figures and [social media](#) metrics and determine if it's a reasonable credit risk.

At the intersection of adversity and ingenuity, new methods help entrepreneurs get cash and help new companies decide when to lend it. Borrowers and investors alike are tapping the power of social media in ways not possible before the downturn.

When banks and other lenders retrenched during the economic deep freeze, alternative financiers filled some of the gaps. Though banks are stepping up lending again, some niches are too specialized for many lenders.

Three-year-old Kickstarter is the biggest so-called "crowdfunding" platform. The nearly four-year-old website claims to have helped raise more than \$350 million to fund more than 30,000 projects.

Artists and entrepreneurs can use it to raise cash in exchange for perks, such as early releases of projects.

It's a sort of a winner-take-all concept, where the creator of a product or idea sets a fundraising goal and a time limit. If he reaches the goal in the time allotted, he receives the funds, minus Kickstarter fees. If not, no money changes hands.

Kickstarter has been used to fund albums by indie and mainstream artists. Even Hollywood directors David Fincher and Charlie Kaufman have launched projects through the site.

Artists design campaigns to woo patrons, who donate through the site, with Kickstarter taking a fee.

It sounds easy, but Cook, an Atlanta resident, said a lot of thought is required about how much money to seek, how much to promise sponsors and when the final product can actually be delivered.

A recent CNNMoney.com report found the vast majority of projects with the heaviest backing on [Kickstarter](#) were late to ship to backers. Many of them were sophisticated products, however, such as electronics or video games, or drew so much investor interest that it set back production schedules.

Cook set a goal of \$11,000 and raised more than \$12,000 for his third studio album. Recording is due to start this month; he plans to have it ready by April. He promised pre-release downloads of a single to backers who invested as little as \$5. For those who ponied up at least \$1,000 (two did) he offered private shows and other gifts. He kept family, friends and fans engaged with Internet memes - including one with an image of Chuck Norris - and videos to encourage donations.

"The important thing is it keeps you honest," he said.

Cook planned not only a budget and schedule for the album but also for the cost of gifts to sponsors. "It's very sobering."

Poventud raised more than \$11,000 (less than that after fees) to help pay for repairs on an abandoned home in Atlanta's Adair Park neighborhood. The home has stood abandoned and been a magnet for crime for more than a decade.

Poventud got a bank loan to buy the property and renovate it. He sought \$20,000 on Indiegogo to fund repairs the bank loan didn't cover.

Indiegogo allows the cash-needy to start a campaign and raise money, but the site isn't winner-take-all. Indiegogo collects a higher percentage of the money if the entrepreneurs don't reach their goal.

"It's up to you if you promote it and up to you to raise awareness about it," Poventud said. He said he plans to move into the house in the spring and print dozens of T-shirts for his backers.

The social media savvy that's helped Cook and Poventud raise money for life-altering moves has helped Gorlin's company make the decision to advance cash to businesses in 50 states. Clients range from makers of Native American jewelry with \$20,000 a year in sales to companies with \$10 million in annual revenue.

Gorlin, chairman and co-founder of Atlanta-based Kabbage, said his company can make the decision to provide working capital to small businesses in seven minutes. Kabbage analyzes sales data such as the flow of business through PayPal and Amazon. The company even has a way to measure the ways companies interact with clients on Facebook and Twitter.

"We believe this is way more important than a credit score," Gorlin said.

The program has worked so well, Gorlin said that banks have approached Kabbage for a way to partner with it.

The typical advance is \$500 to \$50,000, he said, and clients return nine to 10 times per year on average.

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