

BEGINNING FARMERS: CROWDFUNDING FOR SMALL FARMERS

DECEMBER 2017





BEGINNING FARMERS: CROWDFUNDING FOR SMALL FARMERS

CONTENTS

Introduction	3
Crowdfunding—What Is It?	4
Part 1: Donation-based crowdfunding	5
Case study: ACRE	9
Part 2: Investment-based crowdfunding	11
Resources	17

Authors

Shakara Tyler
Underserved Farmer Development Specialist
MSU Center for Regional Food Systems (CRFS)

Ryan Anderson
Co-Founder
ACRE

Amanda Gregory
Supervising Attorney
Lakeshore Legal Aid

Suggested Citation

Tyler, S., Anderson, R., Gregory, A. (2017)
Beginning Farmers: Crowdfunding for Small Farmers. East Lansing, MI. Michigan State University Center for Regional Food Systems. Retrieved from: <http://foodsystems.msu.edu/resources/beginning-farmers-crowdfunding-for-small-farmers>

Acknowledgements

Thank you to our reviewers, Mike Hamm and Susan Smalley.

The authors would like to thank Andrea Weiss of CRFS for communications leadership, Robin Miner-Swartz for proofreading and GÜD Marketing for graphic design.

Support for this work comes from the USDA Beginning Farmer Rancher Development Grant Program supported by the National Institute of Food and Agriculture, U.S. Department of Agriculture, under award number 2015-70017-2286.

BEGINNING FARMERS: CROWDFUNDING FOR SMALL FARMERS

➤ INTRODUCTION

Access to financial capital is one of the largest hurdles to beginning farmers launching new businesses and achieving sustainability.¹ In a survey of 14 Michigan financial institutions, the majority indicated that beginning farmers are not an organizational priority.² With the exception of lenders such as USDA Farm Service Agency and Greenstone Farm Credit (part of the federal Farm Credit System), beginning farmer loans represented less than 5 percent of the financial lending portfolio for all financial institutions.

With strong ties to the communities they feed, however, small and medium-sized farms across Michigan are well positioned to take advantage of new alternative financing models such as donation and investment-based crowdfunding. By allowing small businesses to raise money from the communities they serve, these models can reduce economic barriers to development in communities and industries often overlooked by traditional lenders. Crowdfunding is also a different financing strategy because it involves an individual building a passionate base of supporters in addition to attaining funds for their own farm business.

Exploring questions of accessibility and availability of crowdfunding for beginning farmers requires a closer look at the various types, advantages and disadvantages of crowdfunding as a farm financing tool. This guide aims to address how small and beginning farmers can use crowdfunding as a fundraising tool. As a rapidly changing area, frequently there are new crowdfunding laws, regulations, resources, and tools impacting how it is used. We highly suggest those interested in using crowdfunding do research beyond reviewing this guide.

Part 2 of this publication has been adapted in part from the guide, *Crowdfunding for the Entrepreneur: A Guide for Small Businesses in Michigan*, published by Michigan Community Resources.³

¹ Cocciarelli, S., Suput, D., Boshara, R. (2010) *Financing Farming in the U.S.: Opportunities to improve the financial and business environment for small and midsized farms through strategic financing*. The W.K. Kellogg Foundation Food and Community Program. Retrieved from http://foodsystems.msu.edu/resources/financing_farming_in_the_us_opportunities_to_improve_the_financial_and_bus

² Cocciarelli, S., Suput, D., Boshara, R. (2010) *Financing Farming in the U.S.: Opportunities to improve the financial and business environment for small and midsized farms through strategic financing*. The W.K. Kellogg Foundation Food and Community

Program. Retrieved from http://foodsystems.msu.edu/resources/financing_farming_in_the_us_opportunities_to_improve_the_financial_and_bus

³ *Crowdfunding for the Entrepreneur: A Guide for Small Businesses in Michigan* is available at <https://mi-community.org/wp-content/uploads/2015/10/CF-Entrepreneur-2015-Sep-22.pdf>

➤ CROWDFUNDING—WHAT IS IT?

Crowdfunding is the practice of collecting small sums of money from a large number of people as a way of raising financial capital. If you've ever given money to a telethon or donated your change at the register for a worthy cause, you've participated in crowdfunding.

Today, crowdfunding is increasingly conducted through an online portal. The portal helps by:

- The capacity of the producers and processing industries
- Making it easier for potential investors or donors to find businesses or organizations looking to raise capital;
- Giving businesses and organizations a platform to provide information to many investors or donors at once; and
- Processing the investments or donations that a business or organization receives.

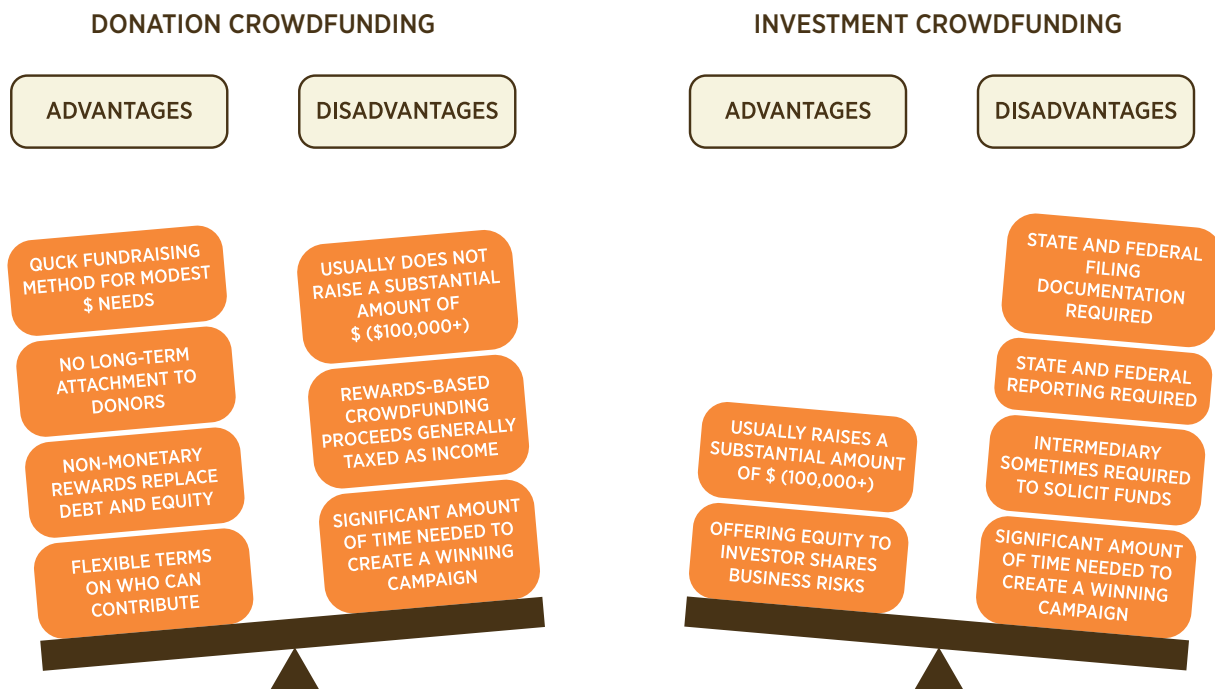
There are two basic models of crowdfunding: donation-based and investment-based.

DONATION-BASED crowdfunding campaigns are what most people are familiar with. Donors give money to support a cause they believe in,

and sometimes they even get a reward or gift for their contribution (just think of those NPR tote bags). This is a common way for nonprofits to raise money, and only recently has it become a successful tool to raise capital for businesses, too.

INVESTMENT-BASED crowdfunding campaigns are a new option, only emerging in the past few years as new laws and rules have been created to regulate them. In this model, investors either loan you the funds you need or they purchase an equity share of your business. In either scenario, there are a number of legal issues to consider before taking this funding.

The model you choose will depend on the needs of your campaign, and it may be useful to map out how each one relates to your growing business. Some starting points that can be weighed are shown below. Donation-based crowdfunding requires less obligation, risk, and restriction, but is likely to raise significantly less money; larger amounts can be raised with investment-based crowdfunding, but that comes with significantly more strings and risks attached.



➤ PART 1: DONATION-BASED CROWDFUNDING

Donation-based crowdfunding is just what it sounds like—asking people to donate money to your farm. Many businesses and charities that ask for donations have found that giving a small thank-you gift to donors can be very helpful (sometimes called reward-based crowdfunding), but the most important aspect is to connect with your prospective donors' desire to help a good cause. If people can emotionally connect with your farm and the ways you benefit your community, they'll be much more willing to contribute.

The biggest benefit to this type of crowdfunding is that it does not require you to comply with any state and federal securities laws. Legally, you will treat all the donations just like any other type of donation income. There is no additional paperwork to file

outside of what any other donation income would require. But, because people are donating the money for little to nothing in return, you're also limited in the amount of funding you can raise. Donation-based crowdfunding works best for projects with modest capital raising needs that appeal to your strongest supporters and the local community. In some cases where a reward is offered that has substantial value or the organization is "pre-selling" a product, and the organization is a new organization that might never actually form, there is a possibility that it could be considered investment crowdfunding. Organizations conducting these types of campaigns should review the investment crowdfunding section and be aware of potential securities law implications.

STEP 1: THE BASICS

Before you build your campaign, you'll need to answer a few questions:

What You Want to Fund

Picking out the right thing to fund can be difficult, especially if your donation-based campaign is only one part of a larger capital raising effort. It's important to balance what your farm truly needs with what your supporters will want to fund. As much as you might need to upgrade your wash/pack station, a brand new commercial grade salad spinner might not sound as exciting to your donors.

You'll also want to make sure you can raise all the money you need to succeed. If you can only raise \$5,000 in donations, pick out a project that's sized to match. And be specific! No one wants to fund your general operating expenses or your first year's interest payments on a farm loan. The more concrete you can be, the better.

Where to Host Your Campaign

Kickstarter is just one of the dozens of crowdfunding platforms for you to choose from, and a partial list is included in the Resources section at the end of this guide. You'll want to consider how long they run their campaigns, how easy it is for you to add content

and share it with your friends, whether they allow you to include a video, and how easy they make it to reward your donors. Different sites also offer different levels of support as you put everything together, so think about how much help you might need. Lastly, these sites aren't free, so you'll want to get the most value out of it. Right now, it's standard to see both a commission of about 5 percent as well as an additional fee for credit card processing around 3 percent.

Who Your Donors Are

Probably the most common misconception about crowdfunding is that you'll be able to put a video online, it'll go viral, and you'll bring in donations from strangers around the world. That's not how 99.99 percent of campaigns succeed, however. People are much less likely to give money to strangers, and your best donors are the people you already know. Your CSA members, market customers, and the patrons at restaurants you supply already are invested in the success of your farm, so a fundraising campaign is a natural fit for them. Similarly, your family, friends, and the people at your church or on your softball team are already invested in you personally. Your crowdfunding campaign is just one tangible way they can support you.

STEP 2: PREPARATION

Thorough preparation is essential. The online platform Fundly found the most successful campaigns on their site took an average of 11 days to prepare.⁴ It's just too late and too stressful to find new donors or dream up new and exciting pitches once your campaign has started. Here are some things you should try to get done before Day One.

Make a List

Now that you know the groups of people you want to ask for money, you need to make a master list of EVERYONE you think you can ask. Everyone whose name you know—from your parents to your dentist, from your childhood friend to the owner of your favorite hardware store— is a potential donor. And the more people you ask, the more money you'll raise. In addition to their name and contact information, your list should include:

- 1. How you'll ask:** The more personal the request is, the more likely the person is to donate (and the more money they'll be willing to give). Casual acquaintances might respond to an email or Facebook message, but your grandma deserves a phone call at the very least (you're such a sweetheart).
- 2. How much you'll ask for:** How you ask should also correspond to how much you ask for. Your friends from high school might give \$30 if you emailed them, but some would probably give even more if you asked them over the phone. Rather than try to come up with a unique number for each person, it's a good idea to group your prospects into different giving levels. You should have at least two levels: a lower amount for acquaintances, a higher amount for good friends and family. The more levels you have, the more targeted you can be with the campaign, but also the more work that will create.

Set Your Fundraising Goal

Add up all the targeted contributions on your list. If everyone gave exactly the dollar amount you're requesting, how much would that be? This is your total "ask." You'll likely only be able to raise 10-20 percent of that amount, unfortunately, because not everyone you ask will actually donate. Your success

rate will be greatly influenced by how much work you put in—how many times and different ways you ask people for money—but setting your goal too high is a recipe for disaster. If your project needs more than 20 percent of your total ask, you should consider whether you know more donors to ask or whether you might be able to scale back your plans.

Pick a Reward (or Two)

Giving a reward is definitely not necessary, but it can be incredibly helpful. People seem much more willing to overpay for a T-shirt or coffee mug than to give you free money outright. And it can be really great advertising to have your committed supporters using something with your farm's name on it. When someone asks them about it, your donors will be the ones to say the nicest things about you.

The best rewards tend to be sample products, which can be hard to pull off for a farm. If most of your donors are local, you could give them produce (or a voucher, if you're fundraising off-season). If not, something thematically connected to the project you're funding or bearing your farm's name works well too. Everyone wears T-shirts and uses coffee mugs from time to time. Public recognition also can be very attractive. A plaque on the wall or bricks with donors' names on them are fun ways to say thanks.

Be sure to have a new or different gift for each level of giving, and keep the cost of the gift as low as possible. Every dollar spent on T-shirts takes away from what you can spend on that new hoop house. All the gifts (and mailing the gifts) should cost about 10 percent of the total raised.

Tell Your Story

Gifts are fun and your new equipment is certainly important, but at the end of the day people are going to contribute to your campaign because they like you, they like your farm, and they like the good things you do for your community. Reminding people of your story and your values as a business is THE BEST way to get them to make a donation.

Every crowdfunding website will have you write a campaign description in 300-500 words. This is a good place to start writing out what you're raising

⁴ <https://blog.fundly.com/crowdfunding-statistics/>

money for, and why. You want to help people see as clearly as possible how their donation will help you succeed, and how that business success contributes something good to them and to their community.

There are a lot of ways you'll be talking about this campaign over the coming month—emails and phone calls, Facebook and Instagram posts. Not only will you need different messages for each level of giving, but you'll want to have a lot of reminders for people. The more of those you can have written at the beginning, the easier it will be to keep up momentum during your campaign.

STEP 3: CAMPAIGN

Running a crowdfunding campaign can be exciting at the beginning and end of the campaign, but the long stretch in the middle can feel tedious. It's important to persevere and keep promoting the campaign on a near-daily basis in order to succeed. Almost every campaign raises most of its funding at the very beginning and very end; Indiegogo found that for their site, 42 percent of funds were raised in the first and last three days. The other 24 days are hard but necessary work.

Campaign Launch

You want to start the campaign with as big of a splash as possible. It's new and exciting for both you and your supporters, so take advantage of that excitement. You want every one of your targeted donors to hear from you on Day One, and ideally you want them to see something about your campaign in more than one place. That means everyone gets an email, you call all the close friends and family who are getting calls, and all of your Facebook friends and Instagram followers see something online. Make sure everyone you can think of sees your video and hears about the campaign.

Contributions will start coming in immediately, and that will be exciting. Virtually every crowdfunding site has a real-time donation tracker where you can watch the donations come in. This is something else you can talk about in your social media posts—celebrate the first donation and the first big donation, thank people publicly, set mini-goals for the next few hours or the first day, etc. You want to keep people thinking about your campaign all day long.

⁵ <https://blog.fundly.com/crowdfunding-statistics/>

Make a Video

Videos are a great way to put your personality into the campaign, and they can have a huge impact on your bottom line. Fundly found that videos more than double the amount of money a campaign raises,⁵ while on Indiegogo campaigns with videos raised four times as much as those without.⁶ Videos also can become expensive quickly if you have to hire a videographer. Ask a friend to help, or just shoot a quick video on your phone. The most important thing is to let your personality come through and give your supporters a way to emotionally connect with the campaign.

This will take more time than you think. Make sure you schedule the campaign launch at time when your field work is flexible. You'll need to take a break every half hour to post something new online or respond to emails and messages, and you don't want to be in the middle of harvesting on a deadline when Grandma calls back.

The Long Middle

After the excitement of the first few days wears off, you'll have to stay focused and relentless to keep the campaign moving forward. The pace of donations will slow down, but that doesn't mean you're done. You've got to keep posting and working for each individual donation to slowly grow your total. The work you do in this period will set you up for a strong end to the campaign. Often the hardest part is coming up with new content to share and new ways to ask for donations. You'll be glad to have as much of this as possible written ahead of time. A few ideas to keep the campaign going:

- 1. The Second Ask:** Everyone who gives you a donation should receive a thank-you email. If you send these out in real time, you have the opportunity to ask them to do just "one more thing" to help with the campaign. Asking these supporters to help you spread the word and share your campaign with their friends and family over email or social media is a great way of expanding your reach.
- 2. Follow Up:** Don't quit after just one ask. If people haven't responded to your first email or

⁶ <https://go.indiegogo.com/blog/2015/10/crowdfunding-statistics-trends-infographic.html>

message, they easily could have missed seeing it or just didn't have the time to contribute. Ask again, and then again, and even a fourth time. People need the reminder, and they'll understand how important this is to you.

3. Celebrate Milestones: Even before you've reached your final goal, it's important to celebrate your progress and make everyone feel successful. These fundraising milestones can be related to the project you're funding (you've raised enough money to buy the new disc attachment for your tractor) or just dollar amounts along the way (the first \$1,000, the 50 percent mark).

4. Friend & "Sponsored" Posts: Asking other people to post on social media is a great way to expand your reach. It's easy for your good friends to just share your posts with their group of friends, and even better if they say something quick about how great you are. Your restaurant customers are another good resource for getting the word out. They already love what you do, and posting about your campaign on their pages is an easy and free way for them to show their support.

5. Thank-you Posts: In addition to thanking people who've contributed to the campaign, think back through your history and thank other people who've been helpful to you in the past. Tagging them in a post on Facebook or other social media will make sure they and their friends see your campaign. The CSA members from your first year, the first chef who bought produce from you, everyone who helped build your barn, or the volunteers who always come to your work days—thanking them for that past support might encourage a donation now. And that type of gratitude gives you something different to talk about in the campaign.

6. Repeat, Repeat, Repeat: The way social media is structured, only a small fraction of your friends or followers see any one post. And even when they do, it might only be on their mind for a few seconds before they scroll to the next cat video. So even if you feel like a broken record and you're bored by your own talking points, keep the updates coming regularly—ideally, more than once a day.

7. Ask in Person: The vast majority of your donors are people you have a personal relationship with, which means you'll see a lot of them face-to-face over the course of the month. Asking someone to donate money in person is far more memorable and far more successful than emails and Facebook posts. Be sure you're talking about your crowdfunding campaign A LOT in the real world, too.

The Final Push

Just like the beginning of your campaign, the final three days have an outsized impact on your bottom line. People are naturally drawn to success, so the closer you get to reaching your fundraising goal, the more likely some people will be to contribute. There are a couple of things you can do to lean into that tendency and drive your contributions as high as possible:

1. Emphasize Scarcity: There are only three days left! Anyone who is on the fence will pay more attention once they realize there is no more time to delay their decision. If you're giving rewards, there's also limited time left for people to get that beautifully designed T-shirt. Marketers love saying, "Time is running out," because it works.

2. Emphasize Success: Make sure everyone knows how well the campaign is going, how much you appreciate the people who've supported you, and how easy it will be for new donors to put you over the top and join the winning team. Each new donation brings you to a new milestone worth celebrating, 90 percent ... 95 percent ... 99 percent ...

3. The Last Emotional Appeal: You don't want to overdo it on the sob story, but the last three days are the right time to make one last phone call to anyone and everyone you think might contribute. Letting them know you're paying attention to them specifically ("I noticed you still haven't given, and I need your support") makes the decision more personal, and therefore they may be more likely to give.

4. Increase Your Frequency: By this time in the campaign, you're probably tired of asking people for money, but you need to stay strong and increase your number of daily social media posts, emails and phone calls. Don't let any of your targeted donors miss the deadline.

CASE STUDY: ACRE

ACRE is a small, sustainable farm growing rare and heirloom produce varieties in the city of Detroit. When an early summer drought struck in 2016, that year's production was nearly ruined. At the time, the farm was located on rented property with a rental agreement prohibiting them from building any permanent structures. This meant no greenhouse and, most importantly, no rain catchment system or access to the city's water system.

Owners Ryan Anderson and Hannah Clark already were looking to purchase land to serve as the permanent home of their 5-year-old business. The reality of being a farmer—especially a small-scale, environmentally sustainable, urban one—is financing options are limited. And although they had begun beta-testing Steward, a new investment-based crowdfunding platform focused on sustainable farms, their need for water was so evident that they also decided to try a donation-based crowdfunding campaign. With a good network of friends, family, and customers, they were optimistic about their chances.

STEP 1: THE BASICS

Deciding what to fund was easy—a lot of ACRE's supporters were aware of the damage the drought had done, and there's nothing more tangibly helpful than providing water for a farm. At about \$10,000 to connect to the city's water system, it was also the right-sized project for their list of potential donors. ACRE looked at several different crowdfunding platforms and settled on Public Equity Detroit. They liked the local focus and felt the platform shared their values around community development.

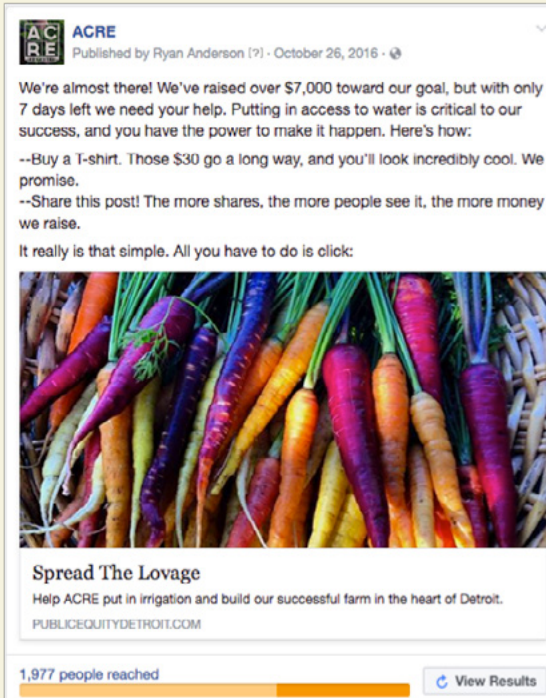
STEP 2: PREPARATION

After writing down every single person ACRE could ask for money, they decided to split their list into two levels—250 friends and acquaintances would be asked for \$30 each, and 60 closer friends and family members would be asked for \$100 each, for a total of \$13,500

in "asks." Although it can be risky to set a goal so close to the total ask (75 percent), Ryan's background as a professional fundraiser gave him confidence he was up to the challenge.

ACRE picked rewards for their two giving levels. Everyone who gave \$30 or more would receive a farm T-shirt commemorating the drought of 2016. Donors who contributed at least \$100 also would have their names put on a "Wall of Heroes," displayed on the new property. Mailing the T-shirts ended up costing more than ACRE wanted, however, and if they had to do the campaign again, they would have added a charge for shipping onto the orders.

Fortunately for Hannah and Ryan, some talented friends of their agreed to make a video to promote the campaign. With the importance of water pretty evident, ACRE wanted the video to highlight the importance of local farms to their city, and explain CASE STUDY: ACRE



The image is a screenshot of a crowdfunding campaign post. At the top left is the ACRE logo. The text reads: "Published by Ryan Anderson (?) - October 26, 2016". The main body of the post says: "We're almost there! We've raised over \$7,000 toward our goal, but with only 7 days left we need your help. Putting in access to water is critical to our success, and you have the power to make it happen. Here's how: --Buy a T-shirt. Those \$30 go a long way, and you'll look incredibly cool. We promise. --Share this post! The more shares, the more people see it, the more money we raise. It really is that simple. All you have to do is click:". Below the text is a photograph of a basket filled with various colorful carrots (orange, purple, yellow, and white). Underneath the photo is the heading "Spread The Lovage" and the text "Help ACRE put in irrigation and build our successful farm in the heart of Detroit." followed by the URL "PUBLICEQUITYDETROIT.COM". At the bottom left, it says "1,977 people reached" with a progress bar. At the bottom right is a button that says "View Results".

CASE STUDY: ACRE (continued)

why donation-based crowdfunding was an important piece of their farm's financing. That video, and more of their story, can be found at <http://www.tinyurl.com/acrerain>.

STEP 3: CAMPAIGN

ACRE was diligent in their crowdfunding campaign. They had an organized list of potential investors comprised of friends, family, and acquaintances. They coordinated those contacts through a plan emphasizing personal contact with investors. They completely filled out their campaign page and promoted it regularly throughout the period of fundraising. They created new and unique posts every day, and scheduled posts for days they knew they would be busy, to keep the campaign fresh in the minds of their supporters. They reached out to their networks and asked others to help them spread the word.

A successful crowdfunding campaign can be a lot more work than some initially anticipate, but for ACRE, the diligence and time paid off. Their project was fully funded as of Nov. 3, 2016.

HELPFUL TIPS:

1. THINK LOCAL. Most of your donors will come from the community your farm serves. Working with local businesses to provide your donor gifts or make a campaign video is a great way to show your own commitment to local business, and you might even meet new supporters along the way.

2. BE YOU. Lots of people end up using a neutral "professional" voice for social media posts for their business. But YOU are the person your supporters are invested in, and hearing you speak in your own words makes the ask more personal and more powerful.

3. PLAN IT OUT. It's not always easy to come up with yet another witty post at 6 a.m. before you head out to harvest. Writing up a list of (relatively) fun posts before you launch will help make sure you can keep on promoting the campaign while you keep your farm running.

› PART 2: INVESTMENT-BASED CROWDFUNDING

Investment-based crowdfunding allows you to raise larger amounts of capital from the public by either:

1. Selling an ownership stake (“equity”) in your farm to investors; or
2. Borrowing money (“debt”) from investors that must be repaid

This is a great option if your farm has higher capital needs than what you could raise in donations and you’re open to building relationships with long-term investors. If you’re in a community or industry (such as agriculture) where traditional forms of financing are harder to come by, investment-based crowdfunding is a useful tool for soliciting investment from local businesses, residents, and organizations directly using an online portal.

There are three ways to raise capital in Michigan through investment crowdfunding. The first two ways—**Michigan Crowdfunding** and **Federal Crowdfunding**—are forms of investment crowdfunding in which a broader group of investors may participate. The third, **Accredited Investor Crowdfunding**, is the most flexible form but only allows certain people and organizations to participate.

Before raising any funds, however, you’ll want to prepare your business for investment, as well as make it attractive to prospective donors. While this administrative work may be significantly greater than with donation-based crowdfunding, so too are the amounts of funding available. Before soliciting funds, you’ll want to:

HELPFUL TERMS

Debt Interest: *The right to repayment after a sum has been loaned, usually with a fixed or variable rate of interest.*

Equity/Ownership Stake: *The portion of a business owned by an investor which is accompanied by certain economic and legal rights.*

Accredited Investors *include each of the following:*

- *Individuals with a net worth of \$1 million, excluding his or her residence*
- *Officers and directors of the company or organization seeking investment and certain entities with more than \$5 million in assets*
- *Individuals with an income of \$200,000 a year (or \$300,000 for married couples)*

Non-Accredited Investor: *An investor who does not meet the financial or asset criteria to make investments as an Accredited Investor.*

Intermediary: *An electronic medium or person providing information on projects seeking funding and collecting and transferring investor funds to these projects.*

Form D Notice of Offering: *An SEC filing form used to file a notice of an offering of securities under Regulation D of the SEC. Form D requires information about the issuer and the offering made.*

Private Placement Memorandum: *A legal document provided to prospective investors when selling stock or another security in a business. The PPM describes the company selling the securities, the offering terms, and the investment risks.*

STEP 1: SECURE YOUR LAND TENURE

Whether rural or urban, it's important to guarantee your access to the land used in the development of your farm business. Land often is used as a collateral asset on agricultural loans, so outright

ownership is beneficial, though not always necessary. For more information on land ownership options and lease options, see www.landforgood.org.

STEP 2: DEVELOP YOUR BUSINESS PLAN

Developing a three- to five-year business plan is crucial for financial readiness. Investors are most interested in supporting well-thought-out farm businesses that can easily demonstrate financial sustainability. They will want to know your mission, vision, goals, objectives, and farm marketing and financial plans. Each of these components should be clearly outlined in your business plan.

You also will need to undergo due diligence with potential investors, allowing them to examine all of the information necessary to make an informed investment decision. While many investment-based crowdfunding platforms will facilitate that step, it's a good idea to work these items into your business plan from the start. Be sure to include:

- Information about the company's ownership and management;
- Information about the company's existing and planned operations;
- A detailed budget of all the money you hope to raise and how it will be spent;

- A description of all the risk factor affecting the investment, both as a result of your farm's general business risks (drought, wind, variable commodity prices, etc.) as well as any risks associated with the type of investment being offered;
- Discuss whether there is any litigation pending or threatened against the company

Even the most business-savvy investor is still, at heart, a person who can be moved by emotion. Your investors will want to know how you got your start in farming, why you chose this difficult path, and what your vision and goals are for the future. Tell them your story passionately and persuasively so they can see that, behind the business, there are real people creating real value in the community. What and how we feed ourselves is a key component of culture. Connecting prospective investors to those bedrock values through your farm is important.

For more assistance writing a business plan, see the Resources section at the end of this guide.

STEP 3: SEEK LEGAL ASSISTANCE

It is very important to seek expert legal advice before using crowdfunding for financing. As discussed above, crowdfunding laws—especially as they relate to investment crowdfunding—are new, complex, and evolving. There are also special regulations applicable to farms, and it will be important to know where they might overlap with the legal implications of crowdfunding.

A knowledgeable attorney also can help you decide which crowdfunding platform is right for you and help ensure you understand all of the deal's

details. There may be issues related to the deal that restrict how you can spend money, expand your business, or raise additional capital in the future.

Never hesitate to have a frank discussion with your attorney about their fee structure, and there's no such thing as a stupid question. Attorneys are just as interested in having total clarity about fees as you are.

For more information on seeking agricultural attorneys, see the Resources section at the end of this guide.

STEP 4: REACH OUT TO YOUR INNER CIRCLE

All crowdfunding is heavily contingent upon the strength of your social networks, and a significant amount of your funding will come from the people you already know. Having honest conversations with your inner circle with all the prepared information on hand is crucial.

Most new business owners approach friends and family for a casual “handshake” deal, but it’s good to be cautious in your financial dealings. Have good documents that spell out the nature

and terms of the investment, especially with family and friends. Laying out clear terms at the outset can save relationships down the road.

For more information on optimally using your social network for crowdfunding, see the resources at Michigan Community Resources: <http://mi-community.org/tools-and-resources/economic-development-entrepreneurship/> and <http://mi-community.org/tools-and-resources/legal-guides-for-nonprofits/>.

STEP 5: CHOOSE THE TYPE OF INVESTMENT YOU WANT

You need to decide whether you’ll sell equity in your business to raise capital, or whether you’ll seek to borrow money that must be repaid. Both have their pros and cons, so the decision is largely about what will best help you reach the goals for your farm outlined in your business plan. Knowing whether you’ll sell equity or debt will then be a good starting point in deciding which crowdfunding platform you’ll want to work with.

Raising Capital with Debt

Choosing debt means you’re taking out a loan, similar to a mortgage. This means the farm business will owe its lender (or in the case of crowdfunding, lenders) the amount it borrows (plus likely some interest). Loans can be set up in a variety of ways:

- **Fixed Interest Rate Loan:** The loan might have an **even amortization**, meaning that there is a **fixed interest rate** and the same payment amount each period (for example, monthly). As the loan is paid down, a bigger portion of each payment will go towards the principal, and a smaller portion will go to interest.
- **Variable Interest Rate Loan:** The loan could have a **variable interest rate** instead. This is where the interest paid on the loan varies according to a formula to which the parties agree. You might get to delay when payments on the principal are due, or have some flexibility in payments. You might even be able to structure payments based on your farm’s revenues. This type of repayment—revenue-based financing or royalty

financing—is especially important in agriculture given the seasonal fluctuations in revenue.

- **Collateral Loan:** There may be **collateral** for the loan, meaning that if you fail to make payments, the lenders can take ownership of some of your farm’s assets, such as the land you grow on and the farm’s equipment.

Whichever option you choose, **using debt crowdfunding means you will need to repay a loan, likely with interest.** You will have to repay that loan even if the business is not profitable. But you will not have to share ownership of the farm, and your relationship with the lender is temporary. Once the loan is repaid, the lending relationship is over.

Raising Capital with Equity

Choosing equity means giving your investors some ownership in the business, and these equity investors share the business risk with you. They only get paid when the business is profitable. Each investor in the business will get paid as a partner, which generally means the investor will get a **distribution** of the profits based on how much of the company he or she owns. These investors will get a fixed percentage of your profit, regardless of how large or small it might end up being.

First, you’ll need to determine your farm’s value as a business. This could be determined as a multiplier of your annual revenue or the sum of your farm’s assets. Then you can determine what percentage of your business each investment will “buy”—does \$10,000 buy 10 percent of your business, or only

1 percent? This can get sticky, particularly with crowdfunding, as there will be minimal negotiation and discussion between you and the people investing through a crowdfunding website. Equity relationships are more likely to be permanent, or at least long-term, than lending relationships.

There are different methods available to set up an equity capital raise. Each equity investor will own a part of your farm, but this does not necessarily mean they will have input or control over your business decisions. A deal may be structured to create different classes of owners; some owners get paid first out of profits and others get paid last. It is common for the **general partner** (in this case, you), to retain company control and get the biggest share of profits, but for the **limited partners** (in this case, the crowd investors) to get paid first.

The defining characteristic of equity is that the crowd investors will receive a piece of ownership in your company, sharing in the company's upside and downside, and they will likely be around for a while.

Raising Capital with Revenue Sharing

While equity and debt are the two most common forms of investment available, revenue sharing arrangements are a combination of the two. Under a revenue sharing model, you would agree to pay investors a fixed percentage of your annual revenue, but only until they are repaid some multiple of the original investment.

For example: You might take a \$100,000 investment and agree to pay your investors 5 percent of gross revenue annually until the investors receive 1.5 times their investment, or \$150,000. If your farm outperforms expectations, the investors get their \$150,000 more quickly (meaning a higher rate of return); if your revenues lag, investors will get their \$150,000 over a longer period of time (a lower rate of return). Revenue sharing arrangements must be put together carefully, but they contain some of the best features of both debt and equity.

STEP 6: CHOOSE A CROWDFUNDING METHOD

Now that you know how you want to raise your investment, it's time to decide where. Different platforms allow different groups of investors (Michigan Crowdfunding, Federal Crowdfunding, or Accredited Investor Crowdfunding) and will allow different types of investment offerings (debt, equity, or revenue sharing).

Michigan Crowdfunding

Through the Michigan Invests Locally Exemption Act (MILE Act), a business can raise capital through investment crowdfunding if it meets the following criteria:

1. The business is a private Michigan entity;
2. All investors are Michigan residents;
3. The business only offers the investment opportunity to Michigan residents.

Any Michigan resident can invest through Michigan crowdfunding, but there are limits on how much money an individual investor can invest. There also are limits on the amount of

money a business or organization can raise in any 12-month period. In addition, the business must make filings with the State of Michigan and provide certain information ("disclosures") to investors about the business. To ensure the investment opportunity is offered only to Michigan residents, most Michigan crowdfunding offerings are done through an internet portal that can confirm that interested investors are Michigan residents.

Federal Crowdfunding

Federal crowdfunding, unlike Michigan crowdfunding, will allow solicitation of non-accredited investors across state lines. That means that businesses can attract investors online outside of Michigan. Federal crowdfunding became a reality in May 2016 when the SEC finalized its long-awaited rule.

Anyone can invest through federal crowdfunding, but there are limits on the amount of money an individual investor can invest. You are also limited in the amount of money that you can raise, ranging from \$100,000 to \$1 million, depending on your business's financial statements.

Additionally, all federal crowdfunding must be done through an intermediary: either a registered broker-dealer or a registered online funding portal. And you'll need to make certain filings with federal regulators and provide disclosures to investors.

Accredited Investor Crowdfunding

This requires all investors to qualify as accredited investors, which means they meet one of the following criteria:

1. Individuals whose net worth exceeds \$1 million (excluding primary residence);
2. Individuals with an income of at least \$200,000 a year (\$300,000 for married couples); or
3. Officers and directors of the company seeking investment, and certain entities with more than \$5 million in assets.

Your business must take reasonable steps to verify that all investors are accredited. Accredited investor crowdfunding offers the same ability to reach investors through the internet or social media as Michigan or federal investment crowdfunding and has fewer overall limitations. So long as all investors are accredited, the business can advertise the capital raise on the internet, social media or in any other manner. There are no limits on the amount of money an individual investor can invest and no limits on the amount of money a business may raise.

Raising funds from accredited investors does not require the same disclosures as Michigan or federal crowdfunding, but potential investors will probably want to see a **private placement memorandum** (PPM). A PPM has a lot of the same information as a disclosure, and circulating it can help protect you from a variety of investor claims if the investment does not perform. As with Michigan crowdfunding investments, accredited investor crowdfunding is relatively illiquid. For one year, investors cannot sell their investment, except to certain related parties called **affiliates**.

You will be required, however, to fill out a **Form D Notice of Offering** and file it within 15 days of selling the investment. This notice must contain:

1. The basic terms of the investment;
2. A description of your business; and
3. Information on how the money being raised will be used.

The crowdfunding portals will know their own requirements for verifying potential investors and only soliciting to the appropriate investor class, but small business owners interested in advertising their crowdfunding on social media and public platforms for everyone to see should carefully consult the terms and conditions of the investment crowdfunding platform they are using, as well as discuss with an attorney what information is acceptable or may be prohibited in public advertisements of the campaign.

Table 1. Comparison of Investment Crowdfunding Methods

	MICHIGAN CROWDFUNDING	FEDERAL CROWDFUNDING	ACCREDITED INVESTOR CROWDFUNDING
WHAT IS THE LIMIT ON THE AMOUNT OF CAPITAL RAISED?	\$2 million every 12 months with audited or reviewed financial statements. \$1 million every 12 months without audited or reviewed financial statements.	\$1 million per 12 months with audited financial statements. \$500,000 with reviewed financial statements. \$100,000 if neither audited nor reviewed financial statements are provided.	No limit.
WHAT IS THE LIMIT ON THE NUMBER OF INVESTORS?	No limit.	No limit.	No limit.
WHAT IS THE LIMIT ON INVESTOR TYPE?	Michigan resident only.	Any investor.	Accredited investor only.
WHAT IS THE LIMIT ON THE TYPE OF ISSUER (YOUR FARM)?	Private Michigan entity.	Private U.S. entity.	Any company.
WHAT IS THE INVESTMENT LIMIT?	\$10,000 for non-accredited investor. No limit on investment by an accredited investor.	If investor's income and net worth is below \$100K, investment limit is the greater of \$2,000 or 5% of annual income or net worth. If investor's income or net worth is above \$100K, 10% of income/ net worth up to \$100K.	No limit
WHAT ARE THE INFORMATION DISCLOSURE REQUIREMENTS?	Disclosure Statement with specific requirements filed with Michigan's Department of Licensing and Regulatory Affairs ("LARA") 10 days before offering.	Offering circular with specific requirements (including audited financials if greater than \$500K). Form C filed with SEC before commencement of offering and 21 days before first sale and provided to intermediary and investors; periodic updates required.	Form D notice of offering filed with SEC after first sale. Some disclosure to investors may be necessary to address market or liability concerns
IS STATE LAW COMPLIANCE REQUIRED?	Yes. Filing with LARA is required as described above.	No	No
IS ONGOING REPORTING REQUIRED?	Yes. A quarterly report to investors including disclosure of directors' and officers' compensation, discussion of business operations, and financial condition of issuer. Michigan resident only.	Yes. File Form C-AR annual report with SEC, including financials meeting requirements in last offering circular.	No
ARE THERE RESALE RESTRICTIONS?	Investor cannot resell an investment to non-Michigan resident within 9 months after initial investment.	Yes. Resale is limited during the first year.	Yes. There is a 1-year restriction for resale by non-affiliates but no restriction for affiliates.
ARE THERE RESTRICTIONS ON SOLICITATIONS?	General solicitation and advertising is permitted, but only to Michigan residents. Filings with LARA are required if offered via website, and ongoing conditions must be met.	Yes. The company cannot advertise the terms of the offering but may advertise the offering itself and direct investors to the intermediary.	General solicitation and advertising permitted if issuer reasonably verifies each investor is accredited or reasonably believes each investor is accredited.
IS AN INTERMEDIARY REQUIRED?	None required, but an internet platform is often used.	Yes. The offering must be conducted through a single intermediary.	None required, but an internet platform is often used.

» RESOURCES

NATIONAL CROWDFUNDING PLATFORMS

Patronicity: <https://www.patronicity.com/>

RocketHub: <https://www.rockethub.com/>

CauseVox: <http://www.causevox.com/>

Razoo: <https://www.razoo.com/>

Kickstarter: <https://www.kickstarter.com/>

Indiegogo: <https://www.indiegogo.com/>

IOBY: <https://www.ioby.org/>

Barnraiser: <https://www.barnraiser.us>

Steward: <https://stewardfp.com/>

Fundly: <https://fundly.com/>

MICHIGAN-BASED CROWDFUNDING PLATFORMS

LocalStake: <https://localstake.com/>

Michigan Funders: <http://michiganfunders.com/>

Fundrise: <https://fundrise.com/>

MICHIGAN RESOURCES FOR LOCAL INVESTING

Local Investing.com: <https://www.local-investing.com>

Locavesting.com: <https://www.locavesting.com>

Revalue Investing: <https://www.revalueinvesting.com>

Crowdfunding Michigan: <https://www.crowdfundingMI.com>

Sidewalk Ventures: <http://www.sidewalk-ventures.com>

Public Spaces, Community Places: <https://www.patronicity.com/puremichigan>

The Local Stake Difference: https://localstake.com/for_businesses

LEGAL RESOURCES FOR MICHIGAN FARMERS

Great Lakes Environmental Law Center: <https://www.glelc.org/>

UDM Law School Program: <https://www.law.umich.edu/Pages/default.aspx>

MSU Law School Program: <https://www.law.msu.edu/>

State Bar of Michigan, Agricultural Law Section:

<https://www.zeekbeek.com/SBM/Search-Results#mtype=good&profession=Lawyers®ion=MI§ion=36!Agricultural+Law>

DUE DILIGENCE CHECKLIST & REQUEST TEMPLATE

Go 4 Funding Due Diligence Checklist:

<http://www.go4funding.com/Articles/Angel-Investors/Due-Diligence-Checklist.aspx>

The Venture Alley Due Diligence Request Template:

<https://www.theventurealley.com/wp-content/uploads/sites/5/2013/08/Sample-due-diligence-request-list-Trent-Dykes.pdf>

BUSINESS PLANNING RESOURCES FOR SMALL FARMS

AG Plan: <https://agplan.umn.edu/>

“Building a Sustainable Business” Minnesota Institute for Sustainable Agriculture:

<https://www.misa.umn.edu/publications/buildingasustainablebusiness>

FINANCIAL PLANNING RESOURCES FOR FARMERS

“Getting started with business planning and financial readiness” by MSU’s Student Organic Farm:

https://mediaspace.msu.edu/media/Business+planning+and+financial+readiness/1_rtwt14n

“Guide to Financing the Community Supported Farm” by University of Vermont’s New Farmer Project:

<http://www.uvm.edu/newfarmer/?Page=business/community-supported-farm-guide.html&SM=business/sub-menu.html>

Fearless Farm Finances by MOSES: <https://mosesorganic.org/fearless-farm-finances/>

OTHER RESOURCES FOR MICHIGAN FARMS

Michigan Good Food Fund: <http://migoodfoodfund.org/>

Emerging Farmers in Michigan: <http://foodsystems.msu.edu/our-work/michigans-emerging-farmers/>

MSU Student Organic Farm (SOF): <http://www.msuorganicfarm.org/>

MSU Center for Regional Food Systems (CRFS): <http://foodsystems.msu.edu/>

Michigan Food and Farm Systems (MIFFS): <http://www.miffs.org/>

Keeping Growing Detroit (KGD): <http://detroitagriculture.net/>

Michigan Community Resources: <http://mi-community.org/>

MICHIGAN STATE | Center for
UNIVERSITY | Regional Food Systems

CRFS envisions a thriving economy, equity, and sustainability for Michigan, the country, and the planet through food systems rooted in local regions and centered on Good Food: food that is healthy, green, fair, and affordable. Its mission is to engage the people of Michigan, the United States, and the world in applied research, education, and outreach to develop regionally integrated, sustainable food systems. CRFS joins in Michigan State University's pioneering legacy of applied research, education, and outreach by catalyzing collaboration and fostering innovation among the diverse range of people, processes, and places involved in regional food systems. Working in local, state, national, and global spheres, CRFS' projects span from farm to fork, including production, processing, distribution, policy, and access.

Center for Regional Food Systems
Michigan State University

480 Wilson Road
Natural Resources Building
East Lansing, MI, 48824

For general inquiries:

LEARN: foodsystems.msu.edu

EMAIL: CRFS@anr.msu.edu

CALL: 517-353-3535

FOLLOW: @MSUCRFS

Email addresses and phone numbers for individual staff members can be found on the [people page](#) of our website.

