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► The Facebook Factor: How Crowd Funding Will Boost Entrepreneurial Innovation

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Facebook remains deeply embedded in our daily lives, but many questions still abound: When will it go public? At what price? And when will the social utility hit the billion-user mark around the world?

While we're waiting for answers, it's worth noting that Facebook is having a profound impact on technology innovation. Venture capitalists, for instance, are focused on finding and funding collaboration-based software that mirrors Facebook and changes the way people keep in touch.

Jive Software is a good case in point. The Palo Alto-based company that brings social technologies securely and at scale from the consumer world into the enterprise realm recently went public and is expected to do well, in part, because we live in a Facebook-influenced society.

Indeed, Facebook is starting to make a broad impact, including in start-up financing. New crowd funding platforms—sites that allow investors to find and finance innovation on the Internet and empower entrepreneurs to efficiently convert early social capital into much-needed financial capital—are on the verge of a major transformation.

Originally, crowd funding was limited to

raising seed financing through small online contributions to help fund socially responsible start-ups, supply microcredit in the developing world, collect charitable or political donations, finance film projects, and support artists with money from patrons. Now opportunities are much greater, particularly with funding from angel investors, venture capitalists, and banks harder to obtain.

With the middleman removed from the financing process, crowd funding can directly attach investors to investments. This new collaborative funding mechanism won't replace traditional investors, but it will augment what's currently available. Indeed, a host of crowd funding sites is now poised to help entrepreneurs and start-ups make stock offerings to the public over the Internet, but they're stalled because of current SEC restrictions.

In an effort to get around these restrictions, a group of small-business owners recently proposed a start-up exemption. The House of Representatives took the proposal and turned it into a bill that was recently passed. The legislation would let companies sell up to \$2 million in equity online and investors buy stakes of up to \$10,000 a year or 10 percent of their annual income, whichever is less. Meanwhile, Senator Scott Brown of Massachusetts

introduced a similar measure in the Senate. His approach, however, restricts investors to a maximum investment of just \$1,000 on an offering of no more than \$1 million.

These potential changes would allow crowd funding to assume an important financial role

emerging and expanding social networks gain global popularity. In the end, I believe these issues will be addressed, and the power of Facebook-style collaboration, connectivity, and community will ultimately win out.

It's a sign of not just the times but also Facebook's persuasive hold on our digital universe that social and financial networking are now being deftly blended. And the bottom line is that crowd funding will almost certainly help turbocharge critical innovation when funding for next-generation breakthroughs is most urgently needed.



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in the social Web. And this worries a number of skeptics who say investors would be exposed to fraud and entrepreneurs could be subjected to lawsuits that could ruin their businesses.

These concerns are legitimate, and they echo common fears about privacy protection as