

This One's Important — What Do Crowd Funding Investors Look for in a Company?

by Bettina Eckerle

For startups and entrepreneurs looking to explore crowdfunding opportunities, there is really only one concern: how to attract donors/pledgers (and let's call them investors for simplicity sake, shall we) for your campaign.

A recent study, [Swept Away by the Crowd? Crowdfunding, Venture Capital, and the Selection of Entrepreneurs](#), came to an interesting conclusion: it found that crowdfunding investors look for many of the same attributes of potential success as your tried and true VC.

The study, conducted by Wharton School of Business Professor Ethan R. Mollick, analyzed 2,101 crowdfunded projects on [Kickstarter](#). He compared a number of key characteristics, including history of success of a projects, influence of endorsements, the level of preparation demonstrated by an entrepreneur, quality, social networks, geographic outcomes, and gender. He found that despite the differences in selection environment, investors assessed entrepreneurial quality in similar ways, focusing on factors like the quality of the product and the resume of the team members. The only notable difference he found was that crowdfunding alleviates some of geographic and gender biases associated with the way that VCs look for signals of quality.

According to Professor Mollick, “the signals of quality that are used by VCs to assess the viability of new ventures are also used by crowd funders. This bolsters the validity of these signals as indicators of start-up potential, but also suggests that crowdfunding has the ability to distinguish quality potential projects from less promising ones.”

As other commentators have noted, the study seems to suggest that concerns over investor fraud may be blown out of proportion. I draw another conclusion: among the many reasons to go through a crowdfunding round, use it as dry-run for a Series A. Way to go!

As always, if you have questions or comments, please call, [e-mail](#) or tweet me [@NYBusinessLaws](#).

Eckerle Law offers legal advice in a variety of transactional and regulatory matters and serves companies' plenary business law needs. Its founder, Bettina Eckerle, is a veteran of Debevoise & Plimpton and Wachtell, Lipton, Rosen & Katz. She also served as the General Counsel of two companies en route to IPO. Please visit the [Eckerle Law website](#) for more details.