Project Owner

#2 - Underestimation of costs

Definition

Crowdfunding differs from a normal production activity as it requires for diverse unusual extra costs, which are sometimes difficult to spot and calculate, or to take into appropriate account in the budget.

In fact, in addition to fixed production costs related to raw materials, human resources and services providers, there are high costs of initial capitals, in terms of investment in pre-campaign, campaign-maintenance, post-campaign activities. Among these, the delivery-cost of rewards, the social media campaign fees and sponsorships, the changes embodied in small-scale production... Additionally, the platform-related fees largely impact on the final funds collected.

Mitigation strategy

The careful preparation of a thorough business plan - budgeting and expenses forecasting- is indispensable, considering every single phase and aspect of the campaign. A good support by the platform is useful and necessary, as their advice can better define the business strategy and timing of funding completion.

Focus on:
Platform's affiliation fees

Choosing for one platform or another can strongly make the difference in terms of final financial goal. In particular, due to the impact of the platform's affiliation fees (flexible/fixed fee option) and on the shares related to the payment provider or extra services...

It is also to consider which approach the platform chooses to refund the project owner of the collected money. It is to differentiate between an "all or nothing" or a "keep it all" approach. In the first case, reaching the total funding goal is binding for the transfer of all the collected money from the supporters, by the platform to the project owner. Such a solution is to be chosen in case of high investments linked to few activities - as it is, for example, with highly-specialized products, whose development implies very large investments in terms of manufacture or technology. The second method allows the project owner to directly get a certain and proportional amount per each and every contribution gathered from the crowd. This is particularly useful when even small amounts can make the project progress and develop.