BEST PRACTICES

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Finance

CROWDFUNDING SMARTS

Getting the public to invest in your business can breed loyal customers—if you don't flub the pitch.

Crowdfunding is a sea change for small businesses that don't want to go the traditional financing route. Can it work for restaurants? A look at Kickstarter, a top crowdfunding website that lets entrepreneurs run "campaigns" to raise money directly from people who support their efforts, shows it can be hit or miss. Some entrepreneurs don't make their financial mark; if you don't raise the money you asked for within a certain time frame, you don't get any of it. And running a campaign can take as much time and money as the physical act of opening up shop. But if done right, crowdfunding can turn financial supporters into loyal customers. Two restaurant startups that did succeed give their advice for how to rock a crowdfunding campaign.

$2.7 billion
Total amount raised on U.S. crowdfunding sites in 2012
Source: Massolution

Know why you're crowdfunding. The three owners of Lucky Luna, a Brooklyn, N.Y., restaurant mixing Mexican and Taiwanese cuisines, decided to skip angel investors because they didn't want too many cooks in the kitchen, financially speaking. "When working in others' kitchens, we saw the problems that arise when too many investors are involved, so we knew we wanted to be the only ones in charge," says Marisa Cardena, co-owner and general manager. Another reason why they opted for crowdfunding to raise the $28,000 to complete construction is because it's an effective yet relatively inexpensive method of marketing. "Kickstarter was a good way to get our name out there and advertise the restaurant before it opened," says Cardena.

Bring in the pros. When Kyle Lattimer and Paul Losch wanted to crowdfund $22,000 for their first restaurant, Ruddick/Wood in Newburg, Ore., they were determined to score big on what they considered the campaign's most important component—the video. Campaign pages that feature a video have higher success rates and raise more money than those without. But Lattimer and Losch were far from expert filmmakers. Fortunately, Losch's wife works at an ad agency, so her connections helped them make a two-minute video that told the story of what kind of restaurant Ruddick/Wood would be. "It's hard to get all your ideas into a short time frame, so having people who know how to make a cohesive [high-quality] video is important," says Losch.

Most successful restaurant campaigns on Kickstarter in the past two years sought $20,000 or less and allotted 30 days for their fundraising efforts.

Diners and donors at Ruddick/Wood on opening night

Lucky Luna raised $29,000 to help with construction projects

Tap your network. It takes a village to be successful in crowdfunding. For restaurant startups, that village consists of industry connections—probably more important than friends and family. The Lucky Luna team, who moved cross-country from San Francisco to open up their Brooklyn restaurant, used Kickstarter to inform their West Coast contacts and former co-workers in the food service industry what they were up to and introduce themselves to the foodie crowd in their new neighborhood. "If we didn't have the experience and didn't contact the people who knew us professionally, we wouldn't have succeeded like we did," says Cardena. "By working with us, they knew we were capable of doing this. We couldn't have raised the funds by family and friends alone." She recommends that owners who have the space host events to promote the crowdfunding campaign. "When new people meet you face-to-face, they're more willing to fund you, and it makes your network much larger."

Update regularly. By the second week of their campaign, the Ruddick/Wood team discovered what crowdfunding campaigns typically do—start strong, then die down. To revive interest, they sent constant updates to their network via email, Facebook and Twitter with messages like, "We're halfway there, but we still need $14,000." To broaden their network, Lattimer and Losch contacted local blogs to get media attention, which reignited donations to the campaign.

For Lucky Luna's updates, Cardena wrote blog posts and took photos of the construction to show supporters how work was progressing. "They could visualize how their money played a part, and that made them feel more supportive and connected."

Be a part of the community. Don't just look like you're asking for handouts from prospective customers. Show them you intend to be a good addition to the neighborhood. Cardena blogged about how Lucky Luna would host "supper club nights," featuring guest chefs and artists, to help them make a name for themselves. "We want Lucky Luna to be a space others can use for their business endeavors," she says. "Promoting them helps us better promote ourselves."

Realize this is a full-time—and expensive—job. Work should start way before you make your campaign public. Lucky Luna took all of last summer to do preliminary research and video production before it launched on Kickstarter in October. The owners also spent a lot of time and money designing and producing the T-shirts and bags it offered as thank-you rewards for donations. Besides spending a few thousand for upfront costs, Lucky Luna handed over 10 percent of the $29,000 it raised to Kickstarter as its cut. "Your stress levels can equally match the money you spend," says Cardenas.

So, would they do it again? After raising $3,000 more than planned, the Ruddick/Wood team said they would, but would ask for more money next time. "We were surprised at the number who donated at the $1,000 mark," says Lattimer. "So if there's a next time, we'll take a closer look at the rewards we offer and better structure what we give at the higher price points."

Cardena doesn't want to do crowdfunding again, even though Lucky Luna raised $900 more than asked for. Besides the significant time, effort and up-front costs, she's wary about asking connections for money a second time. "Our supporters were very generous, but it's an awkward position to be asking our network for money and I wouldn't feel comfortable doing that again. Next time, I'll probably go the traditional route."

—Vanessa Richardson

43%

Percentage of Kickerstarter campaigns that have reached their financial goal

$25

Average financial pledge on Kickstarter