KYMENLAAKSON AMMATTIKORKEAKOULU
University of Applied Sciences
Degree Programme in International Business / International Trade

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CROWDFUNDING OR BUSINESS ANGELS TO FINANCE START-UPS

Case Company: FC Media Oy

Bachelor's Thesis 2013

ABSTRACT

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Nowadays, many start-up companies struggle to raise external financing, partly due to the global economic turmoil. However, the main reason is that, after entrepreneurs have utilized their personal savings, but cannot for one reason or the other secure a bank loan or attract venture capitalists, an equity gap exists, which currently only hard-to-acquire business angels could fill. Recently, a new phenomenon presented itself, namely crowdfunding, in particular equity crowdfunding. Many experts in the industry believe that it has the potential to compete effectively with its larger counterpart. Therefore, an extensive research was conducted in order to find out whether this fundraising option could more beneficial to start-ups.

At first, both forms where compared to one another on basis of various important aspects. The most useful angel networks and crowdfunding platforms were analysed thoroughly and, additionally, many valuable suggestions are given to early-stage entrepreneurs. Most angel financing –related information was gathered from a broad collection of existing literature. On the other hand, the crowdfunding market does not provide an abundance of material and therefore three of the largest patriarchs of the Finnish crowd-based funding scene were interviewed and asked for their opinion on the matter.

Even though this question doesn't have a right answer, because many factors should be taken into account, an interesting conclusion was drawn based on the collected information and the writer's own point of view.

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ACKNOWLEDGEMENTS

First of all, I would like to thank case company FC Media Oy for giving me the opportunity and related responsibility to build up a business from scratch. The acquired experience and knowledge has been of great help when conducting this research.

Furthermore, a word of appreciation has to be given to the three interviewees. Despite their tight work schedule and other obligations, they found time to give their viewpoints on a few issues. Without their well-grounded opinions I wouldn't have been able to form a suitable conclusion.

Ultimately, I want to thank my thesis supervisor Jarmo Kulhelm, for giving direction to the research process and sharing his expertise on financing-related matters.

1. INTRODUCTION

Since the outbreak of the Great Recession in December 2007 most money lenders and investors have taken on a more passive strategy in order to protect themselves from the highly fluctuating global economy. Therefore, companies seeking to expand their business operations through external financing have to come up with more creative solutions to fund their ideas. Rouse (2008) states that "the main reason for the failure of small business is lack of funding". Think of your business as the engine of your car. You will need to fund your business just as you need to put gasoline in your car to keep it running'. Thus, the main objective of this thesis is to conduct a research on **which form of external financing is most suitable for start-up companies**. The study will be executed for Internet start-up FC Media Oy.

In this research the core focus will be on two different ways to fund a company using outside financial resources, namely crowdfunding and business angels, also referred to as equity financing. Other common means of financing will also be decomposed and compared briefly to the above mentioned forms. Equity financing is defined by the Cambridge Business English Dictionary (2013) as "the finance that a company gets from selling shares rather than borrowing money". For the most part, equity capital is derived from the owners' personal savings. According to a study conducted on the 500 fastest-growing, private companies in the United States, 70 percent of the initial financing originated from the founders themselves, whereas another 10 percent came from friends and family, and only 8 percent from bank loans (Longenecker, Petty and Palich, 2011: 364). As mentioned earlier, the current economic difficulties faced by financial institutions all over the world, make borrowing, especially by high-risk tech start-ups, a troublesome expedition. Therefore, after entrepreneurs have invested most of their personal savings into their high-risk business in order to create some sort of fundament, they seek for a certain type of equity capital in order to make future growth possible, namely private equity. The Cambridge Business English Dictionary (2013) circumscribes this simply as "company shares that are not available for sale on a stock market". Longenecker et al (2011: 374) state that entrepreneurs usually divide private equity into two categories: business

angels and venture capital (firms). Both groups will be analysed in a later chapter and thereby a decision will be constituted on which one is more suitable.

In order to find the most applicable form of early-stage financing for FC Media Oy, this research will not only concentrate on the oldest and largest source of start-up funding, namely angel investing, but also examine the most recent hype in the private equity industry, known as crowdfunding or crowd-sourced financing. As mentioned in the beginning of this introduction, crowdfunding is also known as equity capital and defined by Oxford Dictionaries (2013) as "the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet". Even though crowdfunding is a very new concept, is still not fully legal in many countries and has significantly less information available compared to its counterparts, it is rapidly establishing itself as a competitor or even a substitution for the highly competitive business angel market. Thus, it is really interesting to find out whether crowd-sourced financing does have the potential to help capital demanding early-stage entrepreneurs in these tough economic times. As the core objective of this thesis is to conduct a study on whether (high-tech) start-up companies, in particular FC Media Oy, should utilize business angels or make use of the rapidly increasing amount of various crowdfunding platforms, it is important to have a clear understanding of what they signify, how they differ from each other and why these two are analysed in favour of the many other sources of financing. Besides these primary questions, the following research questions, among others, need to be answered as well:

- What are the advantages and disadvantages for start-ups related to business angel funding and crowdfunding?
- What criteria does FC Media Oy have in relation to what investors can offer?
- How do both financing options work in theory?
- How can both be accessed?

As the main objective is to give FC Media Oy a suggestion of whether they should utilize angel investors or crowd funders, it will be helpful to make a list of possible benefits this research can have for the case company and other early-stage ventures, in order to convince them of the usefulness and importance of this study. The fact

that many entrepreneurs nowadays struggle to get appropriate external, especially loan-based financing, to expand their business, and that many of them do not possess the skills to acquire funding through other channels or cannot make a well-grounded decision, is a huge incentive to dig a little deeper in the existing forms of financing. Since angel investor funding is the only external way, without taking a loan, to finance a company in the actual start-up stage of its life-cycle, it is great news for many business people that crowdfunding is on the way to become a serious counterpart. Therefore, it is clear that early-stage businesses dealing with financing issues want to have several options to choose from and would like to have as much information as possible and see comparisons regarding both types of funding.

Due to the earlier mentioned reasons, this thesis will focus only on private equity. Later on, in chapter 2.3, the main causes will be given for why other sources of external financing are excluded. In order to acquire suitable information, existing literature and theories will be utilized. Besides, experts in the field of start-up financing will be interviewed and asked for their opinion concerning the matter. Since FC Media Oy is located in Kouvola, it formed quite a challenge to find and personally interview business angels closely situated to the city, because most angels work from the Helsinki metropolitan area. Due to this limitation, it was easier to contact other financing specialists, but also attempt to get an interview with the experts in the capital city. Furthermore, it is clear that, since crowdfunding is such a new concept, there is not a large amount of Finnish literature written on the topic and about its distinctions to angel funding. In addition, the final solution will be based on the material gathered in this thesis, which consists of the earlier mentioned data collection methods, and the writer's own perception of the matter. A comparative research method will be used, where existing information will be compared to the insights of a few financing experts. Therefore, this research will just give a well-grounded insight and suggestion to start-up entrepreneurs dealing with similar issues to the case company, which means that other sources of financing should be taken into account as well since every early-stage venture is unique and has different requirements. The current economic turmoil in the world has also largely influenced the end result and thus this study should be looked at in the right perspective. Furthermore, it is not entirely assured that FC Media Oy can raise their desired amount of capital at this

point, and for this reason additional feedback regarding possible improvements will be given, in order for them to successfully raise financing at a later moment.

2. BACKGROUND INFORMATION

2.1. Overview of FC Media Oy

At the end of 2009 two highly ambitious entrepreneurs decided to combine their biggest passions: football and business. The aim was to create a global online platform, where the huge amount of different football communities worldwide would be offered a shared communication stage. Due to various other time-consuming projects and issues related to financing, the company did not grow as expected and the mission was postponed with a few years. Therefore, the company still remained in the seed stage. In 2013 the business was revived, but is still struggling with the same problem: how to get external financing? Also numerous competitors have since entered the market and are similarly striving to get funding from investors. Since both entrepreneurs have invested significant amounts of their savings into the venture, but the product itself is not quite ready to be launched, external financing is highly needed and could provide a beginning for FC Media Oy to make the transition from the start-up stage to the expansion stage. Thus, the next logical step in finding out which form of financing is most suitable, is to look at what this start-up requires.

2.2. What does FC Media Oy need?

In short, FC Media Oy is an early-stage company based in Kouvola, which has used up its entire personal savings, has an unproven concept, but yet a good idea, and doesn't have any established track record so far. In order to attract potential customers, a well-working platform has to be made available online. Even though the product does not have to be perfect at first, it still requires some improvements before it can be launched. Besides financing required for several technical modifications, the company also has to acquire funding for numerous other undertakings, such as marketing, service hosting, software licences, office rent and equipment, travelling and personnel expenses, among other development expenditure. Of course the rate of expenses has an impact on the decision of investors, but their main concern is naturally whether the start-up is going to generate revenue or more precisely how it originates. At the moment, FC Media Oy has two ways with which it hopes to create in-

come, namely through advertising and licensees. According to the Chief Executive Officer of the company, early-stage investors seek for high-risk technology start-ups that reach their first profitable quarter already within the second year of operation. Based on the estimations made by the company in the form of a cash-flow projection, the first profitable quarter will be reached at the second half of year two. To make these estimations reality, it is important to know what amount of financing the company is looking for. In the first year, the expected range of expenditure will be between €150,000 and €200,000. The next year, the cost of operation will be around €750,000 to €800,000. Thus, to provide potential customers a well-established global online platform and subsequently generating income, an external amount of approximately €900,000 up to €1,000,000 for the first two years is desired.

With regards to the management team, FC Media Oy does not seek any additional experienced board member or eventual other manager at this early stage since the available expertise will be sufficient enough to grow the company at least to the next stage in its life cycle. Therefore, only external capital is needed in order to develop into a larger technology firm. In the future it might be possible that the company will need more professional experts to assist in the decision-making process. This may be the case even after a few years of operation.

2.3. Why are other sources of external capital excluded?

In the initial stages of starting a business, company owners face the question whether they should finance with debt or equity or some mix of the two (Moore, Petty and Palich, 2008: 300). Even though the largest problems seem to be easing in the global finance industry, commercial banks preferably provide debt capital to companies with proven track records and a large amount of collateral in the form of hard assets (Longenecker et al, 2011: 367). For this reason, it is needless to say that FC Media Oy will not be able to raise any form of debt capital in this stage, at least not the desired amount. Therefore, as mentioned in the introduction, this research will rather concentrate on equity capital, in particular private equity. As earlier clarified, equity financing is capital received by investors in exchange for an ownership percentage,

but is not regarded as a loan. Investors can take interest in companies that are either private or public. Private equity financiers, on the other hand, usually invest their money into businesses that are in the start-up stage and do not have their shares available for the average public. The following paragraph discusses the two private equity categories, namely venture capitalists and angel investors.

Even though both invest in early-stage companies, the main difference between them is the fact that angel investors are private individuals and venture capitalists form limited partnerships, also called venture capital firms, to pool their funds for larger investment purposes. Business angel investments can simply also be referred to as informal venture capital, whereas the other one can be seen as formal venture capital. (Longenecker et al, 2009: 327-329) Another distinction can be made based on the time both tend to involve themselves in financing their target companies. The British Venture Capital Association divides the different stages, at which private companies require funding, into five phases. The stages are the seed stage, the start-up stage, the expansion stage, replacement capital, and the buyout stage. In the case of FC Media Oy, the first two stages are at issue at the moment. Since the average venture capital firm typically does not invest amounts less than a couple of million Euros and seeks for companies with strong profit, it will rather concentrate on the stages following the start-up. (McKaskill, 2009: 9, 15) Therefore, venture capital funds will not be part of the research regarding this thesis. Business angels, on the other hand, are willing to fill the financial void that is likely to arise, when the entrepreneurs have exhausted their personal savings, but can't convince venture capital firms to provide them with a financial injection. (McKaskill, 2009: 9)

Many entrepreneurs also prefer to use a bootstrapping approach, which is defined by the Cambridge Business English dictionary as 'the process of starting and developing a business by using a lot of effort and no investment by outside owners'. In other words, by using this source, neither equity nor debt capital is used. The main motivations for bootstrapping start-ups are the difficulty to attract external investors and the willingness to keep full ownership over their business. Cornwall, Vang and Hartman (2009: 179) list four central rules that bootstrappers should keep in mind. They encourage entrepreneurs to come up with ways to reduce outgoing cash flows and thus save money for more necessary investments. Expenses that are not directly

affiliated with the manufacturing of the product, overhead costs, such as bookkeeping, human resources, information systems, among others, should be tightly managed and reduced where possible. Also employee expenses should be kept under control, because these are typically known as the highest single recurring costs. Furthermore, operating costs should logically be minimized and marketing related expenditure is suggested to be monitored carefully, for example by utilizing worth-of-mouth effectively. Even though bootstrapping is a clever approach to generate some extra cash for an early stage company, it is usually only done at the very beginning and doesn't have the potential to really help the business to rapidly expand in the start-up stage. Stella Fayman, founder of high-tech start-up Matchist and user of the bootstrapping rapprochement, ratifies this by stating that they can no longer bootstrap due to lack of capital and extremely high opportunity costs (Fayman, 2013). She adds that 'bootstrapping will only get you as far as you can shoulder high opportunity costs' and that their company could have grown explosively, had they devoted enough resources to it. Besides, bootstrapping is known as an internal financing approach and therefore will not be used as part of this research.

3. COMPARING ANGEL INVESTING TO CROWDFUNDING

In this chapter the two main topics of this research will be analysed individually as well as compared to each other. Both concepts will be explained thoroughly, so that start-up companies, in particular FC Media Oy can get a clear picture of what different types of business angels and crowdfunding platforms can be utilized and how these investors tend to invest. Besides, this study will take a look at what advantages and disadvantages both forms have for the start-up and what the entrepreneur should take into account when dealing with these financiers. Subsequently, a few case examples are presented to give business owners a practical idea of both sources and instructions of how they can be accessed.

3.1. Business Angels

The introduction gave already an indication of what business angels stand for. According to Bill Payne, an experienced angel investor, angels invest time and capital in start-ups, but making money is not their primary incentive. Even though making a profit is important, angels want to keep themselves busy during their retirement years, work with promising entrepreneurs and give something back to their community. Most business angels are self-made millionaires with significant expertise in business related ventures. (Longenecker et al, 2009: 327) As defined in the United States' Securities Act of 1933 an accredited angel investor is 'a natural person whose individual net worth or joint net worth with that person's spouse exceeds $1,000,000 at the time the investment is purchased; or a natural person who had an individual income in excess of $200,000 in each of the two most recent years, or joint income with that person's spouse in excess of $300,000 in each of those years' (Preston, 2007: 5-6)

Even though it is very perilous to generalize business angels since the variation of informal investors is large, there can still be drawn several comparisons. Based on data analysed by Sherman (2012), the average angel investor is 47 years old, holds a postgraduate degree (oftentimes technical) and has previous start-up management experience. Typically, investments ranging from $50.000 to $100.000 are made at a

time, with a time span of two years. The average angel prefers to fund technology-related early-stage ventures, with a particular interest in manufacturing businesses. In order to give something back to their local community, they normally invest not further than 500 kilometres from their home, but must often within 80 kilometres. Moreover, a typical angel seeks minimum returns on investments of 20 percent, with an expected liquidation time horizon of five to ten years. (Sherman, 2012: 76-77)

3.1.1. Different types of angels

Even though angel investors can be classified into many different segments on basis of their criteria, expertise and motivation, the most evident, however, is to divide them into four basic types. The majority of the active angels are value-oriented, deep pocket investors with a high focus on potential return on investment. This group looks for yields as high as 50 percent. On the other hand, they provide the start-up with the necessary know-how and naturally a substantial amount of funding. Due to the fact that they usually invest in other early-stage companies at the same time, they don't tend to take part in running the business, but anyway want to involve themselves in the decision making process. In order to obtain their desired profit, these investors normally don't hesitate to sell the company. (Sihler, Crawford and Davis, 2004: 217-218) A financially less powerful group, but in possession of a comparable amount of expertise, are partner investors. They typically invest simultaneously in only one start-up company and therefore devote all their attention into that one particular business. Partner investors demand significant control over day-to-day operations. The third type of business angels are known as barter investors. Instead of providing a company with money, they offer goods and services, provide assistance in management related matters and, in general, tend to be involved actively, in exchange for a share percentage. Ultimately, the group of socially responsible investors, specializing in businesses aiming at providing solutions for social needs in combination with high social and moral values, has to be taken into account. Although they usually don't possess sufficient business experience and are likely to be involved in many other ventures, they want to be implicated as much as possible and look for tolerable rates of return, 10 to 15 percent. Furthermore, these investors usually have outstanding social networks. (Sihler, Crawford and Davis, 2004: 217-218)

Janakiram and Rizwana (2011) rather divide angel investors into five types. Corporate angels are described as senior managers of large corporations who are either fired from their position in combination with a royal severance pay or have taken an early retirement. With an angel investment, they may stay active in the managerial circuit. The majority, however, are entrepreneurial angels, who typically own and operate highly successful business ventures. They tend to invest in a maximum of 4-5 companies, which are all in industries they have experience in. Other than corporate angels, these angels do not seek management related obligations, but prefer a seat on the board of directors. The third group Janakiram and Rizwana point out are enthusiast angels. As the name implies, they just like to be involved in deals and see investing more as a pleasurable occupation. These wealthy, high age individuals normally invest small amounts and rather stay on the background, not taking management or board positions. An opposite type of investor is known as the micromanagement angel. They want to bring successful experiences and strategies to the start-up, which they obtained during the build-up of their companies. In comparison with the entrepreneurial angel, they do not look for a management related position, but instead choose to have a seat on the board of directors. Lastly, professional angels invest in early-stage ventures that are closely related to their area of expertise. They usually invest simultaneously in more than one company, resulting in having no interest in active management or board duties. (Janakiram and Rizwana, 2011: 197-198.) According to Sherman (2012: 77-78) enthusiast angels invest the smallest amounts, namely $10,000 to $100,000, whereas entrepreneurial angel investors tend to have the highest minimum investment amounts due to a willingness to take larger risks. Their investments range from $200,000 to half a million. As means of comparison, professionals invest $25,000 to $200,000, micromanagers $100,000 up to one million, and corporate angels a maximum of $200,000.

According to Cumming (2012) the amount of angels investing in group context is increasing. The Angel Capital Education Foundation found out that only circa two percent of annual angel investments are done in groups, but due to its clear benefits this amount tends to grow. They can to some extent be compared to venture capital funds, but there are of course obvious differences. As mentioned earlier, angel investors prefer to invest in companies in the seed or start-up stage, whereas its counterpart more likely steps in during later stages. Second of all, angel groups invest

smaller sums of money, usually up to ten times less. Moreover, while venture capitalists manage a fund through which they invest their investors' resources, members of angel groups invest their own capital. Lastly, there are differences in the manner both groups charge fees. Angel investment groups typically charge annual fees, whilst venture funds tend to take both annual fees and a percentage of the profits. (Cumming, 2012: 399.) Sherman (2012) lists five possible angel networks. Firstly, there is the non-profit angel network, generally managed by non-profit organizations. They tend to build communities, where investors are being educated and learn about opportunities. Start-up entrepreneurs can easily address these entities when in need of funding. Nowadays, many angels also prefer to pool their capital in so-called pledge funds. These groups are known to be strictly professional and seeking to make a profit from several simultaneous investments by pledging a decided sum of capital on forehand. The third angel network uses a club approach, where investors, as with pledge funds, combine a certain amount of money and through a voting system, invest these assembled resources into ventures. All members must be equally active in analysing potential business opportunities, since votes influence their welfare. Smaller venture funds are created by CEO angels, typically in the form of a limited partnership. The investors are all familiar with a specific industry or business communion and therefore invest their pooled funds into areas which within they have expertise. Besides providing the necessary capital, they also want to help their case companies by sharing know-how and taking responsibilities in management. This type of angel network is most similar to the traditional venture capital model. Ultimately, investors within active angel networks are ready to work even full-time for the start-up they commit their financial resources to, in order to have a large hand in growing the company into a successful enterprise. (Sherman, 2012: 79-80)

In order to clarify the above listed types of angel investors, tables 1 and 2 will summarize them and will assist in the later stages of the research. The first table points out business angels classifies according to Sihler, Crawford and Davis (2004), whereas the second one gives a clear picture of how Janakiram and Rizwana (2011) have organized their division.

Table 1: Business angel classification (according to Sihler, Crawford and Davis, 2004)

	Value-oriented, Deep-pocket investors	Partner investors	Barter investors	Socially responsible investors
Main Characteristic	The majority of angels	Active participant	Offer goods and services	High social and moral values
Main Pro	A lot of know-how and experience	Focus fully on target company	Don't invest capital	Many high-profile social contacts
Main Con	Desire huge ROI's (up to 50%)	Demand a lot of control	Want a part in the business	Not regarded very professional

Table 2: Business angel classification (according to Janakiram and Rizwana, 2011)

	Corporate Angels	Entrepreneurial Angels	Enthusiast Angels	Micromanagement Angel	Professional Angels
Main Characteristic	Former senior executives	The majority of angels	Unprofessional	Highly successful entrepreneurs	Invest in own industry
Main Pro	Huge experience and expertise	High knowledge and success in business	Only provide capital	Huge expertise and strategy-orientation	A lot of know-how in their field
Main Con	Want a management position	Desire a place on the board	Invest rather small sums	Want a seat on the board	Not actively involved

3.1.2. Investor's strategy and criteria

Commonly angels tend to make investments that are rather small by size. They seek start-up companies that are not located far from where they reside and have less than 20 employees under contract. Some business angels specialize in only financing companies that are active in industries they have had experience in, but many also aim to spread their risky investments over a variety of sectors. (Longenecker et al, 2009: 327) Besides a good business idea, angels also take numerous other important aspects into consideration, such as a skilful management team and a clear ownership structure (Preston, 2007: 21). According to Benjamin and Margulis (2000: 87) angels look for a management team that has perseverance, competence, decency and, not to mention, a burning desire to be successful. Besides, they seek companies that use or develop innovative technologies and have plenty of intellectual property (Preston, 2007: 21). Benjamin and Margulis (2005: 126) also mention that angels are looking for something different, which isn't boring. Therefore, a business idea that is not understood by the investors, because it is for example too technical, can be a reason for rejection. A study inducted by the Angel Capital Education Foundation in 2006, shows that around one-third of the active angels prefer to invest in start-ups dealing with medical devices and equipment. Also software (27%), biotechnology (23%) and business products and services (22%) seem to be popular industries. FC Media Oy could be positioned into the IT services –category, which has together with the healthcare service –industry a preference rate of circa 18%. (Preston, 2007: 12) Angel investors that invest on their own or in small groups, normally invest a maximum amount of €100,000 into an early-stage company, whereas the larger angel groupings make minimum investments of €250,000 (Carter and Jones-Evans, 2006: 365). Typically, they require an understood exit strategy to have a lucid understanding about the return on investment they can expect and the time of exit; usually within 3-5 years (Cobb and Johnson, 2012: 172).

According to Roach (2008: 51) business angels base their future investments on three stages. Firstly, they compare their personal criteria to the nature of the start-up in question. In this stage, also known as deal screening, the angel analyses the qualities of the entrepreneur and determines his or her trustworthiness. Also, the stage of the business, the product area, main technologies and the location of the company,

are put under a magnifying glass. Most deals, however, are concluded based on the degree of trust an angel has in the entrepreneur itself. During stage two, due diligence, the angel investor dissects the case company a little further. Hereby, management track record, quality of information related to markets and products, growth perspectives, exit strategy and other assumptions made on ground of the business plan are the main criteria looked at. In the third and last stage the investor is ready to negotiate. Besides crucial information, such as the price and structure of the deal, the angel typically wants to get an insight in how dependant the company is on other investors, how the board of directors is structured and what rights he or she has. Cumming (2012: 402) adds that angels investing in groups can use different steps and that individual angels even tend to skip some of them. According to him, the initial decisions and steps are done by the group leader. After accepting a certain business plan and entrepreneur, the other investors can start screening and give their opinions. At this point, little interest is given to the actual business plan. Instead, the angels concentrate on the entrepreneur's social skills and what need their product satisfies, that is to say whether it has a competitive advantage. Thereby, the investors analyse the time and funding needed to get the product on the market. Subsequently will be decided if the project in question should be taken to the due diligence stage. Most groups outsource the background investigation needed for this stage, to a certain subset within in the group, because of the exigency for specialized know-how. Ultimately, the group makes an investment decision, which can even lead to some angels investing individually. (Cumming: 2012: 402-404.) Because of the lack of liquidity in comparison to investments in publicly traded companies, angel investors often have a clear strategy of how they will exit their taken position before they will commit themselves financially. According to Shane (Cumming, 2012: 409) there are two types of exit from angel investments. The first is known as the initial public offering, or IPO, which is the main target since it usually, provides the largest return on investment. The second option is to exit by selling the company to another party, and this is a much more frequent happening than an IPO. Besides these two positive exits, there is always the possibility of the business to fail, which is generally seen as an exit as well. Based on studies conducted on the average holding period an angel holds on to his or her investment before exiting, many researchers perceived terms of approximately five years. For example Wiltbank (Cumming, 2012: 410) found out that ventures with successful exits usually last longer (5.8 years) than failed ones

(3.5 years). Of course, holding periods also vary depending on the stage the investment is done.

3.1.3. Advantages and disadvantages for start-ups

Advantages

Obviously, the main reason, why high-risk early-stage companies seek to get angel financing, is that it can provide the necessary funding in the seed- or start-up stage after the entrepreneurs have utilized all their personal savings and the business has not built up any proven track record so far to guarantee a bank loan or contact venture capitalists. Because most start-ups usually require amounts less than €500,000, the business angel option seems like the perfect solution to fill this gap. A large advantage hereby is that angels are willing to take enormous risks and that they tend to finance starting businesses even when the risk of failure is at its highest. They make their investments in those businesses or industries in which for example venture capital institutions are unwilling to invest (Hegarty and Frederick, 2006: 72). In addition, angels bring a certain amount of know-how and business related experience to the start-up and, in many cases, also the necessary contacts can be provided by the investor. (Cobb and Johnson, 2012: 173) They can be helpful by giving referrals to customers, suppliers and potential employees (Gartner and Bellamy, 2008: 399). Angels are also known as informal investors compared to venture capital firms and other financial institutions; therefore they tend to negotiate more flexible business agreements, which can be a huge benefit when for example the estimated income is generated later than expected. Other than, for example in the case of bank loans, angel investors do not require any additional monthly fees or any other payment rates that could make the deal more complicated. In addition to their own invested capital, they also more often offer loan guarantees (Hegarty and Frederick, 2006: 72). Angels tend to have shorter investment processes, lower targeted return on investment rates and longer investment horizons (Hegarty and Frederick, 2006: 72). As a great advantage can also be considered that many business angels want to be involved in local businesses and give something back to their community, which could not only result in a financial boost given by the investor, but as well mean that other im-

portant aspect are taken care of, such as long-term relationships and the social reputation of the firm. (Cobb and Johnson, 2012: 174). Nowadays, angel investors are located practically everywhere, not just in traditional financial centres, and even though many of them invest in industry-specific ventures, nearly all global markets are being represented (Cobb and Johnson, 2012: 174). Furthermore, when a business angel has invested in a risky start-up venture, it usually attracts the attention of venture capital firms due to the increased amount of confidence and therefore an angel capital injection can really encourage a leveraging effect (Hegarty and Frederick, 2006: 72).

A variety of advantages are also linked to situations where start-ups are dealing with angel investor groups. Generally, groups consist of different types of angels with expertise in many distinct industries, and thus their collective knowledge and skill set can have a great impact on a starting company. Groups can divide tasks according to the amount of know-how their different members possess. For this reason, angel groups also tend to be more flexible in the sense that they are able to substitute each other. (Cumming, 2012: 400)

Disadvantages

Besides the many benefits working with an angel investor can bring to the start-up company, the disadvantages also have to be considered and weighed up against the advantages. In order to get trust from an angel, a lot of pitching has to be done, which can lead to the necessary expenses. According to angel investor and founder of the New York Angels David Rose (Zwilling, 2012), some angel groups may ask for certain fees when pitching events are organized, since it, besides covering expenses, is used a so-called filter to reduce risks. He adds that these costs, however, are very small compared to pitch preparation, presentation and related travelling expenditure. Even though angels are known for investing into high-risk ventures, they are very aware of the possible consequences and therefore, in addition to, mostly, a widely spread investment portfolio, they very rarely make a second investment in the same business. They expect the company to reach the expansion stage with the help of only one financing round. As a comparison, venture capital firms spend approximately two-thirds of their pooled funds on so-called follow-on investments

(Terjesen and Frederick, 2007: 34). Thus, the investor reduces the risk of losing even more capital. In exchange for operating capital, an angel demands a certain ownership percentage in the company, which can lead to various control related issues. In the eyes of an entrepreneur, the angel can be involved too much in the day-to-day operations, but on the other hand also add very little value to the business due to a lack of industry knowledge. Thereby, when an angel is only interested in the monetary returns and doesn't take much concern in promoting the good of the company, it can result in for instance a fast exit without taking the possible social consequences into consideration. (Hegarty and Frederick, 2006: 72-73)
Above all, however, angels invest in start-ups for the potential of monetary gain. Together with giving up a specific part of the company, the angel investor is often entitled to a certain profit percentage. This is usually accompanied by stated expectations on the side of the investor, whereby the entrepreneur has to deal with variable pressure. The investor may desire, for instance, regular feedback in the form of financial and operating reports. (Gartner and Bellamy, 2008: 399)

Summary

Many benefits can be found for start-ups dealing with angel investors. In spite of a handful of disadvantages, it seems fair to conclude that the advantages, to a considerable extent, outweigh the less fortunate sides (Cobb and Johnson, 2012: 175). To make it easier for later conclusions on this matter, diagrams 1 and 2 will sum up all the above mentioned pros and cons of angel investing for start-up companies.

Figure 1: Advantages of business angels

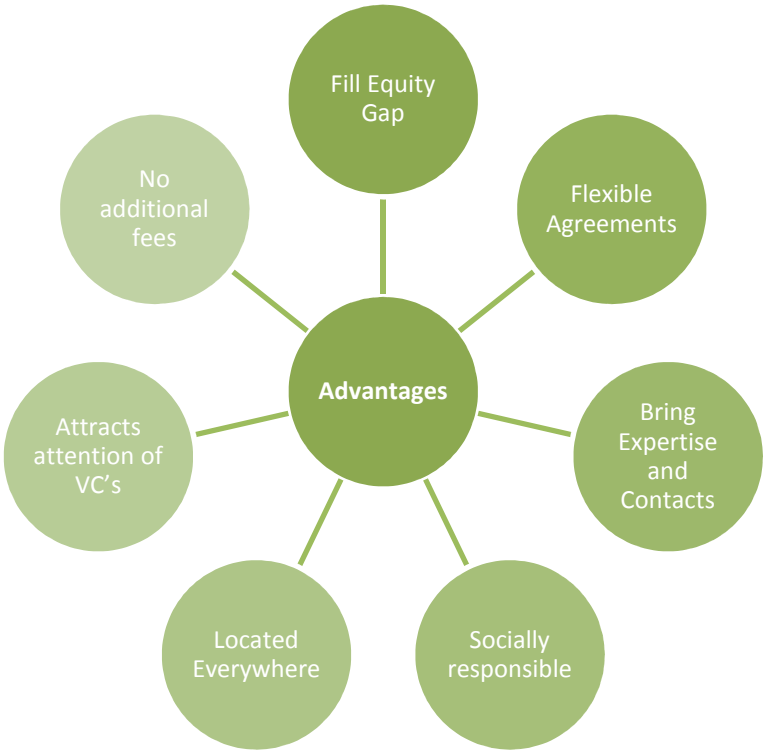
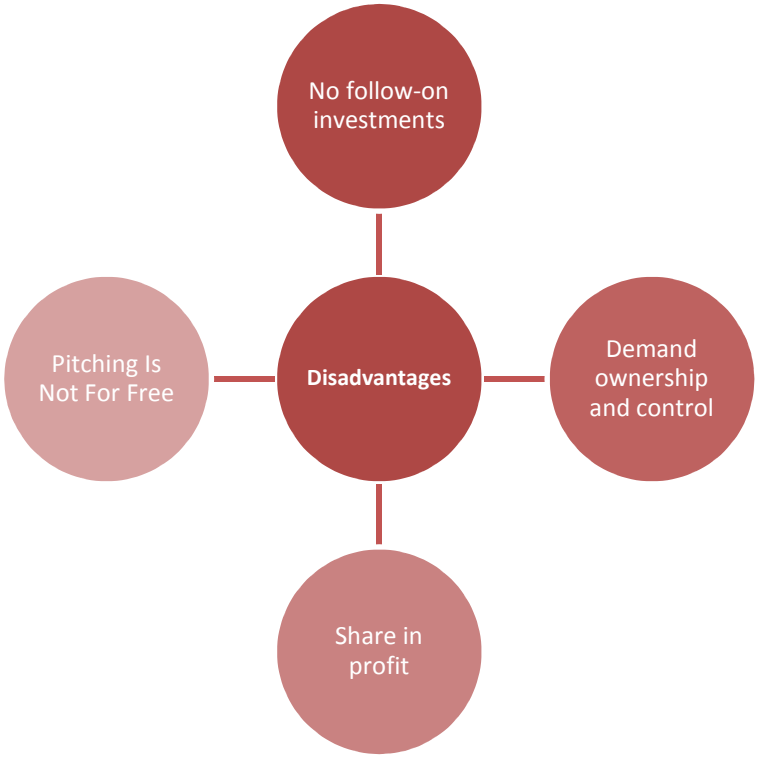


Figure 2: Disadvantages of business angels



3.1.4. What should start-up entrepreneurs consider?

Besides the fact that angel investors have specific criteria they look for when investing in early-stage ventures, they also have clear ideas of features they want to avoid. A start-up should always, in the eyes of the financier, show enough potential regarding returns on investment, and the projected risk/return ratio should be sufficient enough (Benjamin and Margulis, 2005: 126). Therefore, entrepreneurs should make cash-flow and profit estimations carefully and realistically. Fullen (2006: 41) wants starting businesspeople to remember that angel investors are experienced professionals who will recognize unrealistic projection and expectations in the business plan. Although there are plenty of ways to value a start-up company, it is recommended for the entrepreneur to have a sense of what their business might be worth. According to Fullen (2006: 128) investors will try to value your company lower than its actual worth in order to save money or purchase a larger share in relation to a smaller price.

As earlier mentioned in chapter 3.1.2 regarding angel investor's criteria, they usually base their investment decisions on the relationship they have with the entrepreneur. Thus, it is important to understand that angels invest in people rather than in the business plan. Having mutual respect and honesty really makes a difference for the angel. (Sihler, Crawford and Davis, 2004: 219.) Shane (2009: 132) ratifies this by quoting a business angel saying that 'It's about 70 percent just gut feeling and 30 percent financial analysis'. As a matter of fact, based on two studies done by Shane (2009) 25-35 percent of the investigated accredited angels would make a start-up investment without looking at the business plan. The main reasons for this are that angels consider the information in the business plan to be too inaccurate to be useful and that the financial projections are always too positive. (Shane, 2009: 133)

Not only investors should have criteria, also entrepreneurs need to consider carefully with whom they are going to partner up. It seems difficult to even attract an angel and thus most start-up entrepreneurs, logically, tend to seize on every single opportunity, but it is necessary to be aware of the issues an inadequate business relationship can bring. As trust is a vital matter in any sort of relation, the entrepreneur should aim to work with an angel that has already worked with members of the

group he or she is part of. In most cases, however, this isn't that obvious, whereby other individuals, who have dealt with the investor in question, could be interviewed on their experiences regarding the angel's temperament and business manners. Entrepreneurs should also seek for recommendations to get a better idea of the person behind the investor. (Wusche, 2012: 110) In addition, Cobb and Johnson (2012: 175) note that individual angel investors usually don't have national recognition, meaning that, in contrast to venture capital firms, there is no national register for them. Besides, personality traits and trust related concerns, an investor should be competent enough to really lift the start-up to a higher stage. According to Wusche (2012: 105) an angel has to have a strategic view of the venture and direct it towards the set objectives. Preston (2007: 7) agrees by stating that one of the main essences of an angel is to act as a mentor to the entrepreneur. Thus, early-stage ventures are recommended to collaborate with angels possessing expertise in areas the start-up tends to grow. Since angels most often invest in industries they have had long-time success in, their know-how usually comes in combination with other excellent business relationships.

3.1.5. Ventures financed through angel investors

For start-up entrepreneurs to get an idea of how angel investors can influence early-stage ventures, it is good to list several real-life case examples. For instance, the book 'Raising Venture Capital Finance in Europe' is a practical guide including up to 18 case studies of companies funded by angels. In order to help FC Media Oy in determining whether business angels are the most suitable option to provide them with additional funding, the following examples will all share at least one similar feature the company can relate to and learn from.

The first case describes a London-based software and services company in the mobile market, called iBase. Prior to establishment in 1999, the founders have had 30 years of IT experience within the mining sector. Until 2005, a total amount of £75,000 had been invested into the company through a combination of the founder's personal resources, direct directors' loans and by postponing salary payments. Besides this, they borrowed an additional £50,000 through the DTI Loan Guarantee

System. In 2005, a new chairman/finance director named Martin Conder, with broad experience in both corporate finance and venture capital, was appointed aiming at growing the business with the help of external financiers. He personally invested £75,000 and raised another bank loan of £75,000, while the other loan had been totally repaid. A large benefit of iBase was that it had a fully developed product, but in order to get it to the market and build a related sales infrastructure, another £250,000 was needed. It was obvious to the new chairman that his business had potential and opportunities, but he also foresaw that it was difficult to give a detailed analysis of the size of the new market. Subsequently, venture capitalists were contacted, but, as with many start-up stage ventures, they found it too early to step in. Hereafter, he approached several angel networks and gave business plan presentations at various events, including the UK Technology Innovation and Growth Forum. In addition to useful contacts gathered and interviewed at these networking occasions, former business partners and colleagues were also contacted. With this, Martin proves that earlier acquired contacts can be very useful in the future. After the company had grown a little further with the existing equity and debt capital, several external investors expressed their interest. The first one was a former colleague he had worked with, but at present employed in the venture capital market, investing a total sum of £125,000. Martin describes this person as a passive angel, who will not be active in the company's day-to-day operations. The second investor, known as an active angel and an old contact of the chairman, injected £75,000 into iBase. After the event, Martin appointed this successful software entrepreneur as a member of the board of directors. Furthermore, another £25,000 was invested by a project manager at iBase. The angels' financial due diligence process wasn't very comprehensive since they draw confidence from the fact that the chairman himself had invested a significant amount into the company. (Arundale, 2007: 124-126)

Martin wants entrepreneurs to learn a few vital lessons from his experiences. He advises to see everyone who has shown interest in your company as future investors and especially with venture capitalists contact should be kept up. Furthermore, he states that intermediaries could be helpful in finding and getting equity capital, when the entrepreneur doesn't have enough useful contacts within the investment scene or is not acquainted with the process itself. At last, he warns entrepreneurs not to underestimate the time and effort involved in convincing angel investors, even though

they have spoken out their interest. Legal help is recommended to make the process elapse smoother. He concludes by saying, as means of comparison that the above mentioned angels had to be convinced for circa four months in order for them to finally open their cheque books. (Arundale, 2007: 126-127) Nowadays, according to their own website, iBase systems are utilized by many local authorities all over England (iBase, 2013). During the years, they have achieved a well-established customer base and a proven track record in the form of their solution portfolio.

According to recent figures presented by the Finnish Business Angels Network FIBAN and government-owned financial institution Finnvera, angel investors are already playing a larger role in the Finnish market than any venture capital fund (Lappalainen, 2013). For this reason, and the fact that FC Media Oy is located here, it will be interesting to present a case of a successful angel investment undertaking in Finland. In 2009 software developer Flowdock received $650,000 from California-based Silicon Valley's most reputable investors, such as TechCrunch founder Michael Arrington, former CEO of MySQL Mårten Mickos and business manager Gil Penchina. Flowdock's CEO Otto Hilska states that besides the invested sum of money, the involvement of these influential financiers is an outstanding addition. He continues by noting that their company already has a customer base and receives monthly payments from them. Even though their new online communication tool has a significant amount of competition, he believes that the investors will help them in securing a foothold in the congested market. (Lappalainen, 2013)

Other than the above mentioned successful examples, many early-stages ventures fail to raise the necessary financing, but also established companies are not always able to collect external capital. A study conducted by the US National Small Business Association found out that 43 percent of the surveyed small businesses weren't able to raise any kind of additional funding, for instance from investors or simply through bank loans. IPhone application OneSec is used as an example, since it only managed to get eight percent of their set fundraising target. In the opinion of the entrepreneur the main reasons for failure were that the product was not clearly described, the target user wasn't perfectly identified and the inability to emotionally connect with customers and investors. To avoid these mistakes, he advises other pitching entrepreneurs to describe their product in simple words, explain the prob-

lem it solves and eventually tell why it is needed. Another interesting unsuccessful case example is UK-based, Internet-start-up Kublax. Despite winning a Seedcamp event in 2007, it was unsuccessful in collecting sufficient financing to further develop their product. After some research, the main causes were thought to be an unwillingness to change the brand name and the management's lack of experience in the finance sector. Ultimately, website College Matchmaker will be used as an example and founder Elizabeth Kraus will share some valuable advice. She invested the enormous amount of $300,000 of her personal resources to start up in a highly competitive market. Kraus notes that her deficient strategy was not enough when trying to set foot in a large industry. She advises starting entrepreneurs to make detailed analyses of the competition before entering in order to determine the start-ups potential in the market. Furthermore, she recommends taking rejecting investors very seriously, as they may indicate that the idea in question has no chance of surviving. ('Why These Attractive Businesses Failed To Raise Capital from Angels', 2013)

3.1.6. Business Angel funding in Finland

As mentioned in the previous chapter, angel investors have taken over the Finnish financing scene. The survey was answered by 99 business angels, which counts for approximately 23 percent of all members of Finnish angel networks. Thus, there are circa 450 network-registered angel investors in the country. There are at or near one thousand individual business angels active on the market. (Lappalainen, 2013.)

Based on the research, the surveyed invested a total of more than €14 million in 2012, of which 70 percent was done in angel groups. Based on the assumption that the non-responsive angels invested the same amount as the ones who answered; the combined sum all registered angels invested was €28 million, whereas the total amount of the individual angels was around €50 million. Furthermore, the survey pointed out that each financier made two and a half investments last year with an average €60,000 per company. Nearly a quarter of these investments were made in the seed stage of the business, 38 percent were done in the start-up stage and 39 percent were focused at the expansion stage. About half of the investment targets ended up giving the angels a profitable exit, whereas 40 percent winded up declining in value

or even filed for bankruptcy. Most funding, namely every second, was invested into the IT industry, but also healthcare, healthcare related technologies and the mobile market were popular destinations for Finnish angels. (Lappalainen, 2013)

3.1.7. Where to find business angels?

Nowadays, as earlier stated, business angels can be found everywhere within all possible industries. McCahon (2009: 137) gives a few helpful advices that might come handy when looking for an angel. She recommends entrepreneurs to look for local investors, since they prefer to work close at home. Freyvogel (2008: 47) confirms this by saying that an angel should be 'like a nervous parent who likes to unexpectedly drop in on her child's day-care centre'. Moreover, networks should be utilized. Other business owners, preferably in the same industry, should be asked for recommendations and possible personal contacts with angels. Ultimately, many individual business angels partner up with other colleagues, whether through informal coalitions or, easier traceable, formal partnerships. American entrepreneur and business angel Mark Suster ('Angel Funding Advice', 2009) shares rather similar steps when it comes to finding business angels. First of all, entrepreneurs should research local deals including angel financing and find out who funded these transactions. He continues by saying that it is recommended to approach managers of (recently) angel funded companies to ask them for advice and learn their story. Besides, he advises start-up entrepreneurs to use social media networks, search engines and blogs to their advantage, to research possible business relationships, work history and other references investors might have.

Angel Networks

Currently, there are four main business angel networks in Finland and, as noticed above, approximately 450 angels are registered at these institutions. The largest is Finnvera's SijoittajaExtra-network with more than 250 active investors (Finnvera, 2013). However, no new members are taken in due to the fact that this fully government-owned institution gives the baton to the private sector. In other words, the Finnish government helped the company to establish its angel investment depart-

ment and gives private institution now the possibility to take the lead in the industry. This also results in paid memberships, whereas the institution didn't charge any similar fees before. For this reason, Finnvera announced a partnership agreement with another large, but private network of angel investors, Fiban ('Finnveran pääomasijoitustoiminta ja Fiban ry tiivistävät yhteistyötään', 2013). From now on all angel fundraising applications are done through Fiban's website. On their website Finnvera states that normally start-up businesses seek for a maximum of €200,000 and that their core interest is to invest in Finnish early-stage ventures. Furthermore, they recommend entrepreneurs to fill the application in English, because pitching events are most often accompanied by foreign investors. (Finnvera, 2013)

Now that it's cleared up that Finnvera and Fiban collaborate and that the latter one is the network under which the angels continue, it will be interesting to take a closer look at this non-profit organization. Logically, due to the partnership it is now the largest angel network of the Nordic Countries and even one of the largest in Europe (Kosunen, 2013). In 2012 Fiban was chosen as the best European business angel network. The total combined amount of accredited angel members in their network is more than 300. In Finland it has, currently, eight local networks, but is actively seeking for expansion of this amount by organizing special events pointed at gathering local investors. The head office is located in Helsinki, which operates as the main network for Southern Finland. Central Finland is represented by the office in Jyväskylä, whereas the entrepreneurs and angels situated in Western Finland contact the Turku-network. Moreover, the Eastern Finnish office is situated in Lappeenranta, the Northern part of Finland comes together in Oulu or Rovaniemi and the network in Tampere serves the Tampere region. In addition to the Finnish offices, they operate in Estonia (Tallinn), Russia (St. Petersburg) and the United States (Seattle and Silicon Valley). Fiban offers entrepreneurs a free-of-charge service, where it attempts to connect and match high-potential early-stage companies with the many angel investors. Business proposals are analysed and the most suitable angels are linked with the entrepreneurs behind them. Every company is visible for three months, in which it is meant to obtain feedback from financiers. (Fiban, 2013)

Tampere- and Helsinki-based Ledi, also known as Suomen Bisnesenkelit, is the third and oldest angel network in Finland and, among other related financing ser-

vices, has a business angel group called Biz Enkeli. Even though this network has significantly less angels aboard, fewer than a hundred, it makes around the same amount of investments on a yearly basis as Fiban, namely 20-30 (Rahoituskone, 2012). Typically, amounts of €10,000 up to €150,000 are raised from these business angels. Interestingly, Biz Enkeli is a non-profit entity; whereas the company's other departments are for-profit. Ledi also organizes international investment events and, occasionally, small businesses are offered the chance to sell licences to large enterprises. (Ledi, 2013; Suomen Bisnesenkelit, 2013) Ultimately, the smallest network is Helsinki-based Business Angels Finland (BAF) with an average of 1-5 investments annually and a total of around 50 angels. Besides the highest membership fees for angels, they are also the only network, at the moment, charging the entrepreneurs, namely €165 in combination with a five percent commission fee for the transaction. In order to help start-ups increase their sales, BAF signed a co-operative deal with trade house and exports network Vendorio. Their presence will enhance target companies' possibilities at expanding their operations to global markets due to its strong international contact network. (Business Angels Finland, 2013)

When looking for potential business angels, Straus (2013) suggests, taking a look at several other well-known investor networks. In the United States the Angel Capital Association (ACA) consists of around 75,000 angels and its European counterpart, the European Business Angels Network (EBAN) houses approximately 25,000 angels. EBAN is a not-for-profit organization and was founded in 1999 under the supervision of the European Commission (EBAN, 2013). Its angels tend to invest into a very broad variation of Europe-based companies, ranging from internationally active businesses to as small as local start-ups. He also mentioned U.S.-based Gust as a possible network to brows for investors. Besides these options, AngelList, GoBig-Network, Funding Universe, Funded.com and RaiseMeCapital.com are indicated. AngelList allows entrepreneurs to create a pitch and get related feedback from interested investors. It has more than 22,000 individuals listed as investors, of which half are registered as angels. Currently, the network lists 26 business angels from Finland with the majority located in Helsinki (AngelList, 2013). A large additional advantage when using this website, is the effectiveness and easy access to scroll the list of available investors and entrepreneurs, among others members. Interestingly, AngelList has also established a crowdfunding service called AngelList Invest (Ko-

lodny, 2013). GoBigNetwork also has a database of more than 20,000 active investors, but only a handful is from Finland (Startups, 2013). Funding Universe is known as one of the Inc. 5,000 fastest growing companies in the United States and, besides angel capital, offers a large variety of different funding options. Likewise, Funded.com offers many sources of financing. Its main aim is to link start-ups or established firms to the more than 6,000 angels, investors, venture capitalists and other individual funders (Funded, 2013). RaiseMeCapital.com offers a network of over 700 investors and lenders with the choice of all sorts of financing alternatives (Pitchstreet, 2013).

Further, the Scandinavian Angel Investment network (SAIN) is regarded as the largest angel investment community in the world with over half a million members all over the world, of which more than 40,000 are registered as investors (Scandinavian Angel Investment Network, 2013). At the moment, the company has 30 networks covering more than 80 countries spread over six continents. They accept projects ranging from the idea- or start-up stage to established companies in need for additional funding.

Accelerators

In addition to the prior listed four angel investment networks, many investors can be found at so-called business accelerator programmes. Accelerators are independent companies led by a team of experienced professionals, which main objective is to give a confidence boost in the form of capital and know-how to participating start-ups who subsequently can attempt to attract additional funding from larger entities, such as angel investors or even venture capitalists. Probably the most well-known in Finland is Vigo. At the moment, this Helsinki-based institution consists of nine accelerating parties, which are all carefully chosen through a public application process. As FC Media Oy is a start-up in the technology sector, it won't be necessary to thoroughly analyse the ones that are not related to this industry and instead focus on the firms that can be utilized in the future. Out of the nine accelerators, three can be seen as potentially useful. Even though a couple of other accelerators are also technology oriented, they are not suitable for a start-up at the moment. Firstly, Helsinki-based KoppiCatch has a strong interest in the information and communication tech-

nology industry with special focus on innovative mobile- and web-based applications and related services and tends to invest in seed and early stage companies. The many partners involved can also bring the necessary expertise to target ventures. (Koppi Catch, 2013) Moreover, also Lifeline Ventures can be regarded as a possible accelerating option, even though their main interest is technology related to the health care industry and the gaming sector, they claim to be generally intrigued by tech that can make a difference in a particular market (Vigo, 2013). According to their website, Lifeline tends to, in most cases; invest in start-ups even prior to the launch of their initial product or service. Subsequently, they want to bring the venture from the very start to a successful Series A investment round and even further. The third suggested option is Vendep with, similar to KoppiCatch, a concentration on innovative mobile- and web-based services and solution. Besides Helsinki, they also operate from Silicon Valley. A very interesting addition of Vendep is the fact that it offers to participate actively in the software development part of the business idea in order to change promising initiatives to profitable business activities with an increased potential to succeed internationally. The accelerator aims for a development period of six to 24 months, which typically includes an angel investment and the necessary analyses. Currently, Vendep has done six investments in Finland and three in Silicon Valley. Prior to their investment decisions they usually tend to arrange at least 70 to 80 meetings. (Vigo, 2013)

Summary

Since it is a very complicated, almost impossible, task to identify and list all individual angel investors active in the Finnish market, tables 3 and 4 will only summarize the above suggested angel network options and start-up accelerators. In addition to the main Finnish networks, only the most interesting ones suggested by Straus (2013) will be listed together with the Scandinavian Angel Investment network. The first table will clearly list the business angel networks, whereas the second one will show the three presented Vigo-accelerator programs.

Table 3: Business angel networks

	Fiban	Ledi	B.A.F.	EBAN	AngelList	SAIN
Main Area	Finland	Finland	Finland	Europe	USA	World-wide
Number of Investors	more than 300	Less than 100	Around 50	Around 25,000	Around 22,000	More than 40,000
Interesting Fact	Largest angel network of the Nordic Countries	Biz Enkeli is a non-profit entity	Only 1-5 investments a year	Finnish pitching events through Fiban	Also has a crowdfunding service	The world's largest angel network
Main Pro	Main focus are Finnish start-ups	As much annual investments as Fiban	Strong international focus	A lot of guidance offered	Easy to scroll lists of investors and entrepreneurs	Accept companies in all stages
Main Con	No local office in Kouvola	Fees are quite high	Highest fees	Very strict regulations	Not many Finnish angels	Quite expensive rates

Table 4: Vigo-Accelerator programs

	KoppiCatch	Lifeline Ventures	Vendep
Main interest	ICT sectors (mobile- and web applications)	Health care technology and gaming industry	Innovative mobile- and web-solutions
Stage of Initial Investment	Seed and early stage	Seed stage	Seed stage
Objective	Bringing a product successfully to the market and raising funding	Successful Series A investment round	Angel investment in 6-24 months

Main Pro	Invests in innovative mobile- and web-based applications	Want to assist start-ups even until they become well-established	Offer active assistance in software development
Main Con	Strict criteria	Little focus on mobile- and web-based applications	Strict criteria

3.2. Crowdfunding

German philosopher Arthur Schopenhauer once stated that 'all truths pass through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident' (Barnett, 2013). In the opinion of Chance Barnett, Chief Executive Officer of Crowdfunder, the life-cycle of crowdfunding has also shown a similar trend and he is convinced that the self-evidence point is reached very soon. As earlier introduced, crowdfunding is said to be the newest phenomenon in the field of early-stage funding. Cunningham (2012: 61) describes it as 'a business financing technique that uses online social networks linked to a Web-based platform to raise money'. Simply put, the general public can invest their own resources to fund for example a company, a product or an artistic project. Crowdfunding became better known to a wider public, when US President Barack Obama signed the Jumpstart Our Business Start-ups Act, abbreviated as the JOBS Act, on April 5, 2012. This act is meant to give small companies the opportunity to receive financing from the capital markets. Start-up companies and other small businesses are now allowed to raise equity or debt financing through online platforms to the extent of one million US dollars. (Cunningham: 2012)

Cunningham also gives an illustration of how a typical crowdfunding process progresses. It starts with a company that has created a product or service and is ready to sell it on the market. Therefore, it signs up to a so-called crowdfunding platform in order to acquire financing. This platform reviews the applicant and creates the necessary documents that are listed in the JOBS Act. If the application is accepted, the company information will be placed on the website and investors, in the form of the average public, can decide to invest. If the set funding objective is reached, the company will get the invested capital. On the other hand, when this goal is not achieved,

the funds will be returned to the non-accredited crowd. According to the JOBS Act, individual investors can't invest larger sums than $2,000 or more than 5 percent of either their annual income or net worth, when these are less than $100,000. In the case of investors earning more than $100,000, a maximum of 10 percent is the investment limit. (Cunningham, 2012: 63-64)

Young (2013: 56-57) uses crowdfunding platform Kickstarter, and hereby a campaign called 'Planet Tatooine Collectibles', as an example to describe briefly how a typical crowdfunding platform looks like. Above the typical campaign video there can be found four tabs. The main one, Project Home, provides a link to the campaign homepage. Next, the Updates-tab shows all public news updates at the time of the project. The Backers-page contains a list of all investors that have funded the venture in question in combination with a link to their personal profile pages. Ultimately, the Comments section includes all public comments from the entrepreneur or project establisher to the investors.

3.2.1. Types of crowdfunding investors

Charlesworth (2013: 107) states that crowd-based funding consists of two main types, equity and debt crowdfunding. Whereas the first one is used principally for funding start-up firms, the latter one focuses rather on funding companies with a minimum age of two years in the form of loans. As the word already implies, equity crowdfunding investors each obtain an equity stake in the business. Besides the two main types, many issue related books make the suggestion of two other types.

Young (2013: 51-52) adds donation-based and reward-based crowdfunding as possible financing options. Crowdfunding based on donations can be seen as charity and donators don't require returns on their investments. In turn, reward-based crowdfunding is considered by many people as regular crowdfunding. The investor finances a promising early-stage venture and gets a reward, such as a sample of a product or movie, in return. Young also gives a clear description of what debt- and equity-based crowdfunding signify. As the debt option is not considered for companies in the start-up phase, only equity-based funding will be seen as a potential op-

tion. However, to give a conception and comparator, a short description can be helpful. Debt-based crowdfunding, also noted as peer-to-peer lending, is defined by Young (2013: 52) as the lending of one individual to another without a financial conciliator. In most cases, this form of crowdfunding is not a charitable event, but lenders actually expect an interest rate to be paid for the use of their resources. Equity-based crowdfunding, on the other hand, gives the crowd a possibility to purchase a piece of a business, just as in all equity capital investments. According to Young (2013: 54) this form has the potential of becoming the most powerful of all crowdfunding types. The main motivation for his statement lies in the fact that, since the JOBS Act, not only accredited investors with a net worth in excess of $1 million are entitled to purchase a percentage in a business, but now also the normal man can invest.

3.2.2. Investor's strategy and criteria

Most business English dictionaries don't have a separate definition for the word 'crowdfunder', but the Collins English Dictionary (2013), however, describes it as "an individual or entity that uses the crowd, typically through existing internet platforms designed to aggregate many small investors, in order to finance projects". Due to the fact that it is a quite recent phenomenon, not much information is available regarding crowfunders' investment criteria and strategies. Anyhow, some studies have been conducted related to the issue and therefore a picture can be created of how and why these investors tend to invest.

According to Lurig (2012) every crowfunding project should always include several pieces of information that investors are willing to know. They want to get an insight in the team behind the project, their respective roles and why the entrepreneur in question is compatible enough to create a successful venture. Target customers should be mentioned and reasoning for why these particular consumers will use their product. Besides, investors are interested in where the project is being executed and, of course, what the final result will be. Hereby, crowdfunders want to have an idea of when they can expect to see returns on their investments, how their capital will be used and what consequences it has when the financial goal is being exceeded. Last-

ly, entrepreneurs should list a few criteria regarding the types of backers they find useful. For example, can investors all over the world share in the project or are only local ones accepted.

Based on the results of a study, executed by equity-based crowdfunding website Crowdcube, of how crowdfunders behave as investors, besides the market potential of a start-up, they mainly concentrate on the entrepreneur's previous experiences as a business person. According the research, two-thirds of the surveyed finds the business idea to be the main incentive for an investment decision. Even though crowdfunders are considered to be informal and inexperienced investors, the majority, according to Crowdcube co-founder Luke Lang, analyse potential opportunities with a serious attempt to create personal policies within the company and are very aware of the financial risks they take. In addition, Lang describes them as being sophisticated and responsible. With regard to strategies, these investors tend to follow two main approaches. First of all, a due diligence research is carried out on potential investment targets, and in order to reduce the monetary risk crowdfunders tend to invest only amounts of money they can live without. Thus, they strategically try to limit the size of capital they want to invest to an amount that is seen as 'extra' at that moment. Based on Crowdcube's numbers, the average investor has invested £2,400 since the platform first launched in February 2011, with a total invested amount of £4,25 million. Approximately 17 percent of the questioned investors have funded early-stage ventures with less than £100, whereas a little more than one-fifth used amounts ranging from £100 to £499. Furthermore, circa 15 percent invested between £500 and £999, and more than a quarter of the surveyed decided to assist entrepreneurs with £1,000 to £4,999. More than £5,000 has been invested by another quarter, of which around 9 percent exceeded £10,000. ('Crowdfunders choose to evaluate past successes of entrepreneurs as investment criteria', 2012)

3.2.3. Advantages and disadvantages for start-ups

Advantages

As with business angel funding, the foremost incentive for a start-up to utilize crowdfunders is that additional external financing can be raised. It has the potential to fill the equity gap that exists when entrepreneurs have spent all their personal resources, but can not secure bank loans due to the lack of any performance history and hard assets. Most crowdfunding websites do not charge any costs before the campaign has successfully ended and therefore, when the fundraising objective has not yet been reached, the project usually only needs time to be invested (Young, 2013: 6). An application process for crowdfunding is also relatively easy to start-up companies compared to other procedures, such as applying for a bank loan or dealing with business angels (Prive, 2013). Besides, entrepreneurs do not have to rely on small-sized loans collected from family and friends with the risk of making these relationships unstable. Crowdfunding companies can also spare the trouble of pitching their business plans to the many critical angel financiers and venture capitalists. One of the biggest additional advantages is the fact that by receiving financing from a large amount of investors, the company will get a confirmation from the general public that their product or service has a high chance of becoming successful. Thus, in addition of capital, crowdfunding can provide the business, already at this early-stage, with a customer base formed by the investors. Tanya Prive, founder of Rock the Post, a crowdfunding website for start-ups, confirms this by saying that a successful crowdfunding campaign is an excellent way to build up credibility and show other investors a proof of concept (Prive, 2012). Relationships can be built from here and the largest backers may feel that they are much more than just customers and ready to help the company to succeed. Young (2013) ratifies this by stating that in most situations, these large investors are the strongest proponents in times of the crowdfunding campaign and can be beneficial in the future. These backers are excited about the project and thus want to advice entrepreneurs and share their knowledge without paying them a participation fee. Many backers may also want to assist in creating brand image and distribute positive feedback all over the Internet. (Young, 2013: 16-17) Outlaw (2013) adds that even though only a specific part of

the people who see the campaign will decide to invest, but everyone who has seen it will remember the offered product or service and even share the project page.

In the standard, reward-based way of crowdfunding, investors are basically only getting rewards instead of a share in the company. In this case, the entrepreneur preserves full ownership over his or her business and thus benefits completely when profit is generated. All decision making is in the hands of the owner. This is one of the main advantages of crowdfunding over business angel financing. Because of the fact that the decision making power is usually with the owner, the often feared exit-strategy, which venture capital funds and business angels usually require, doesn't have to be made in order to please investors. Lasse Mäkelä, Chief Executive Officer and Chairman of the Board of Invesdor, states that he has never appreciated the exit-centricity of angel investors and venture capitalists (Mäkelä, 2012). In other words, these so-called professional financiers want to have a certain strategy as to how they are going to get rid of the company after a given time. Mäkelä adds that he totally understands these investors' point of view, since it is their business format, but looking from the entrepreneur's side, an exit is not seen as a priority and even repulsive. According to him, share-based crowdfunding eliminates the pressure of having to exit in a few years.

Disadvantages

Outlaw (2013) notes that crowdfunding, despite of its many positive attributes, is not a suitable approach for every entrepreneur. She continues by saying that a business owner's reputation can significantly be harmed due to reasons, such as having unreliable manufacturers, poor planning and not budgeting right. Especially for start-ups trying to build up a good image this can have a very negative impact. Crowdfunding as a way to raise additional financing has several other cons.

When an entrepreneur decides to run a campaign on a crowdfunding platform, he or she should not underestimate the amount of effort and work that goes with it. Many interested people will take a look at the campaign page and repeatedly ask questions. Other than for instance with angel investors, the entrepreneur has to be attentive basically every hour of the day during the running campaign. Furthermore, due to the

absence of suitable educational literature for crowdfunding, and that it is a fairly new concept in the online world, many entrepreneurs might face problems, because of lacking guidance, in starting up a successful campaign. Even though the largest crowdfunding websites provide related information to assist project creators, it is still very limited in comparison to guidance offered for other financing sources. The easiness of getting a large number of people to see the company's offerings and even create some sort of brand recognition has also a downside. Since a lot of information is given out to the public, there is not much privacy. Investors need reliability and openness before they trust their money to someone and therefore the entrepreneur has to be on display as much as the products his or her company is offering. Another disadvantage to crowdfunding is that the business relationships between the business owner and the investors are not formal, which can lead to the majority of the backers ignoring the rules. For this reason, the project creator frequently has to explain how the crowdfunding process comes about. Therewithal, the many backers all have divergent demands and expectations. Even though many companies and project have successfully raised the necessary funds during their campaigns, the rate of project that don't meet their set fundraising objective, however, is more than 50 percent. (Young, 2013: 18-20)

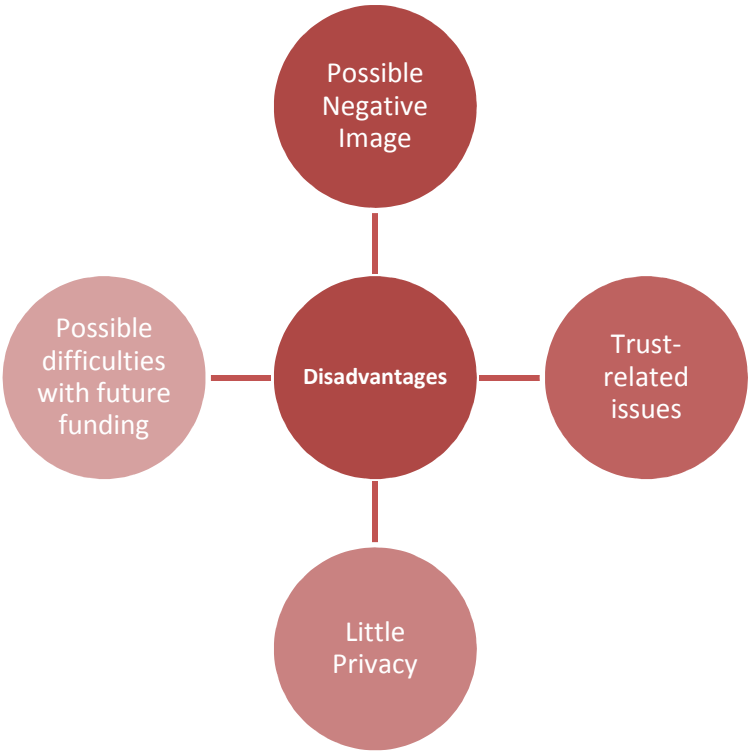
When start-ups don't use the regular reward-based crowdfunding option, but instead sell shares to investors, they may face problems regarding future financing. According to Rohit Arora, CEO of Biz2Credit, a large amount of informal backers owning very small parts of the company can frighten away larger investors, such as angels or venture capitalists, unwilling to invest in a business owned by many inexperienced shareholders (Arora, 2012).

Summary

Similar to its angel financing counterpart, crowdfunding's pros largely outweigh the cons. To enumerate the main advantages and disadvantages of this type of funding for start-up entrepreneurs, diagrams 3 and 4 below will give a clear picture and simplify future research on the matter.

Figure 3: Advantages of crowdfunding

Figure 4: Disadvantages of crowdfunding



3.2.4. What should start-up entrepreneurs consider?

Lurig (2012) points out the main strategies entrepreneurs should use to make his or her crowdfunding project successful. He notes that investors want to have the feeling they can trust the person behind the product or service. Therefore, a personal approach should be used. For instance personal stories related to the creation of the product can motivate crowdfunders to make positive investment decisions. As with business angels and most other financiers, they analyse the person as much as their products. Furthermore, entrepreneurs should use humour to make their project more appealing to the audience. It shouldn't be too abundant, but in the right amount and context it can create an excellent incentive for a beginning relationship with the investors. Besides a portion of humour, Lurig emphasizes that sharing as much information as possible with the crowdfunders should be a core objective. Journalism 101 (Lurig, 2012) advises that the most important information should be mentioned first in order to keep the crowd attentive. Moreover, as with the majority of business ventures, it is vital to know your audience. In other words, it is impossible to target everyone as potential backers. This simplifies the way in which the project will be planned and marketed, but also helps in finding the best possible value-adding investors. (Lurig, 2012)

Lurig (iBid) continues by recommending entrepreneurs to make short, informative and well-produced video footage to support their project. He states that undertakings utilizing a video have a success rate of 50 percent, whereas the ones without a video only 30 percent. Regarding the content of the video, it should include short descriptions of the entrepreneur, what product or service has been created and the (personal) story behind the idea. A prototype, or similar feature, of the product should be added to give the audience a sign that this project is more than simply a fantasy. Also, an advice is given on the duration a project should have. Lurig finds that the perfect period for a project is 30 days, which is also the recommended time frame crowdfunding platform Kickstarter offers. Additionally, project undertakers are advised on how much money they should ask from the crowd. Logically, the amount the entrepreneur has calculated in order to create a certain product or service should be the minimum objective, but an additional 10 percent should be added for the coverage of the platform fee, possible credit card fees and, not to mention, mistakes that

could occur. Lurig states that smart business people will add at least 5 percent for problems, mistakes and other unexpected expenditure. Besides this, crowdfunders usually do not appreciate the fact when entrepreneurs take an immodest amount of the profit, even though they want to help them in succeeding. Therefore, it is much more sensible to suggest manners to reduce current expenses, instead of concentrating on raising more capital. (Lurig, 2012) Entrepreneurs should put much effort in rewarding their backers. As earlier mentioned, reward-based crowdfunding is seen as regular crowdfunding and therefore, in most cases, it is important to contrive strategies to satisfy investors such that they want to be part of the project. Of course, the significance of the reward should be based on the magnitude of the investment. According to Kickstarter's blog (Lurig, 2012) $25 is the most frequent amount invested when rewards are being offered, followed by $50, $10, and ultimately $100. For visitors that have no intention of investing in the project, but anyway like the idea, minimum reward levels of $1 and $2 could be created and raised in the form of a tip jar, with a simple thank you as reward. (Lurig, 2012)

For crowdfunding campaigns, where a maximum of $1,000,000 is being raised, fully verified financial statements have to be available for investors. Besides a formal business plan including a description of how the additional money will be spend, a specific funding target should be given in combination with a deadline. Also a securities valuation method has to be provided to give investors information regarding the method with which the different reward levels have been priced. Besides, details should be provided about the management behind the project and figures showing the current ownership situation. Additionally, during the campaign no other public advertisement platforms may be used. (Young, 2013: 261) Ultimately, the European Commission of the European Union points out a few risks that should be taken into account when dealing with crowdfunding platforms. First of all, they see fraud to be a potential issue, but also misleading advertising and advice by websites or promoters and payment related difficulties are mentioned by the EC.

3.2.5. Start-up ventures financed through crowdfunding

Even though crowdfunding online is a fairly new concept, throughout history, however, many projects have been funded with money collected from the average public. A great example is the financial part of the Statue of Liberty creation. Without going into too much detail regarding the historic significance of the monument, it was a symbolic gift from France to the United States. Based on the mutual agreement between both parties, the French were to fabricate the construction and transport it overseas, whereas the United States were to take care of the pedestal and location. In France, the finances were organized through public fees and a lottery. Due to the reason that architect Alexandre-Gustave Eiffel was immensely popular in his country; there were no significant obstructions in collecting the money. In the United States, on the other hand, the financing of the pedestal underwent large issues. The crowd wasn't very interested in the project, but with the help of media magnate Joseph Pulitzer's newspaper 'The World', $102,000 from a total of 120,000 backers was raised during a six-month campaign. Most of these investors had donated less than a dollar. (Young, 2013: 50)

Closer related to FC Media Oy is high-tech company Pebble Technology. This highly successful case started in 2012, when they tried to raise additional capital through Kickstarter for their Pebble Watch. In short, the watch can connect wirelessly to a smartphone and thus shows its notifications. Their initial fund raising goal was $100,000. Pebble's campaign had a minimum investment level of $1 and offered updates regarding the progress of the watch creation as a reward for those pledging in this range. A total of 2,615 backers provided the company with $1. A minimum investment of $99 was rewarded with one copy of the watch worth $150. The fastest 200 investors were offered this opportunity and that total was reached quickly. Therefore, an additional 40.799 backers were able to invest $115 or more in order to ensure themselves of a watch. More than 14,000 investors pledging amounts of $125 were given a watch with a personally chosen colour. Furthermore, reward levels of $220, $235, $240, $550, $1,000, $1,250 and $10,000 were offered with better rewards as the invested sum increased. For example, the highest level of $10,000 investments promised one hundred watches in any colour for the first 31 backers. At

the end of the project an astonishing $10,266,845 was raised from 68,929 investors. (Cunningham, 2012: 39-42)

A good example from the Finnish crowdfunding market is start-up company Beddit, founded in 2006 and concentrating on the measurement of sleep related issues and well-being. On the website of Indiegogo, a project period of 55 days was meant to raise $80,000 with the aim to get their product on the market. Already in the first week a total of $77,500 was collected from more than 600 investors, of which most are located in Silicon Valley. As a reward, the start-up offered its backers a copy of their new product, which means that none of the financiers receives a share in the company. (Vanhanen, 2013) Not surprisingly, the campaign was successful and a total of $400,000 was raised with the help of over 3,000 backers. The product is planned to be for sale in November 2013 with a retail price of around $200, whereas the investors at Indiegogo received the good for $99. (Leskinen, 2013)

But as Young earlier mentioned, more than half of the projects on crowdfunding platforms fail to meet their set goal and therefore there are plenty of examples of unsuccessful campaigns. For instance Cardboard Technologies, an Israel-based inventor of a sustainable bike made entirely out of cardboard, wanted to raise $5.5 million from Indiegogo to build a factory and produce their product. The goal, however, was set at raising $2 million in 45 days, but only around a month later, after raising a disappointing $41,000, the campaign was cancelled by CEO Nimrod Elmish and inventor Izhar Gafni. When analysing the reasons for the failed project, the reward, a $290 prototype of the bike, was seen as far too expensive since it was three times higher than its future retail price, and thus only 24 pieces were sold. Even lowering the pre-order price to $135 was not enough to raise a much larger amount. Nevertheless, the founders received valuable feedback and therefore didn’t regret their crowdfunding campaign. Both stated that they will continue with their business and seek other equity investors. Interestingly, Jeff Swartz, former CEO of Timberland invested an undisclosed amount into the venture. (Godelnik, 2013)

3.2.6. Crowdfunding in Finland

According to the Finnish fundraising law, crowdfunding could before only be collected for non-profit purposes, whereas the donor should not receive compensation. Typically, an individual person could never receive a permission to raise funds, but only registered organizations with charitable intentions. However, nowadays legislation allows non-professional backers to invest their own capital into start-up ventures. The first time this topic was covered widely in the Finnish media dates back to 2012. A campaign, organized by Senja Larsen, was created to raise €10,000 in order to cover the costs of producing the book 'Senja opettaa sinulle ruotsia'. As a reward, she offered €8 investors an e-book version and €23 funders a printed book. A total of 345 backers invested amounts ranging from €1 to €400, leading to a sum total of €11,000. Despite the fact that Larsen described her project as not being a fundraising event, but instead a product pre-sale and marketing campaign, the police administration stated otherwise. A fundraising permit should have been issued beforehand and the entire amount had to be remunerated. (Böhm, 2012; Salonen, 2012)

At the moment organizations offering crowdfunding services have made agreements with the Finnish Financial Supervisory Authority (FIN-FSA) that they can only serve as marketing platforms, but are not allowed to offer accredited financial services. However, due to the reason that businesses on crowdfunding platforms normally never call for amounts higher than €1,500,000, they do not exceed the limit and therefore are not obliged to show a permission treaty from the FIN-FSA. In order to run a crowdfunding campaign that meets the Finnish fundraising rules, the entrepreneur has to be able to very precisely define the nature of the project, since terms such as donation, funding or promotion shouldn't be utilized, but instead use for example compensation (Hemmilä, 2012). Due to the huge media coverage of the earlier described book campaign case, the majority of the Finnish people had a conception of crowdfunding being illegal. Nevertheless, only fundraising without providing the investors with a reward is regarded as illicit, when the issuer doesn't have a permit. Even though it is made clear a reward has to be given, its standard remains undetermined. Marianne Luotio, jurist at Castren & Snellman, believes that the legislation regarding crowdfunding will not be modified very soon. Even though investing through crowdfunding platforms is a risky undertaking, especially for un-

accredited investors, many experts in the field believe that more than ten percent of the companies listed on these websites will be successful, because, due to the tight legislation, every applying venture is analysed thoroughly. Invesdor CEO Lasse Mäkelä (Airaksinen, 2013) ratifies this and states they have received far more than hundred fundraising applications, but to this day only accepted 25 as having enough potential in combination with fulfilling the necessary legal and ethical criteria.

Nowadays, crowdfunding is being marketed more and more at regular people as being an investment opportunity. As compensation for their investment, they receive shares within the company or annual interest. The largest issue, however, is the lack of control these minor shareholders have with regards to their investments. As professional business angels and venture capital firms have the ability to analyse and follow their case companies well and precisely, non-specialized crowdfunders are typically unable to perfectly monitor where and how the company spends the received capital. Since fundraising through crowdfunding platforms is usually based on unsecured loans or investments, it may be difficult for a minority shareholder to secure his or her profits when the company for instance tries to launch an initial public offering. (Airaksinen, 2013)

3.2.7. Which crowdfunding platform to choose?

Despite the fact that crowdfunding has been used for many years without the Internet as a mediator, it is mostly an online model (Young, 2013: 55). The amount of crowdfunding platforms is growing and therefore start-up entrepreneurs can already choose out of a broad collection concentrated on various industries. The following study will compare six crowdfunding websites that are considered to be the most useful for FC Media Oy. All of them are analysed based on their main advantages, primary disadvantages, investment ranges, application fees, platform costs and eventual other important information, such as the different round types and target company criteria.

As the first and yet largest crowdfunding platform in Finland, launched in 2012, this list is not complete without Invesdor. At the moment, this Helsinki-based company

concentrates only on equity crowdfunding. Even though they allow backers to make investments from all over the world, depending on the local jurisdictions, they admit only companies into their system, which are situated in Finland, Sweden, Denmark or Estonia. Start-ups can collect up to €100,000 from as much investors as it can get, but when seeking for financing higher than this amount, a maximum of 100 share-holders per country is the standard. Based on the criteria given on the website, target companies can set their fundraising target between €20,000 and €1,500,000, but a sum up to €5,000,000 won't be rejected, when Invesdor analyses the business idea to have enough potential. The valuation of new start-ups is done by the experts of In-vesdor itself and with the help of its partner institution KPMG, which is one of the largest auditing firms worldwide. The platform has three different types of invest-ment rounds in which target firms can try to raise the necessary financing, namely open, private and hidden rounds. In open rounds any registered user can see the available information of the start-up and thus a high possibility to have a lot of viewers. A company in a private round has a small advertisement box available for everyone to be seen, but detailed pitching can only be followed by request, which has to be sent. Therefore, the target firm has the power to choose the investors it wants. Ultimately, hidden rounds can only be viewed by investors the company has sent a particular link to. However, Invesdor doesn't recommend this option. When a venture is accepted into the system, the pitch will be created either by the company itself or with the help of a consultant. After the pitch has been approved, it is send to financial institution Taaleritehdas and other lead investors in order to be analysed more precisely. Every online pitch is open to possible investments for up to 90 days. Moreover, monthly pitching events are organized for two or three target companies selected by Invesdor. Anyhow, every registered business can participate in the form of networking with possible financiers. When the minimum target objective has been reached, the round can be closed or an additional 90 days can be added to reach the maximum target or even exceed it. Lastly, Invesdor requires its firms to send half-year reports to its shareholders to motivate them to develop new ideas and to maintain a good relationship. Furthermore, successful start-up businesses have to pay a total fee of five percent together with a value added tax minimum of €3,000. This amount is only deposited when the campaign has successfully been finished, meaning that the set fundraising goal has been met. (Invesdor, 2013)

At the moment, the Finnish market has only a very few crowdfunding platforms, therefore it isn't a complicated task to analyse all of them and make a comparison. Besides the above mentioned Invesdor, Helsinki-based Vauraus Suomi Oy offers start-up financing possibilities via its Kansalaisrahoitus Oy (KR) business. Established in 2012, the company has collected an experienced team of around 40 investors together with other financing experts, and concentrates mainly on promising Finnish individuals, start-up ventures and small and medium-sized enterprises. KR's fees come, for the most part, from the stock options it gets from the companies it invests in, but the fee payment is only at issue when the campaign target has been met (Rintala, 2013). Therefore, in the case of an unsuccessful project, the entrepreneur doesn't receive any funds and investors are paid back. Typically, one financing round is two to three months and amounts ranging from €500,000 to €1,500,000 can be raised. The size of these rounds will be contractually determined by the company itself and KR. Markku Jussila, CEO of KR, states in an article in Taloussanomat that the minimum required amount capital investors need to have is only €3,000 (Niemeläinen, 2012). Furthermore, the valuation of new ventures is also in de hands of the professionals at KR. In combination with the fundraising round the investors will register the number of non-voting stocks he or she receives. These types of shares are valued at €1 apiece, but their ownership percentage will be based on the set company value before the funding round and, logically, the amount of investments received in its totality. The total amount of shares issued will also be dependent on the given firm valuation. Interesting to note is that Varaus Suomi is the only platform using telemarketers in order to convince small investors of the possibilities crowdfunding offers (Mäntylä, 2013). Hereby, a register of more than 200,000 retail investors is utilized. (Vauraus Suomi, 2013)

The third Finnish crowdfunding option is Pocket Venture, which is targeted at international markets. The company started already in 2006, but launched its online platform in 2013, together with crowdsourcing start-up Innopinion. Chief Executive Officer Markku Mutanen substantiates this collaboration by believing that the motives and dynamics of the crowd have to be understood in order to provide them with the best possible service ('Innopinion Ltd and Pocket Venture crowdfunding service', 2013). Therefore, this platform offers a high-standard analytical approach and assists target companies in understanding the potential of their business ideas, potential in-

vestors, customer base and how to execute a market analysis on various subjects. The Pocket Venture website focuses on investments into start-up and other early-stage business ventures. To raise financing, three types of tools are offered, namely crowd valuation, equity based crowdfunding and pre-sales. The valuation product is utilized in order to get feedback and opinions from interested backers on the entrepreneur's valuation of the company. The next tool is only available in a limited amount of countries. The related management fee is five percent, excluding taxation, and investors are only charged when the campaign has successfully been finished. The pre-sales product is meant to collect additional funding by selling the company's products and services even before they are created. Entrepreneurs are also offered an exit-related assistance tool for when they decide to sell their business (Business Angels Finland, 2013). Moreover, investors are given the chance to impart advice on how to further develop the product or service in question. Pocket Venture takes a standard €0,35 in combination with ten percent and value added tax, out of every pre-sale transaction. Furthermore, the company organizes pitching and networking events all over the world. (Pocket Venture, 2013)

As yet, the last Finnish crowdfunding offering service is Venture Bonsai, an equity-based platform. Their core focus is on start-up ventures and growth companies located in Europe. At the moment, the website only admits companies that are situated in Finland, The Netherlands, Germany, U.K., Denmark, Norway, Sweden, France, Estonia, Poland, and the United States, but is working actively on expanding this list. Companies can set their fundraising target at amounts ranging from €20,000 and €1,000,000, but on their information page they state that most rounds are between €50,000 and €500,000. Investors are allowed to invest sums starting from as low as €1,000. The minimum investment amount was earlier €5,000. Additional information will be given regarding the countries from which potential backers can come from, since not all European countries are admitted into the scene. For companies located in Finland, almost any EU-country's citizen is accepted. Before any fundraising is done, Venture Bonsai highly recommends the entrepreneur to take part in the vendor due diligence process, also known as a company health check, where a certified lawyer checks the target company's information. Even though this will cost an additional €1,500, certified documents will help in building a trusted image in the eyes of investors. After creating a fundraising campaign, interested financiers can be

pitched to through a video. The entrepreneur can accept and communicate with potential backers and provide them with further details regarding the investment round. Besides, the start-up can participate in the social due diligence and receive valuable feedback. Even though Venture Bonsai is free of charge for investors, entrepreneurs have to pay certain fees when they decide to make use of their paid services. Only after successfully completed campaigns the business gets the raised funds. In this case, the business also has to disburse five percent of the collected amount. After the campaign has ended, entrepreneurs can keep in touch with their new shareholders through the platform of Venture Bonsai. (Venture Bonsai, 2013; Venture Bonsai Info, 2013)

In addition to the four Finland-based equity crowdfunding options, Sweden offers a rapidly growing network of companies and individual investors in the form of FundedByMe, created in 2011. However, recently it also started operating from Finland with IndoorGarden, seller of appliances that allow customers to grow herbs and salads at home, as its first campaign (‘Ruotsalainen joukkorahoituspalvelu Suomeen’, 2013). Being one of the first global platforms in its industry and the first in Sweden, this website offers both equity crowdfunding and reward-based, where the equity variant has a larger focus. Interestingly, crowdfunding on basis of rewards can be done by investors worldwide, whereas currently only European entrepreneurs can utilize the equity-based option. Companies using an equity crowdfunding campaign in order to raise additional capital can, typically, collect amounts ranging from €100,000 to €1,000,000. On the other hand, reward-based crowdfunding projects can only call in up to €50,000. FundedByMe concentrates mainly on the European markets and charges six percent from the entire sum collected. Also here, successful fundraising projects receive their capital, but companies that don’t manage to reach their set target are left without. The actual fundraising process starts with a pre-round, where registered investors can show their interest in order to proceed to the next phase. Hereafter, an open round, of which the terms, regulations and duration are defined by the entrepreneur, is organized for these interested backers and investments can be made. (FundedByMe, 2013)

Ultimately, the sixth suggestion given to FC Media Oy is Indiegogo, the second most popular platform in the world behind Kickstarter. In 2008, just a year after es-

tablishment, their service was only targeted at the independent film industry, but due to the high success campaigns from all possible industries were admitted since 2009. Other than most of the above mentioned options, Indiegogo doesn't have an application process and therefore allows worldwide projects ranging from for-profit to non-profit ventures and even personal needs. The platform is known for the so-called gogofactor, which shows the activity and popularity of an undertaking by combining the number of investors attracted, updates, among others. A high factor can lead to exposure of the project in larger circles and help from Indiegogo in order to achieve even more visibility, for instance on their homepage or in the press. Moreover, creating an online campaign is free of charge, but raised funds are associated with certain fees. The entrepreneur can make a choice of two different funding plans. The first one, flexible funding, allows the company to keep all funds raised even though the set aim is not necessarily met. In this case, four percent is charged from successful endeavours and nine percent from non-successful projects. The second option, fixed funding, refunds all collected capital when the goal isn't reached, but charges a standard four percent for well-completed campaigns. Furthermore, a credit card processing fee of three percent has to be paid in all cases, except when the fixed funding option is chosen and the set objective hasn't been achieved. In addition, a $25 wire fee is paid for campaigns outside the United States. Every project has a maximum of 60 days to be online, but according to Indiegogo, the average time successful campaigns need is 47 days. The website doesn't have a fundraising target and therefore any target can be set, but they do give a warning of setting an objective that is far too ambitious. (Indiegogo, 2013)

Summary

The above listed six platforms are of course just a fraction of the available websites in the industry, but based on a few criteria these options were regarded as most suitable. Besides taking the needs of FC Media Oy into account, the various regulations on other platforms also influenced the decision making process and the fact that not yet all platforms are opened up for Finnish companies. After researching the different projects offered on the many websites and analysing the rate of success certain businesses have had on these, the results lead to the chosen options. Table 5 will clearly summarize these suggestions in order to make their comparison easier.

Table 5: Crowdfunding platforms

	Invesdor	Vauraus Suomi	Pocket Venture	Venture Bonsai	Funded ByMe	Indiegogo
Available Countries	Finland, Sweden, Denmark and Estonia	Finland	e.g. Finland (equity), Worldwide (presales)	Finland, 11 other countries	Europe (Equity), Worldwide (reward)	Worldwide
Fundraising Target	€20,000 - €1,500,000	€500,000 - €1,500.000	No maximum target	€20,000 - €1,000,000	€100,000 - €1,000,000 (equity)	No maximum target
Application Process	Yes	Yes	No	Yes	No	No
Who Can Invest?	Everyone	Accredited investors	Some countries accredited	Everyone (min. €1.000)	Everyone	Everyone
% when succeeded	5 (+VAT)	Voting stock options	5 (+VAT)	5	6	4
% when failed	0	0	0	0	0	0 or 9
Other Fees	No	0	10% + €0,35	No	No	3% + $25
Main Pro	Largest in Finland	Low minimum investment	High-standard analytical approach	Low minimum investment	Strong focus on European markets	Second largest worldwide
Main Con	Hard application process	High minimum target	Pre-sales option is costly	Investors only from limited countries	High fee when project succeeds	High fees

3.3. Comparison analysis - Existing theories concerning the most suitable form

Many entrepreneurs and experts in the field of early-stage financing have shed the light on this subject. Even though every start-up is different with its own visions and requirements, it is always helpful to listen to the opinions of successful and experienced business people. David Menard, partner at law-firm Murta Cullina, raises two main arguments. He states that on one side crowdfunders can become a new breed of investors and thus compete directly with angels, whereas on the other hand, crowdfunding platforms could assist angel investors in making better investment decision (Menard, 2012). Therefore, let's take a look at some standpoints that are in favour of crowdfunding being a sensible alternative for angel capital and, conversely, viewpoints where angel investing is still seen as the only future. Ultimately, many professionals also see a joined future for the two and therefore their argumentations will also be taken into account.

In favour of crowdfunding

Based on the results of a research conducted by Massolution, including 308 active platforms, crowdfunding has increased by 81 percent from 2011 to 2012 (Massolution, 2013). A total of $2.7 billion was raised in 2012 with Europe and North America counting for more than 95 percent of this amount. The European Commission points out that approximately €735 million of the 2012 total was raised in Europe and predicts that it can soon overthrow the European venture capital market, which has decreased to €3 billion (European Union, 2013). Furthermore, Massolution estimates that, if this trend is continuing and equity-crowdfunding gets a foothold in the United States, the $5.1 billion range will be reached in 2013 (Massolution, 2013).

Obviously, the founders of the various crowdfunding platforms believe in a rosy future. For instance real estate businessman and billionaire Donald Trump has recently launched, together with entrepreneur Bill Zanker, his own crowdfunding webite, Fund Anything (Ravindranath, 2013). The platform concentrates on reward-based funding and also Trump himself pledges money to projects he chooses on a weekly

basis. Trumps large brand name and his confidence in the crowdfunding market will certainly increase its popularity. Also Ryan Caldbeck, founder and CEO of equity crowdfunding website CircleUp, sees huge potential. According to him, crowd-based funding will increase the activity level of early-stage investing. Besides, it will reduce investor's time, costs and minimum investment amount (Caldbeck, 2012). For start-ups and other companies a crowdfunding platform can form a large public stage, which leads to more visibility and thus a larger access to possible investors. In other words, crowdfunding lowers the cost of participation for financiers in the angel sector. Furthermore, through these platforms, entrepreneurs can now rather concentrate on growing their business and collect interested investors, than on trying to find possible backers at networking events.

Even though it's too early to really say which one is going to be a better alternative for entrepreneurs, many specialists believe that crowdfunding has a lot of potential in overthrowing angel funding. One reason, according to business attorney Sean Peppard, is that crowd-based financing can be a much easier and quicker and, in most cases, a less painful alternative to start-ups. Further, he thinks that, when crowdfunding has developed more, angels can even be skipped by start-ups in so-called hot industries since collecting money from the crowd is a much easier activity. Peppard also warns business angels by saying that 'the risk to the angel business model is that the way they traditionally find companies will go away because crowdfunding will replace it' (Glenn, 2012).

Also Chris Dixon, investor and co-founder of website Hunch, is lyrical about crowdfunding, but however raises some points of warning. He states that when the investors have special know-how or interest in a certain project, it works best, but most preferably they should be potential customers. Dixon also notes that, in his opinion, the most suitable solution for protecting the many non-accredited backers in the field would be to establish mutual funds, led by professionals, as is seen in the largest crowdfunding places in the world, the public stock markets. Further, he raises the issue of investors not being able to easily evaluate the entrepreneurs behind the ventures, since they mostly tend to invest in the person rather than the idea. However, this is more of a problem to professional financiers. (Dixon, 2013)

In favour of angel funding

Menard raises the issue of which type of investor has more added values to their target companies. As angels provide, besides capital, expertise and valuable contacts, a non-accredited crowdfunder usually only brings in money (Menard, 2012). A study conducted by The Angel Investment Performance Project from the Kaufmann Institution shows that returns on investments are larger in cases where the investors have stayed actively involved in the business after making an investment. Whereas no involvement leads to an average return of 1.3 times the initial investment, active participation afterwards averages at 3.7 times. In addition, he calls up several other questions that might be in the advantage of business angels. For instance, will the majority of crowdfunders be accredited or inexperienced investors? And are more and more start-ups with lousy business ideas getting financed? A venture capitalist interviewed by Harvard Business School Professor Ramana Nanda, is also concerned about the fact that many firms that shouldn't have gotten external funding, will receive it (Blanding, 2013). Thus, one of the main reasons given for the future failure of crowdfunding in establishing itself in the finance sector is the lack of sophistication the average retail investor has in finding the best possible businesses to invest in. Josh Lerner, another Harvard Professor, agrees by saying that he doesn't expect the profit returns of unsophisticated backers to be higher than those of professional investors who spend many hours in analysing their case companies (Blanding, 2013). Managing partner at Pegasus Intellectual Capital Solutions Charles Smith adds to this discussion that 'the most dangerous of all investments is a privately held start-up controlled by its own officers and which lacks independent board members' (Smith, 2013). A great example is the dot-com bubble around the millennium change, where venture capital funds made enormous losses from their start-up investments and still haven't fully recovered from it. For this reason it will be very complicated to protect the many unsophisticated investors and thus they should take investor Warren Buffet's advice on this matter by heart. He famously said that you should 'never invest in things you can't understand' (Rogers, 2012).

Securities attorney Gary Emmanuel gives a list of five reasons why he thinks equity-based crowdfunding will not succeed. Based on the new regulations the JOBS-act will include, he states that the limit of $1 million will be a very large stumbling

block for businesses that for instance require huge amounts for research and development. Besides, this maximum can be raised only in period of twelve months and thus will not go very far for many companies. Emmanuel thinks the large number of possible backers will form a problem as well. He can't imagine equity-based crowdfunded firms to effectively manage hundreds or even thousands of new shareholders without any difficulties. All these investors, no matter if they pledged €10 or €10.000, should be kept satisfied and up-to-date on the company's development and decisions. Therefore, a lot of time should be devoted to them in the form of shareholder meetings and such. Thirdly, the trust issue is put under a magnifying glass. He mentions that, in order to prevent fraud-related cases, a lot of time and money has to be invested in hiring specialists to verify the company information in the various documents. Also separate documents have to be prepared including the risks involved for investors, terms of the deal and, of course, revealing information regarding the company itself and its management. An additional fact is that companies, when being sued by dissatisfied non-professional investors, will be exposed to a lot of negative public attention. Emmanuel adds that statistically a quarter of start-ups will go out of business within their first year of operation, which increases the chance of discontented funders and thus, possibly, a worse public image. Lastly, he expects it to be difficult for crowdfunded ventures to get follow-on investments from more traditional fundraising alternatives, since the above mentioned issues are not speaking in their advantage. (Emmanuel, 2013)

Crowdfunding and angel funding can complement each other

Caldbeck finds crowdfunding to be a blessing. Prior to establishing CircleUp, he worked for ten years in the private equity industry, which gives him a very solid conception of how it compares to the other forms. In a Forbes-article, Caldbeck says that business angels could benefit from the deal-flow information on crowdfunding websites. He supports this statement by adding that, however a very few angels do have the ability to find great business opportunities early on, for the majority this is very complicated and time-consuming. Thus, with the help of crowdfunding sites, these angels can much easier find interesting start-up ideas. (Bernhard Jr., 2013)
Todd Federman, executive director of U.S.-based North Coast Angel Fund also believes that both forms can complement each other due to the fact that angel groups

typically invest larger amounts compared to its counterpart (Glenn, 2012). Therefore, start-ups in need of smaller sums of capital can utilize crowfunding and companies that require more than half a million will pitch to angel investors.

Crowdfunding portal iCrowd has given a few reasons for why business angels can gain advantage from investments crowdfunding. Because of the fact that angels most often fund businesses within their local community and within the investing channels they are familiar with, they miss out a lot of interesting opportunities. Therefore, similar to Caldbeck's deal-flow point, angels could find much more possible investment targets through crowdfunding websites. Also larger angel networks could be created through these platforms and by pooling even bigger sums of capital, early-stage ventures will be funded even more effectively. Accordingly, this helps accredit investors from all over the world and in all possible industries to invest in group-form without necessarily belonging to a demanding business angel group. Due to the increased visibility level and the Internet, entrepreneurs can now easily find and contact angels and present them the possibility to invest. Ultimately, the diversification of the investment portfolio has been made easier as well for professional financiers. Since a huge amount of opportunities are up for grabs without any geographical restrictions, it has never been easier to invest in a large range of start-ups. (iCrowd, 2013).

4. RESEARCH LAYOUT

Since the main idea of this thesis was to make a comparison between crowdfunding and business angels, it was conducted by utilizing a comparative research approach. Lor (2011: 2) describes comparativists as being 'interested in identifying the similarities and differences among macro-social units'. He continues that the information gathered from the comparison is very important in understanding and explaining different consequences of events that have occurred before and their importance for and implication on current or future happenings. Even though Lor and many other researchers explain the comparison targets, or comparators, to be countries, this thesis study replaced the levels of analysis with its own terminology. According to Lor's (2011: 3) description, the highest level of analysis is comparing whole countries to one another on one or several specific subjects. For instance by measuring which country has the highest standard of living. The second level consists of comparing different aspects within a country, such as provinces or police districts. Hereby can be for example distinguished which province has the most natural resources or most inhabitants. The third level, in turn, will concentrate on a smaller part within this province or district, for example comparisons between different schools within the area. Ultimately, the lowest level again takes a look at for instance the differences among the students within that school.

To place the crowdfunding and angel financing comparison in the same perspective as the levels of analysis described by Lor, the right financial words had to be found. The highest level (country) was replaced by the concept of start-up financing, which can be compared to other segments related to early-stage companies, such as start-up marketing. Thus the counterpart for the second level had to be something within this comprehension. For this reason, the broader understanding of start-up funding was utilized, which can be divided into debt- and equity-based financing. Further, the third level had to be within either one of these concepts and, in the case of this thesis that is the equity-based version. Therefore, this level consists of the various types of equity funding, such as friends and family, business angels, crowdfunding, venture capital and royalties, among others. Subsequently, the last level includes for instance comparisons between the different crowdfunding platforms or angel networks. To

give a clearer picture of the four levels of analysis used in this research, based on the comparative research approach; table 6 will give an illustration.

Table 6: Levels of analysis

Levels of Analysis
Start-up Financing
Equity-based Financing
Crowdfunding, Business Angels
Crowdfunding platforms, Angel Networks

After describing the various levels of analysis, Lor mentions that a decision has to be made on the number of targets that will be included in the comparison. He quotes Ragin (2011: 10) by listing two main approaches on this matter, namely variable-oriented and case-oriented studies. The first one concentrates on comparing a large amount of targets, whereas the latter one, used in this thesis, rather focuses on one or at most a very few cases. Therefore, the case-oriented approach can also be seen as a qualitative research due to the fact that all targets are investigated in a very detailed manner and compared to one another. Furthermore, Lor (2011: 10, 14) also gives three comparative research designs, namely single-country, few-country and many-country studies, to assist the research process. Logically, the few-country option, or few-equity-based-financing design, was utilized. Lor insists that the compared targets should be carefully chosen on basis of their comparability to each other in respect to the main research topic. On the other hand, they should also be distinctive enough in order to conduct a sensible comparative study. For these reasons, the well-known business angel financing method was, after ticking off unsuitable forms, set opposite of its non-established little brother, crowdfunding. In addition, a choice had to be made between using a most-similar-systems design or most-different-systems design (Lor, 2011: 15-16). The main point here was to decide whether the compared units should be very similar to each other, but different in one aspect, or very distinctive from one another, but only identical in one specific area. The latter one, most-different-systems design, was at issue in this thesis since both crowdfunding and angel funding are equity-based financing methods, but different in most other viewpoints.

This comparative research approach, however, was only used to compare existing literature and other material gathered in chapter two. In order to get an even better understanding of which form of financing suits start-ups, especially high-risk tech firms, this theoretical comparison has to be supported by another qualitative study in the form of two interviews. The main reason for choosing this approach is the fact that the past experiences and observations of individuals familiar with these forms of funding are seen as a vital component in coming up with the best possible solution. In other words, extensive personal stories and advices of a few experienced professionals are more useful than a large number of impersonal short answers. The structure of these interviews will be explained more precisely in chapter 4.2.

4.1. Data collection method

When structuring this research, several aspects and limitations were taken into account. Even though business angel financing –related literature and experts on the matter can be found rather simply in the Finnish markets, that's not the case with crowdfunding. As implied in the introduction, it formed quite a challenge to find suitable Finnish material and expertise on crowd-based funding, especially about its relationship to angel investing. Therefore, most theoretical information was gathered from international books, mainly written by U.S.-based professionals. However, the available literature and other sources of information produced by the few Finnish specialists were utilized as well.

For further research and in order to make the best possible comparison, the few Finnish experts in the industry were contacted through e-mail and asked for a possible interview. The first task was to find suitable local professionals in the area of Kymenlaakso, such as risk managers, heads of financing departments and several bank directors, but this turned out to be rather challenging. However, all received answers pointed out the same issue, namely the lack of expertise in this specific topic. Therefore, the search was shifted to Helsinki, since all four crowdfunding-focused companies are located in that area. In addition to inquiring for the owners of these platforms, several university professors, specialised in financing, were asked for a meeting, but none of the responding professors thought to have enough

knowledge on the issue in order to be useful. The four contacted crowdfunding company executives were all interested in assisting or even discussing about the research in question. Chairman of crowdfunding platform Venture Bonsai, Antti Hannula, sent a personally written text concerning equity-based crowdfunding, in order to support this study, whereas the remaining three owners had interest in meeting face-to-face or hold a conversation through online means. There are several incentives in contacting the main crowd-based funding experts in the country. First of all, they have been involved in the development of the sector in Finland from the very beginning and therefore own significant knowledge with regards to inside information, related legislature, worldwide trends and what the future looks like. Since online crowdfunding is such a young phenomenon they tend to be the few experts in the field and therefore far more suitable than any university professor. Above all, however, most crowdfunding platform founders have experience and know-how in the field of angel investing and venture capital. Prior to establishing their respective companies, they have worked for several years in private equity related organizations and thus have an excellent foundation to compare these two forms of external financing. For this reason, it wasn't necessary to interview angel investors and crowdfunders separately, but instead the combined expertise of the above indicated professionals was seen as much more valuable and time-saving.

4.2. Interview structure and objectives

As mentioned earlier, three interviews will be conducted to support the research. All interviews will be semi-structured, which means that a list of questions is created beforehand, but these will not necessarily be followed strictly in the given order. Instead, new questions may present themselves during the conversations and, similarly, some unsuitable questions may be left out. (Peltokoski, 2008). Open-ended questions will be asked and conducted in Finnish. However, in order to answer the main research question of this thesis, namely which form of financing is most suitable for start-ups, in particular for FC Media Oy, the interviews all need to have a certain list of similar questions, which forms the backbone of the research. The three conversations will be conducted either through an online communication platform or take place in a face-to-face situation. Since these business owners have a tight timetable

and the meetings are most often scheduled during their lunch break, no longer than 30 minutes to one hour will be used to get a clear picture of their opinion on the matter.

Logically, the main objective is to get their point of view on the above mentioned primary research question. Furthermore, it is important to gain an insight in their world and how they see the future of the crowdfunding and angel funding industries. Besides, the situation of FC Media Oy will be shortly analysed and related financing advice will be shared.

4.3. Interviewees

The following three crowdfunding and angel funding experts were interviewed:

Markku Mutanen

The first interviewee was the co-founder and owner of Business Angels Finland Oy (B.A.F.) and crowdfunding platform PocketVenture. Under the supervision of this young businessman, the first organization concentrates mainly on connecting angel investors with high-growth start-ups, whereas the recently launched latter one focuses on linking the average crowd to these early-stage ventures. Besides his active involvement in the crowdfunding scene, he has significant experience with business angels through his B.A.F. business. Thereby, Mutanen and his team are highly interested in expanding their operations to overseas markets and thus he has well-grounded viewpoints on international matters and possible future turns of events. The meeting took place in a Helsinki-based restaurant and lasted for about one hour.

Lasse Mäkelä

The second interview was conducted on Skype and lasted for about half an hour. The interviewee in question, Lasse Mäkelä, is co-founder and Chairman of the board at crowdfunding company Invesdor. Due to his long work experience (more than 15 years) in the investment banking and financing sectors, Mäkelä can perfectly com-

pare angel investing and crowdfunding to one another. Invesdor became the first Northern European equity-based crowdfunding service and for this reason he has played a significant role in establishing this form of financing in the area.

Jouni Junkkila

Ultimately, Jouni Junkkila, co-founder of investment firm Vauraus Suomi and its product Kansalaisrahoitus, was interviewed through Skype for about half an hour. His companies concentrate on both equity-based financing and debt-based funding options for early-stage high-growth businesses. Besides, as explained earlier, Vauraus Suomi is the only Finnish crowdfunding platform with a telemarketing strategy to reach more customers. All these attributes together form an interesting and miscellaneous package of valuable information.

4.4. Questions

All three interviewees were asked similar questions that were prepared beforehand. As mentioned in the interview structure and objectives –chapter, the interviews were conducted in Finnish and presented in the form of open-ended questions, but in order to make it understandable for non-Finnish readers, they are translated into English as well. Even though the summarization method of data analysis wasn't used, the questions were, anyhow, divided into five groups as means of summarizing the main research issues. Besides, all interviews developed in their own personal way and the interviewees were given the freedom to lead the conversation. Therefore, not all interviews consisted of exactly same questions. However, the core research questions were followed and needed to be answered. The following list will show the research questions utilized to give a certain structure to the interview and related reasoning for why they were asked.

The questions translated into English

<u>Topic 1: Investment criteria</u>

1. What kind of investment criteria do angel investors have?

2. What kind of investment criteria do crowdfunders have?
3. Could a potentially large amount of new unaccredited shareholders (crowdfunding) be better than a few accredited ones (angel financing)?

These questions were asked in order to get an insight in the criteria both investors tend to follow and which are closer to the attributes start-ups could offer.

Topic 2: Crowdfunding in Finland

4. Should a Finnish start-up prefer a Finnish crowdfunding platform over an international one?
5. Do you believe that Finnish crowdfunders (especially non-professionals) would actively invest in a start-up through a crowdfunding platform?

The main idea here was to get viewpoints on what possible advantages a Finnish crowdfunding platform could offer instead of utilizing an international service or vice versa. In cases where crowdfunding is being used, it is interesting to know what the crowdfunding company founders think about how this new phenomenon will earth in Finland and whether they believe there is enough trust in the market.

Topic 3: FC Media Oy

6. Which form of external financing should a tech start-up with the following information consider?
    - Idea is to create a global online platform where the various football communities come together
    - Unproven track record
    - Not a fully developed product
    - No existing customer base
    - Founders have exhausted their personal savings
7. What should this start-up undertake or improve in order to raise the desired amount of €900,000 - €1,000,000?

Case company FC Media Oy is used as a start-up example in need of additional funding. With the help of a few guidelines the interviewed investment experts can give an indication of which form would be more preferable in this situation. Since

the required sum of capital is €900,000 up to one million for the first two years of operation and it is not certain at all that this amount will be reached, it is important to get a clear picture of what FC Media Oy could do in order to have an increased possibility of raising the needed sum.

Topic 4: Main research question

8. Which form of financing is better for start-ups?

The core incentive for using a qualitative research approach in the form of interviews was to receive several opinions and related reasoning from industry specialists on which form is more preferable for start-up companies.

Topic 5: The future

9. How does the future of angel investors look like
10. Does crowdfunding form a threat for business angels in Finland?

These questions were meant to get an indication of how these professionals think angel investing and crowdfunding will develop in the (near) future and whether the latter one could compete with its larger brother.

The questions in the original language: Finnish

Aihe 1: Investointikriteerit

1. Millä kriteereillä enkelisijoittajat investoivat?
2. Millä kriteereillä joukkorahoittajat investoivat?
3. Olisiko suuri määrä uusia ei-valtuutettua piensijoittajaa parempi kuin muutama valtuutettu sijoittaja?

Aihe 2: Joukkorahoitus Suomessa

4. Olisiko suomalaiselle start-upille järkevämpi hyödyntää suomalainen joukkorahoituspalvelu ulkomaalaisen sijasta?
5. Uskotko, että suomalaiset joukkorahoittajat (erityisesti ei-ammatilaiset) sijoittaisivat aktiivisesti start-up yritykseen joukkorahoitusalustan kautta?

Aihe 3: FC Media Oy

6. Mitä rahoitusvaihtoehtoa teknologia start-up seuraavilla tiedoilla kannattaisi hyödyntää?
    - Ideana on luoda maailmanlaajuinen online alusta missä lukuisat jalkapalloyhteisöt kokoontuvat
    - Ei (taloudellisia) saavutuksia
    - Ei täysin kehitetty tuote
    - Ei olemassa olevaa asiakaskuntaa
    - Persutajat ovat käyttäneet kaikki henkilökohtaiset säästönsä
7. Mitä kyseisen start-upin pitäisi tehdä tai parantaa, että olisi mahdollisuus saada tavoittelemansa rahansumman?

Aihe 4: Tutkimuksen ydinkysymys

8. Kumpi rahoitusmuoto on parempi start-up yrityksille?

Aihe 5: Tulevaisuus

9. Miltä enkelisijoittajien tulevaisuus näyttää Suomessa?
10. Onko joukkorahoitus uhka enkelisijoittajille?

4.5. Data analysis method

A thematic analysis method will be used in order to combine the information gathered from the three interviews. According to Gibson and Brown, a researcher utilizing this approach wants to achieve three objectives, namely exploring differences, similarities and relationships. (Harding, 2013: 56). Furthermore, the thematic method can be divided into two different data analysis approaches. The first one, the summarization of interviews, could be used to support the other method, the constant comparison of interviews, but in this case the latter one is seen as sufficient. The main reason for this choice is the fact that the summary-approach is more useful when wanting to minimize a significantly larger amount of information in order to simply recognize the core points (Harding, 2013: 64). Since all interviews were required to be done in a rather short time, the questions were already reduced to only discuss the main issues and thus a further summarization won't be necessary.

Harding (2013: 66-67) explains the constant comparative method in three easy-to-be-followed steps. Firstly, a list should be made with regards to the differences and commonalities between the first to interviews. The answers of every similar question or topic should be compared to one another and both the similar and different aspects in the responses should be written down. After that, every following case should be compared to these two and lastly, the research findings should be identified. Three interviewees is seen as appropriate since every time another object of analysis is added, it will be increasingly complicated to get a clear picture of the similarities and discrepancies regarding the different viewpoints (Harding, 2013: 75).

4.6. Assessment of reliability

The information in this thesis has been collected from reputable sources and generally, especially related to crowdfunding, very recent ones. Due to the reasons that online crowdfunding is a rather new understanding in the Finnish market and that it's relation to business angel funding has not yet been covered widely in public, whereby thus not many professionals do have sufficient expertise in the field, it is understandable that most given statements could be based on assumptions rather than well-established practical experience. In addition, the answers given in the qualitative interviews are done on basis of the respondents' personal experiences, viewpoints and knowledge in both markets and therefore should be seen as advices and opinions instead of the only possible alternative, since every case is unique. Furthermore, it is highly likely that the surveyed business owners give answers that are largely connected to their own service and talk in preference of it.

Moreover, permission was asked and given for the publishing of the information collected from the interviews. Interesting to note is that, according to Mutanen, their main incentive for participating in such an interview and getting a few valuable quotes listed in a research publication is increasing the marketing of crowdfunding. Since it is such a new form of financing it is important to make people aware of the possibilities it offers, but similarly also make note of the related risks involved.

4.7. Research outcomes

This part will show the answers the interviewees have given on the earlier listed questions. Additionally, the answers will be compared to each other as was explained in chapter 4.3. In order to simplify and clarify the comparison process the answers are placed under the five topic groups. The interviewees will be shown under their initials.

4.7.1. Answers to the interview questions

Topic 1: Investment criteria

MM: Both through the angel financing business (B.A.F.) and through the crowdfunding platform (PocketVenture) the same investment criteria are maintained. Both investors seek to invest into a large variety of start-up companies, where especially technology and healthcare –related industries have a higher focus. Any listed firm has the possibility to apply for additional financing, but its actual market potential will be determined by the management itself. Further, it is desirable to have a huge amount of small shareholders instead of only one or two large owners, because the marketing power of a group is far more effective due to its exponential growth potential than the power a few people would have. Instead of two individuals investing €500,000 each, PocketVenture encourages entrepreneurs to seek, in a matter of speaking, for a million backers investing €1 per person. Social media is becoming increasingly popular and therefore worth-of-mouth can reach more and more consumers.

LM: All investors at Invesdor invest based on the same terms, which include three main characteristics. The business idea should obviously be good and have enough potential with regards to the market it operates in. Also the management team and other influential members on the background should be decent. Investors can be besides individual persons also investment funds or even customers. When considering crowdfunding, it is important to have a clear picture in mind of what the target group, or 'crowd', will be. In other words, think of who will invest in the company

or product in question and what will they be offered in exchange for their capital (f.ex. shares)?

JJ: The debt-based financing product Kansalaislaina focuses mainly on angel investments, where precise credit checks are done in the form of an extensive due diligence process. Kansalaisrahoitus, on the other hand, concentrates rather on the crowdfunding phenomenon. Here also, target companies are being screened carefully even though studious credit checks aren't done. However, business angels are not excluded from investing with the crowd and thus both types of funding could be accessed simultaneously. A large amount of new shareholders will bring more healthy competition and additional contacts.

Topic 2: Crowdfunding in Finland

MM: Finnish early-stage ventures should initially attempt to utilize a Finland-based crowdfunding platform, because the given guidance is better and more focused. Anyhow, the choice of platform also depends on what the desires and objectives of the start-up are. For example if the management has no problem with welcoming a bunch of international shareholders and, additionally, requires a larger sum of external capital, the potential of a sizable non-Finnish platform could be more significant. It isn't likely that Finnish non-accredited investors, also known as the normal crowd, will very actively put their money in start-up firms through crowdfunding websites. However, there will be enough non-professional backers to support early-stage ventures, especially when marketing on the matter is increased.

LM: Whether choosing a Finnish crowdfunding platform or not depends on what the start-up is seeking for and what is offering to potential investors. Only in cases when a company tends to give out shares, the choice should inevitably be a Finland-based service, since it is almost impossible or at least legally very difficult to issue shares through an international platform. Moreover, more and more Finnish crowdfunders will actively invest in early-stage companies through an online platform. This amount is likely to increase even further with the help of social media services and various promotional events, such as pitching occasions.

JJ: First of all, start-ups should absolutely consider exploiting a Finnish crowdfunding service since it is usually more beneficial for the company. Furthermore, the economy of Finland also profits significantly from capital invested into its markets. This so-called 'blue capital' will stay thus in the hands of Finnish people. Crowd-

funding is such a new concept in Finland, which means that the average crowds' awareness on the matter is considerably low. However, a growing amount of people are becoming aware and interested in this form of external financing and there is as it were a boom going on in the industry. Marketing will, logically, increase the popularity of crowdfunding. Interestingly, as Vauraus Suomi is the only platform to use telemarketing means to reach more customers, the phone calls are only meant to raise awareness and contact potential investors and thus aren't used in order to sell any product.

Topic 3: FC Media Oy

MM: In the case of FC Media Oy it will be advisable to utilize the crowdfunding option, since it forms a considerable problem to raise €900,000 to €1,000,000 from only one or a few business angels. On the other hand, if a start-up sees more potential in angel financing, it would be wise to split the required amount into smaller pieces and collect financing over a few periods, which increases the chances of receiving funding. Hereby should be taken into consideration that these smaller amounts, or at least some of them, could be raised through the means of crowdfunding. This can also be done simultaneously and thus could accelerate the whole fundraising process.

LM: Even though FC Media Oy has an interesting business idea, the main issue here, when wanting to fundraise through Invesdor, is that the company doesn't have any track record regarding finances and customers. However, it is positive that the start-up has received positive feedback from interested investors in the past. However, both options could work dependent on what the start-up requires.

JJ: Based on their investment criteria, Vauraus Suomi does not, in most cases, consider start-up ventures that are this early in their development. In other words, they tend to invest in companies where the highest risk-stage has already been passed and the firm is ready to launch their product or service on the market. On the other hand, when a start-up has an interesting business idea in combination with a good and solid management team, Vauraus could see this as a possible investment target.

Topic 4: Main research question

MM: Which form a start-up should choose depends on what criteria the owners of the company have? The most important consideration to be made here is to deter-

mine whether the start-up only needs additional capital or also requires some sort of expertise in the form of a new Chief Executive Officer or other board member. In other words, a crowdfunding platform should absolutely be utilized in case only capital matters and everything else is in place, such as an effective management team and organizational structure. But when additional reinforcement in the managerial composition is needed, business angels are far more beneficial. Important to note is the fact that, when seeking angel investments, personal contacts with these investors are usually necessary. After asking which one of the two fundraising options Mutanen wouldn't put down in order to fully concentrate on only one form, he answered that it would, with certainty, be crowd-based financing.

LM: It is difficult to directly state at this point, which form will be more suitable, since it mostly depends on what the start-up itself wants. If it knows exactly what it is doing in order to grow as a company, then crowdfunding would be better, but when expertise is needed, the angel option should be used. The positive aspect about crowdfunding is that the entrepreneur can determine the terms to be followed, whereas business angels usually tend to have their own strict conditions. Further, when a start-up wants to keep the possibilities of future venture capital financing open, it isn't recommended to utilize crowdfunding due to the large number of new shareholders.

JJ: Every start-up company should be looked at case by case and therefore it is hard to give a clear answer on which form is more suitable. When the team behind the company is well-established, crowdfunding is the better option, whereas angel funding should be applied for in situations where external expertise is necessary.

Topic 5: The future

MM: Crowdfunding will not be a threat for the business angel sector. As a matter of fact it is perfectly possible for both forms to effectively function together, where they could assist each other in finding the best possible investments. An issue for angels has always been the ineffectual information-flow, also referred to as deal-flow, with regards to potential investment opportunities. Now with the speed of online crowdfunding platforms these occasions can occur much faster and be found far easier. In theory this would mean for instance that an angel registers him- or herself at a crowd-based funding website and either invests together with the crowd or personally contacts interesting start-ups.

LM: Crowdfunding will be a complementary product on the side of angel financing, therefore isn't believed to form a threat. At least in Finland, it would be sensible to combine the money circulating in the crowdfunding industry with the active angel capital in order to form a much larger and potentially more effective market.
JJ: As with everything, crowdfunding could be seen both as a threat and as an opportunity for angel investors. On one hand, the power of business angels will decrease, because entrepreneurs have more choice with regards to possible backers and therefore angels will lower and simplify their investment criteria. But it is highly likely that angels could also benefit from the crowdfunding market.

4.7.2. Comparison of results

The following chapter will compare the information received from the interviewees to one another. As described in the data analysis method –part, the first interview will be compared to the second one, where after the third one is being compared to first interview. The five core research topics used in the conversations will be analysed and the similarities and differences will be pointed out. At the end a summary will be drawn in order to clarify the collected results. Mutanen's viewpoints will be referred to as Interview 1, Mäkelä's opinions as Interview 2 and ultimately Junkkila's ideas as Interview 3.

Interview 1 and Interview 2 comparison

Topic 1: Investment criteria
Similarities: All business angels and crowdfunders investing through their platforms invest based on similar terms and criteria.
Differences: Mutanen sees a large number of tiny shareholders as more beneficial in comparison to one or two big investors. Mäkelä states that this depends mainly on what the start-up wants to achieve in the future.

Topic 2: Crowdfunding in Finland
Similarities: Both agree on the fact that a Finnish start-up should initially always make use of a Finnish crowdfunding platform, but also mention that the company's

requirements, desires and offerings for potential investors should be taken into account as well before making a decision.
Differences: Mutanen believes that average Finnish crowdfunders won't very actively invest through online platforms, whereas Mäkelä is of the opinion that its popularity will rapidly increase in the form of active investment behaviour.

Topic 3: FC Media Oy
Similarities: Both don't exclude one or the other option.
Differences: On basis of analysing the situation of FC Media Oy, Mutanen sees crowdfunding to be more suitable, but doesn't exclude the other option. Mäkelä mentions a few issues related to the start-up and therefore keeps both forms open as possible fundraising means, also noting that it is dependent on the firm's own requirements.

Topic 4: Main research question
Similarities: Both agree that it depends mainly on what the company itself is looking for. Similar to Mutanen, Mäkelä states that in case a start-up needs an experienced businessman to bring more know-how to the firm, the business angel option should be chosen, whereas crowdfunding should be utilized when everything else is well-organized, but only additional capital is required.
Differences: None

Topic 5: The future
Similarities: A common point of view regarding the future, where they believe business angels could effectively benefit from the crowdfunding market, for instance by registering at various platforms.
Differences: None

Interview 1 and Interview 3 comparison

Topic 1: Investment criteria
Similarities: None
Differences: Where Mutanen states that crowdfunders and angels share similar criteria with regards to start-up companies, Junkkila has different experiences on this

matter. He says that business angels do a much more precise research before investing, whereas the crowdfunders through his service conduct a less extensive due diligence.

Topic 2: Crowdfunding in Finland

Similarities: They agree that Finnish start-up firms should always consider raising additional funds through a Finland-based platform, mainly due to the much better assistance from the service itself.

Differences: Mutanen is a little more sceptical on the interest and activity the normal crowd will show in the near future, but Junkkila believes that, even though it isn't quite popular yet, its awareness will increase rapidly.

Topic 3: FC Media Oy

Similarities: None

Differences: Mutanen sees crowd-based financing to be potentially more suitable for FC Media Oy, whereas Junkkila thinks that that option, at least through his own platform, shouldn't be utilized.

Topic 4: Main research question

Similarities: Both mention that every start-up case is unique and therefore the core question to be answered by the entrepreneurs is whether they need expertise (business angels) or only external funding (crowdfunding).

Differences: None

Topic 5: The future

Similarities: Even though Junkkila is a little more critical on the matter that both forms could effectively work side by side, they both see a possibility in a combined future.

Differences: However, Junkkila believes that a strong crowdfunding market could make business angels a little weaker with regards to always getting the best possible investment opportunities. Mutanen, on the other side, thinks that they will be complementary financing products in the future.

Summary

The below listed table 7 will represent the core points all three interviewees shared and will be placed under the five main topics. This will simplify the comparative process with existing literature executed in a later stage. The last column will show how much these three patriarchs of the Finnish crowdfunding scene either agreed or disagreed with one another.

Table 7: Interview summary

	Markku Mutanen (MM)	Lasse Mäkelä (LM)	Jouni Junkkila (JJ)	Results
Topic 1: Investment criteria	Same criteria for start-ups	Same terms and criteria for start-ups	Angels do more extensive research than crowdfunders	MM and LM agree, JJ disagrees
Topic 2: Crowdfunding in Finland	Finnish platform should be prefered	Finnish platform should be preferred (especially when issuing shares)	Finnish platform should be preferred	All three agree totally
Topic 3: FC Media Oy	Crowdfunding is more suitable, but can be used in combination with angels	No preference, but considering company's own criteria, crowdfunding is more suitable at this point	No preference, but considering company's own criteria, crowdfunding is more suitable at this point	All three have almost similar viewpoints
Topic 4: Main research question	Crowdfunding, when only capital is needed, but angel funding, when ex-	Crowdfunding, when company knows exactly what is it doing, but angel fund-	Crowdfunding, when management team is well-organized, but angel fund-	All three agree

	pertise is needed	ing, when expertise is needed	ing, when expertise is needed	
Topic 5: The future	Angels could invest through crowdfunding platforms	Crowdfunding will be a complementary product	Can potentially form a threat	MM and LM agree, JJ disagrees slightly

4.8. Comparing existing material to research outcomes

This part will concentrate on finding the commonalities and differences between the existing literature-based material and the answers of the interviewed individuals. Since the interviews mainly concentrated on opinions and therefore left out factual information-seeking answers, the earlier done comparisons in chapter 4.5.2 will have to be supplemented with the literature-based material where the major part of chapter 3 consists of. Prior to this comparison, it is important to determine, which parts in chapter 3 should be utilized in order to only compare the information that matters most to start-ups in need of external funding. By using this approach, the most essential knowledge is being covered, compared and clearly summarized. Both the business angel and crowdfunding chapters begin with a broad description, where after the different angel investor and crowdfunder -types are being explained. Since these parts are mainly introductory and do not necessarily require further distinctness, they are not included in this comparison. On the other hand, the investor's strategy and criteria chapters are seen as vital in order to make the best possible fundraising decision. Besides, topic 1 of the interviews also considers this matter and thus it is obvious that this information is used. Logically, the advantages and disadvantages related to both forms are rather useful when they are weighed up against each other. This aspect was not directly covered in the interviews, but many pros and cons simply presented themselves during the conversation or where indicated by the interviewees themselves. Further, chapters 3.1.4 and 3.2.4, regarding advice on what start-up entrepreneurs should take into account, are included since they contain valuable information. These parts, however, will be included in the in-

vestment criteria –section to make the summarization clearer. As with the first and second introductory and less opinion-rich chapters, the parts concerning case examples of start-ups aren't included as these should rather be viewed on the side of this comparison and learned from. The chapters where angel investing and crowdfunding are described based on how their current situation in Finland is (3.1.6 and 3.2.6), are important and should be compared to one another. Interview topic 2 and, partly, Topic 5 consider this country-related issue as well and its information will be combined with the collected literature-based material. The last chapters, explaining where to search for angel investors and which crowdfunding service to utilize, already consist of their own respective comparisons, but will subsequently be weighed up against their counterpart fundraising options. However, this part will be included in the investment criteria topic since it is highly connected to the criteria investors have in relation to what start-ups desire, even though the largest part of the text is factual information. For this reason, only some parts of the text will be included in this comparison. Table 8 will illustrate the topics used for this comparative research part. Additionally, the parts included in each specific topic are also mentioned. In order to avoid possible misconceptions the word 'topic', as already used for the interview comparison, will be replaced by the term 'subject'.

Table 8: Research subjects

Subject 1	**Investment criteria**	Investors strategy and criteria (3.1.2 and 3.2.2), Where to find business angels? (3.1.7), Which crowdfunding platform to choose? (3.2.7), What should start-up entrepreneurs consider? (3.1.4 and 3.2.4), Interview topic 1
Subject 2	**Pros and Cons**	Advantages and disadvantages for start-ups (3.1.3 and 3.2.3)
Subject 3	**Situation in Finland**	Business angel funding in Finland (3.1.6), Crowdfunding in Finland (3.2.6), Interview topic 2 and 5

Subject 1: Investment criteria

Business angels: The majority of angels tend to have a few common criteria with regards to start-ups. Logically, they look for good, innovative business plans in a potentially profitable market, but also a talented, motivated and, in particular, a trustworthy management team is rather considerable. Trust and getting along well with the entrepreneur are the most vital aspects. Technology-related ventures, especially the software, bio tech and healthcare –industries are preferred, but angels usually invest in the industry they have most experience with. They also rather commit to local businesses in order to help their community. Individual angels typically invest up to €100,000 and group investments start from a quarter of a million euros. Angels also highly consider the amount of other financiers the company has, which helps them in determining how much power they could receive within it. This implies that they do not prefer start-ups with a large number of shareholders or other influential owners. Further, business angels are largely focused on exit-strategies, which results in a short-term vision. Mainly for this reason, angels tend to conduct extensive monitoring regarding the firm's credit situation. Ultimately, investors rather work with local companies in order to assist their community. Business angels are very focused on a high return on investment and, thus, they could demand rates that are up to 50 percent.

When taking a look at the various angel networks' criteria, the two largest Finnish entities, Fiban and Ledi, invest in about 20 to 30 Finland-based early-stage businesses annually, with typical amounts ranging from a small €10,000 up to €200,000. The nine Vigo-accelerators mainly concentrate on technology-based ventures, but not all of them are interested in the very first stages of a company.

Crowdfunding: First of all, crowdfunders look at exciting business ideas they can identify themselves with. Therefore, many start-up investors are or can be seen as potential customers. In addition, they try to get a clear picture of the team behind the company. As trust issues are usually hard to determine in online encounters, crowd-based funders focus their energy on researching the entrepreneur's prior experiences in the business scene. However, they do attempt to get a picture of the personality behind the entrepreneur and his or her team. Due to the fact that they are, in most cases, unprofessional investors, only personal capital that can be lived without will

be invested and less intensive credit checks will be applied. Thus, the average invested amount could lie between a few thousand euros, even though many also pledge only one or two euros. However, crowdfunding platform owners and policy makers state that the minimum investment range will be lowered and encouraged even more, which could result in an increased number of new shareholders per start-up. The popularity and existence of social media is a significant benefit for crowdfunders and platforms and therefore utilized a lot.

The suggested crowdfunding platforms also have their own criteria. Some of them have an application process for start-up companies, whereas others accept almost any kind of project. These strict application approaches are simply done, because most platforms are dependent on successful fundraising events with regards to their fee structures. Due to legislative restrictions most websites only allow firms to raise a maximum amount of €1,500,000. Also the minimum investment sums vary significantly from only a couple of euros to a few thousands. In some countries only accredited investors are allowed to invest or even totally restricted from investing.

Comparing investment criteria

Similarities: Trust in the entrepreneur seems to be an important factor for both, even though it is harder to determine in the case of crowdfunding. Both invest into companies they can (closely) relate to for one reason or another. Whereas angels look for industries that are within their area of expertise, crowdfunders usually invest in a product or service that they are interested in or even consumers of.
Differences: Business angels have significantly more criteria in relation to crowdfunders, especially regarding credit checks. Individual angels invest much larger amounts than their counterparts. Typically, angels also demand considerably higher return rates. Ultimately, angels do not prefer businesses with a high number of shareholders aboard, but crowdfunders, on the other hand, do not demand a lot of decision-making power and, thus, do not mind sharing ventures with many other owners. Business angels prefer to invest in start-ups close to their residence, which isn’t the case with crowdfunders since they operate online.

Subject 2: Pros and cons

Business angels: As can be seen from the tables drawn in the summary (3.1.3), the advantages of utilizing angel investors overweigh its disadvantages for the most part. Angel capital fills the equity gap that most start-ups deal with in the beginning and, besides, has a huge influence in attracting further financing from venture capital funds. Another significant benefit is that they bring experience, knowledge and usually valuable contacts along with their money. Their agreements tend to be more flexible in comparison to the one VC's undertake and, furthermore, no additional fees are charged by the angels themselves. Nowadays, business angels can be found nearly anywhere and in most industries. Lastly, they often seek local opportunities and, for this reason, most angels are very socially responsible.

On the down-side, angels usually demand a lot of control in the form of large ownership percentages and eventual management positions. Therefore, they share in the profits (and losses) and are very exit-oriented. Entrepreneurs deal with huge pressure issues from angels, who typically demand high ROI's. In addition, angels tend to do only one single investment, which means that follow-on investments are not very common. In order to attract angels, many paid pitching events have to be visited.

Crowdfunding: Also crowdfunding tends to fill the earlier mentioned equity gap. Furthermore, application processes are rather simple and a lot of pitching is not necessary. Interested backers can form a powerful free-of-charge marketing channel and the access to valuable feedback is easy and up for grabs. Thus, crowdfunding is usually a cost effective option, where the average unprofessional crowd doesn't focus too much on complicated exit-strategies.

On the other side, an unsuccessful crowdfunding campaign could result in a negative image. Moreover, a large number of new shareholders could create many issues, such as organizational problems or possible future venture capital financing. Crowdfunding companies don't have much privacy since a lot of important information has to be published online in order to attract and satisfy potential investors. Since funding is raised through online means, trust-related issues are not uncommon. For instance various documents should be checked and verified.

Comparing pros and cons

Similarities: Both fill the equity gap that exists when start-up founders have used up all their personal savings, but can't attract venture capital or secure a bank loan. Nowadays, clear angel investor databases are increasingly available to entrepreneurs. Crowdfunding platforms also clearly list their members.
Differences: Angel financing increases the possibility to receive venture capital, whereas crowdfunding reduces the attraction. Since crowdfunders are unsophisticated investors, their demands are much lower. For example angels require significant influence within the company they invest in. Business angels bring experience, expertise and additional contacts in combination with capital, but crowdfunders only invest money. Crowdfunding companies acquire a huge amount of new shareholders, where angel funding brings in only a few. Privacy issues are of a much higher concern when crowdfunding then when angels are utilized.

Subject 3: Situation in Finland
Business angels: The business angel sector has already overthrown the venture capital market in Finland. Most investments are done in information technology- related ventures, but the healthcare and mobile –industries are funded a lot as well. Almost three-fourth of these investments is done in groups with an average of €60,000 per company.

Many specialists in the field believe that Finnish business angels will utilize crowdfunding platforms in order to find deals more effectively. Further, since angel investing is a well-established and appreciated form of external financing, there are no significant legislation-related issues on the Finnish market.

Crowdfunding: Today, the Finnish law allows unsophisticated investors to take part in early-stage financing. At the moment, there are only a few active crowdfunding platforms on the market, but it is believed that this amount will grow significantly in the near future. Finnish crowd-based funding entities have underwritten agreements that they are not allowed to offer accredited financial services, but should only serve as a marketing platform.

Also the marketing of the crowdfunding concept has increased and many professional think that the hype will continue to grow even more. However, not everyone is certain about the fact, whether Finnish crowdfunders will actively invest through the Internet.

Comparing situation in Finland

Similarities: Currently, there are approximately as many angel networks as Finnish crowdfunding platforms.
Differences: Online crowdfunding is very new and still undergoes a lot of legislative and trust-related challenges. Business angel funding is more established and therefore clearer for most entrepreneurs.

5. CONCLUSION: CROWDFUNDING OR BUSINESS ANGELS?

The last chapter of this thesis will explain, based on the made comparisons, which form of external financing is most suitable for start-up companies. In addition, the start-up firm, for which this research study has been conducted, FC Media Oy, will receive valuable advice regarding which option they should utilize. Ultimately will be explained what other early-stage ventures in similar situations could benefit from this research study.

5.1. Which option should FC Media Oy utilize?

In the introduction the main research question was presented, namely which form of external financing is more suitable for start-up companies? First of all, as stated by all three interviewees, there is no right answer to this question. Most of it depends on what the company itself needs and desires, but also on how the organizational structure looks, what is offered to potential shareholders and of course the firm's objectives. Both options have significant advantages in comparison to their negative sides. However, also this depends on what the start-up's situation is since every case is unique and someone's disadvantage could turn out to be beneficial for someone else. Even though many experts in the field are very positive about the crowdfunding phenomenon and its potential in the financing sector, it still has to prove itself for a longer period of time in order to compete effectively with angel funding for the coming years.

As it is complicated to choose one or the other fundraising option, since that choice is strongly connected to the company's overall circumstances, it will be helpful to present a case example of FC Media Oy in order to show which form is more suitable for this particular company. Even though investors base their decisions on a lot more factors than used in this example, such as personal preferences, and not all firms are able to completely identify their own situations with it, it is important that start-ups understand the idea of this exercise. Table 9 lists the main characteristics of FC Media Oy to help readers remind the facts considered in chapters 2.1 and 2.2 and clearly summarize the most vital information needed for this example.

Table 9: FC Media Oy overview

Industry	**Web-based services (Social media)**
Stage in Life Cycle	Seed / start-up stage
Capital Required	€900.000 - €1.000.000 (Year 1: max. €200.000, Year 2: max. €800.000)
Company Needs	Marketing funds Travelling funds Web-designers Country manager(s) Other maintenance funds
Objectives	Launch service to the market Acquire customers International expansion
Disadvantages	No financial track record Not fully developed product No customer base

Analysis

As Mutanen stated in the interview, it is quite a challenge to raise such an amount from an individual angel. Therefore, an angel group could be counted as a suitable option. Moreover, most angel entities prefer investing in the sector FC Media Oy is part of, namely web-based technology, which gives this start-up a great advantage. However, most business angels tend to do rather careful and extensive credit checks. Anyway, this doesn't exclude angel financing, but rather reduces its chances. The fact that the company needs country managers in combination with future cross-border expansions increases the need for a skilled business angel that has had experience in this particular area. A potential problem, however, could be the fact that angels don't tend to do follow-on investments, which is rather important for a firm that seeks rapid expansion. On the other side, the increased possibility to get venture capital should be taken seriously into account.

It is clear that the start-up do not prefer to be injected by only external capital. For this reason, we should also take a look at what crowdfunding could offer. Since FC Media Oy is a web-based service and has a particular focus on and connecting with social media-related activities, crowd-based financing could just be right. The company also requires additional funds for upcoming marketing expenses, but this issue could be solved by the average crowd using extensive worth-of-mouth. The same crowd could be a valuable source of customer feedback regarding the service. Furthermore, the majority of crowdfunding platforms allow entrepreneurs to raise up to €1,500,000 in additional capital, which gives the company the opportunity to collect the whole desired sum at once. The main problem for FC Media Oy, with regard to this type of fundraising, is that possible future investments are hard to acquire due to the many new shareholders. This factor is important to take into consideration.

After analysing the pros and cons of crowdfunding and angel funding, it is safe to conclude that both forms could be beneficial to the company. As many fundraising experts believe that crowdfunding can be a complementary product on the side of its more popular counterpart, it will be interesting to find out how this combination would work in theory. In the case of FC Media Oy, the needed amount of capital will be broken up in smaller, more realistic sums. Since individual business angels usually invest up to €100,000 and groups on average €60,000 per case, in addition to the difficulty of attracting more than a couple of angels, we should assume that a maximum of €120,000 to €200,000 can be raised through angel financing means. This leaves approximately €800,000 to be financed with the help of the crowd, which is not an unrealistic amount. However, since only one-fifth of a million is needed for the first year, it could be possible and maybe even wise to attempt to raise only half of that sum. In the following year another crowdfunding campaign could be created in order to raise the other €400,000.

5.2. A new approach to start-up fundraising – Suggestions for further research

As the given suggestion for FC Media Oy indicates, it can be highly effective to utilize angel funding as well as crowdfunding to meet the desired fundraising targets. Both options have huge advantages for start-ups and, very surprisingly, most angels

and crowdfunders share a lot of similar investment criteria and therefore could perfectly complement each other. The unsophisticated crowd could learn from the expertise and experience of business angels, whereas angels could easily and rapidly find new opportunities through the growing number of different platforms. Furthermore, as Mäkelä stated in the interview, the money circulating in the Finnish equity crowdfunding market should be combined with the total capital in the Finnish angel investments sector in order to create a larger, effective, more solid and more competitive environment for both investors and businesses. This combined force has the potential to solve, for most part, the equity gap problem many start-up entrepreneurs are dealing with. Not to mention, that companies could thus benefit from the know-how, experience and valuable contacts an angel adds, in combination with the great marketing and feedback power a large crowd has. The number of investors will be much larger and, especially due to crowdfunding, a larger variety of start-ups in different industries are potential candidates for receiving financing. On the other side, venture capitalists, that are meant to fill possible financial gaps after this stage, are not attracted to companies with many shareholders. But a combination of the crowdfunding and angel markets could mitigate the criteria VC's tend to maintain due to the fact that the need for their injections will decrease significantly.

It is clear that a lot of further research needs to be conducted on the matter in order to make entrepreneurs, the average crowd, but also angel investors aware of the consequences that are connected to these fundraising options. Especially entrepreneurs should study case examples and interview other colleagues that have either successfully raised one or the other, or failed to collect the needed amount. Also possible research should be executed on businesses that seek to raise both angel- and crowdfunding. Ultimately, a lot of effort and responsibility has to be taken by the main patriarchs of the Finnish crowdfunding scene. In other words, they should largely increase marketing on the matter and form partnerships with angel networks or other similar institutions. Additionally, policy makers should be put pressure on to give the Finnish economy, in particular small- and medium sized companies, the financial boost that is highly desired.

5.3. What could other start-ups learn?

Most business angels prefer to invest in innovative, mostly technology-related ventures, whereas crowdfunders also tend to look for new ideas with a competitive advantage. Despite these preferences, any start-up in need of external funding should attempt to acquire the capital they need to grow. At least they should consider and analyse both options and relate their firm's situation as well as their personal desires to it. Mainly due to these reasons, this thesis has been composed and thus start-ups can easily compare the various aspects of angel financing and crowdfunding. The above suggested angel networks, accelerator programs and crowdfunding platforms, however, are mainly suggested considering the overall circumstances of FC Media Oy and eventual other similar Finland-based tech companies. Therefore, other start-ups should only include them in their own comparative studies. Lastly, the main message that companies should learn from this thesis study, is that there are always possible solutions to raise external capital and that the focus shouldn't only be on one particular fundraising option, but instead a combination of two or even more forms of financing can be much more effective and beneficial.

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