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Funding Your Invention: Get Started with Crowdfunding



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Written by **Mark Nowotarski**
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Getting Your Invention off of the Ground with Crowdfunding.

Crowdfunding is a newly proven way to get initial funding for the commercialization of an invention.

Crowdfunding involves posting a project description on the internet, asking for pledges to complete the project, and if the minimum amount of pledges are received by a certain deadline, having the funds transferred to the project. If the minimum isn't reached, no one gets charged.

Crowdfunding addresses the two biggest challenges many inventors have. "What is the market for my product?" and "How do I get initial funds to produce it?" Conventional sources of funds include yourself, "friends and family", and angel investors. Crowdfunding adds a new source of funds, the initial consumers. Inventors get committed funds and guaranteed customers. Backers get to be the first to get an exciting new product. If the funds are raised, you know you have a market and you have the resources to produce the product. If the funds aren't raised, you have valuable market feedback.

Kickstarter.com and **Peerbackers.com** are examples of sites offering crowdfunding services for inventions. At two years old, Kickstarter, is the more mature of the two sites. They've raised \$40 million dollars for 7,500 projects in 2 years. Project success rate is about 45%. Their biggest success to date has been the **TikTok watch band mount** for iPod nanos. For pledges of \$25 or more, backers received a promise of a delivery of a watch band mount once it went into production. Higher levels of pledging got fancier watch bands and still higher levels got bulk discounts. The project needed a minimum of \$15,000 to launch. They raised \$941,718. The sponsors started shipping the day after the project closed and 95% of the orders were fulfilled within 60 days.

It almost sounds too good to be true. And it is. Many projects have been successful on Kickstarter, but many also have not. Furthermore, Kickstarter is very selective about what projects they will post. They focus on projects with artistic creativity. They don't post projects that are looking for funds to start a company. Many people who have had projects rejected feel that the rejection was inconsistent with the guidelines Kickstarter has posted.

On the backer side, there is no guarantee that project sponsors will ever deliver on their promises. There was one project sponsor, for example, who posted a project to make a movie only to deliver a plagiarized version of another movie to its backers.

The most successful projects seem to be those that have tapped into the mood and values of other sponsored projects. A good video promoting your project seems to be a must. You should plan on offering something tangible in exchange for a pledge. Most projects give a broad range of pledge options starting at a few \$ and going up to at least a few hundred dollars and even a few thousand. I personally sponsored the building of the **"World's longest marble raceway"** as an outdoor art project in Berlin. For \$40 I get to help make it happen and I get 4 meters of raceway track to play with. I love the top sponsor level of this project, \$6,000. For a pledge of \$6,000, the sponsor will build the world's longest marble raceway..... in your house (large house recommended).

Provisional patent applications work well with the crowdfunding approach. You want some sort of protection to keep others from immediately copying your idea once they see it posted, but you don't want to spend a lot of money on a regular patent application only to find out there is no market for your idea. A provisional patent application is low cost and gives you a year to test the waters. With crowdfunding projects lasting only a few months, you can get timely market feedback and initial funding for production well within the one year term of a provisional patent application. You might even get in 2 to 3 project postings if your first one fails and you need

to tweak your idea.

Crowdfunding is a new way to measure market acceptance for a new invention and raise funds for initial production. New websites offering crowdfunding of projects are being created and the business models are undergoing evolution. For inventors looking to promote a new idea and for backers looking to support new ideas, it's a promising option worth exploring. Of course, before engaging in any deal make sure you read the contract, agreement or terms and conditions to familiarize yourself with your obligations and requirements.

About the Author

Mark Nowotarski is the President of Markets, Patents & Alliances L.L.C. and is a registered U.S. patent agent specializing in business method patents. He currently serves clients in the financial services, medical devices, consumer products and manufacturing industries.

Mark is also co-editor of the Insurance IP Bulletin. The Insurance IP Bulletin is dedicated to providing useful information to innovators in the insurance industry regarding the protection of their inventions with patents and ways to effectively promote their innovations.

Mark is a former Associate Director of R&D for Praxair. There he was responsible for the development and successful worldwide introduction of new products into the health care, electronics, and manufacturing industries. He was a leader in the reengineering of Praxair's patent system, and was responsible for technology planning for their home health care division.

Mark is an inventor on 17 US patents. He was appointed Corporate Research Fellow for the commercial impact of his inventions (+\$300 million in sales).

Mark has a Master's degree in Mechanical Engineering from Stanford and a Bachelor's degree with honors in Aerospace, Mechanical Sciences and Engineering Physics from Princeton. His academic awards include the Sigma Xi award for most outstanding Mechanical Engineering research at Princeton and the Union Carbide Award for Academic Excellence and Leadership in Mechanical Engineering, also at Princeton.

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4 comments

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1. Ryan Garver June 1st, 2011 6:52 pm

It should be noted that both Peerbackers and Kickstarter provide a platform for donations. With Kickstarter in particular they are pretty restrictive about raising money for a business and not a project. ProFounder is specifically built to serve the needs of businesses raising money from a community of people who have a close relationship with the founders (eg: friends and family). This tighter group correlates to better success, I suspect Kickstarter would attest to that as well. Moreover, since ProFounder support legally compliant (via Reg D 504) revenue share or equity terms that commit the investors over a period of time to the success and failure of the business, you, as the business owner, can get better and more reliable support from this group. Your success/failure is in fact their success/failure. With successful raises bringing in \$10k – \$60k from ~20 investors each this can match much better with projects that will turn in to, or already are, businesses.

2. Jackson Harvey June 1st, 2011 9:32 pm

Mark, I totally agree that websites like Kickstarter can be a great way to gauge market interest and creatively finance your next project. If you are passionate about what you are doing I think it shows through, and people will support you.

3. Dave Korpi June 2nd, 2011 12:33 am

I LOVE the concepts of Crowdfunding and Kickstarter and ProFounder! Great concept! If you need to protect your idea then use the provisional patent video course to see how you can get your idea to market. See <http://provisionalpatentvideo.com/>

Also, I want to know how to include these in my class as folks ask me to fund their projects all the time. Contact me, Dave Korpi, at 831-455-0418 and let me know how to have these programs as an affiliate!

4. Mark Nowotarski June 2nd, 2011 10:12 am

Ryan,

Thanks for the heads up on ProFounder. It's fascinating to see the proliferation of different crowdfunding offerings.

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