

CROWDFUNDING INDUSTRY REPORT

OVERVIEW OF TECHNOLOGY AND IMPACT OF COVID-19 CRISIS

May 2020



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BACKGROUND

Crowdfunding industry reports are not new.

Cambridge Centre for Alternative Finance publishes **benchmarking reports**, European Crowdfunding Network runs **research on capital markets** and regulations, Financement Participatif France offers **annual activity reports**.

The materials above contain in-depth information on the crowdfunding industry landscape in the UK and Europe. However, apart from blockchain and distributed ledger technology, they hardly assess the software behind crowdfunding platforms.

Along with proper regulatory compliance, features and convenience provided to investors and borrowers by the platform define whether the business is going to be stable, secure, and scalable. In turn, this defines the success of the crowdfunding business in general.

Of course, there's always more to it: professional staff, impeccable reputation, thought out marketing strategy, and a bit of luck. Nevertheless, technology is what makes this business possible in the first place.

We had planned to run the survey long before the COVID-19 pandemic started, and after some consideration decided to cover the impact of the crisis on crowdfunding platforms as well.

METHODOLOGY

The report reflects the data collected from the crowdfunding platforms all over Europe: France, Norway, Finland, Latvia, Estonia, Germany, United Kingdom, Spain, Denmark, Ireland.

We reached out to crowdfunding platform owners directly and through the networks of our strategical partners: **Lemonway**, **Mangopay**, **European Crowdfunding Network**. Besides, we received immense support from **Financement Participatif France**.

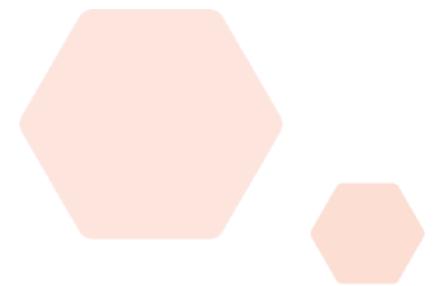
The results are based on self-reported data obtained from a questionnaire that consisted of 27 questions in total and covered the general nature of the business, automation level, functionality and features, development expenses and crisis management.

The questionnaire had mostly multiple-choice questions and circulated from April 4th through May 12th, 2020.





PLATFORM OVERVIEW



BUSINESS MODEL & INDUSTRY

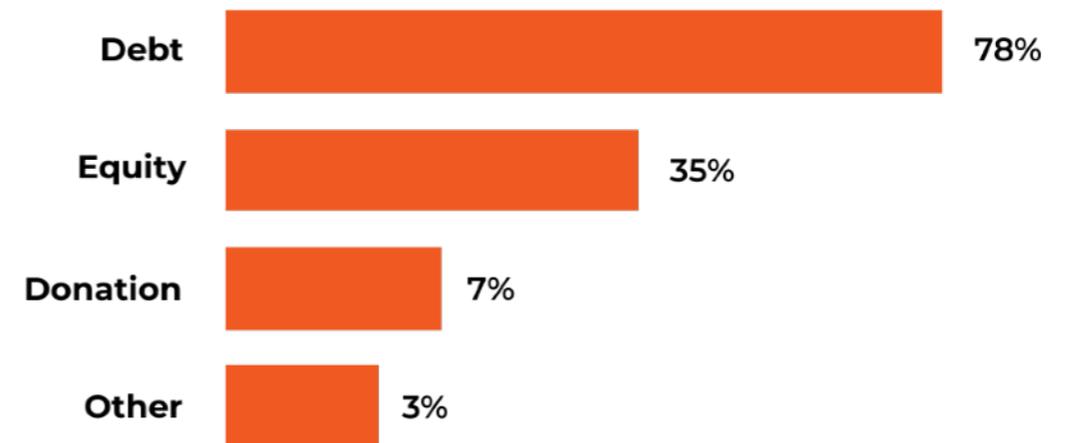
The majority of platforms offer debt investments (**78%**). Equity investments are offered by **35%** of the platforms, while donations are accepted by **7%**.

One third of the platforms offers debt and equity investments at the same time, however, the percentage of equity deals on this platforms has not been studied.

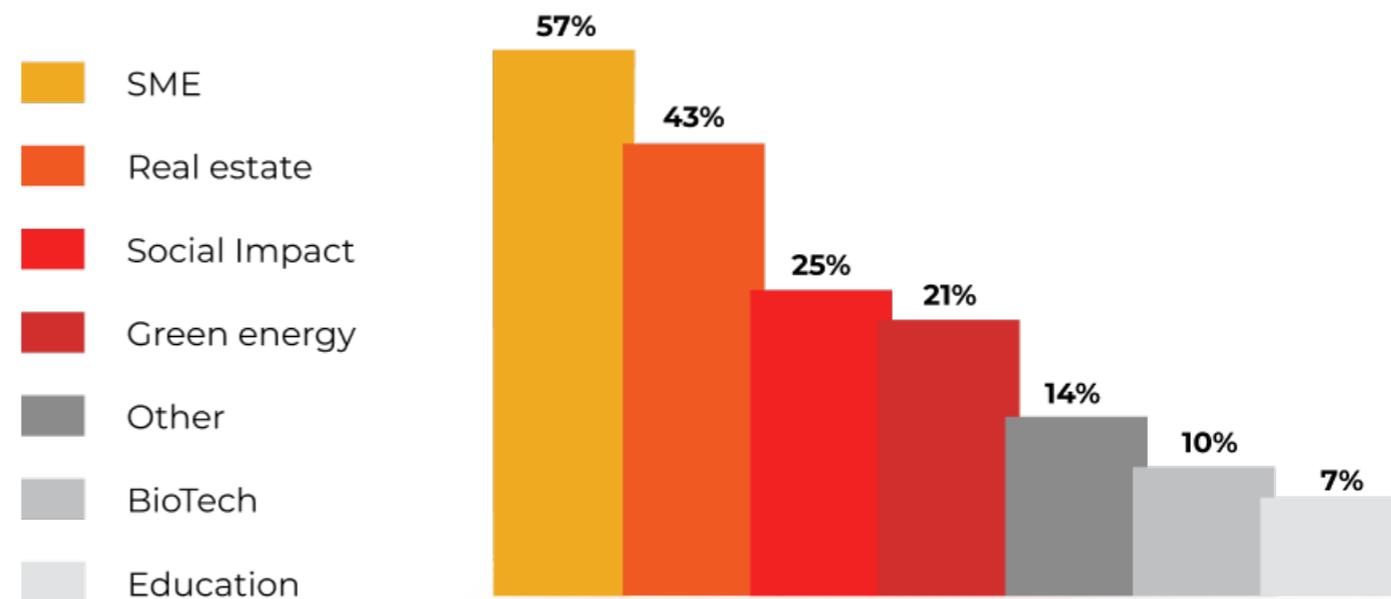
SME funding is the most popular niche (57%). 43% of companies focus on **real estate**, 25% on social impact, 21% on **green energy**. Other niches reported include BioTech, education, innovation, startup and consumer lending.

No reward-based crowdfunding platforms have participated in the survey.

Business model



Industries and niches

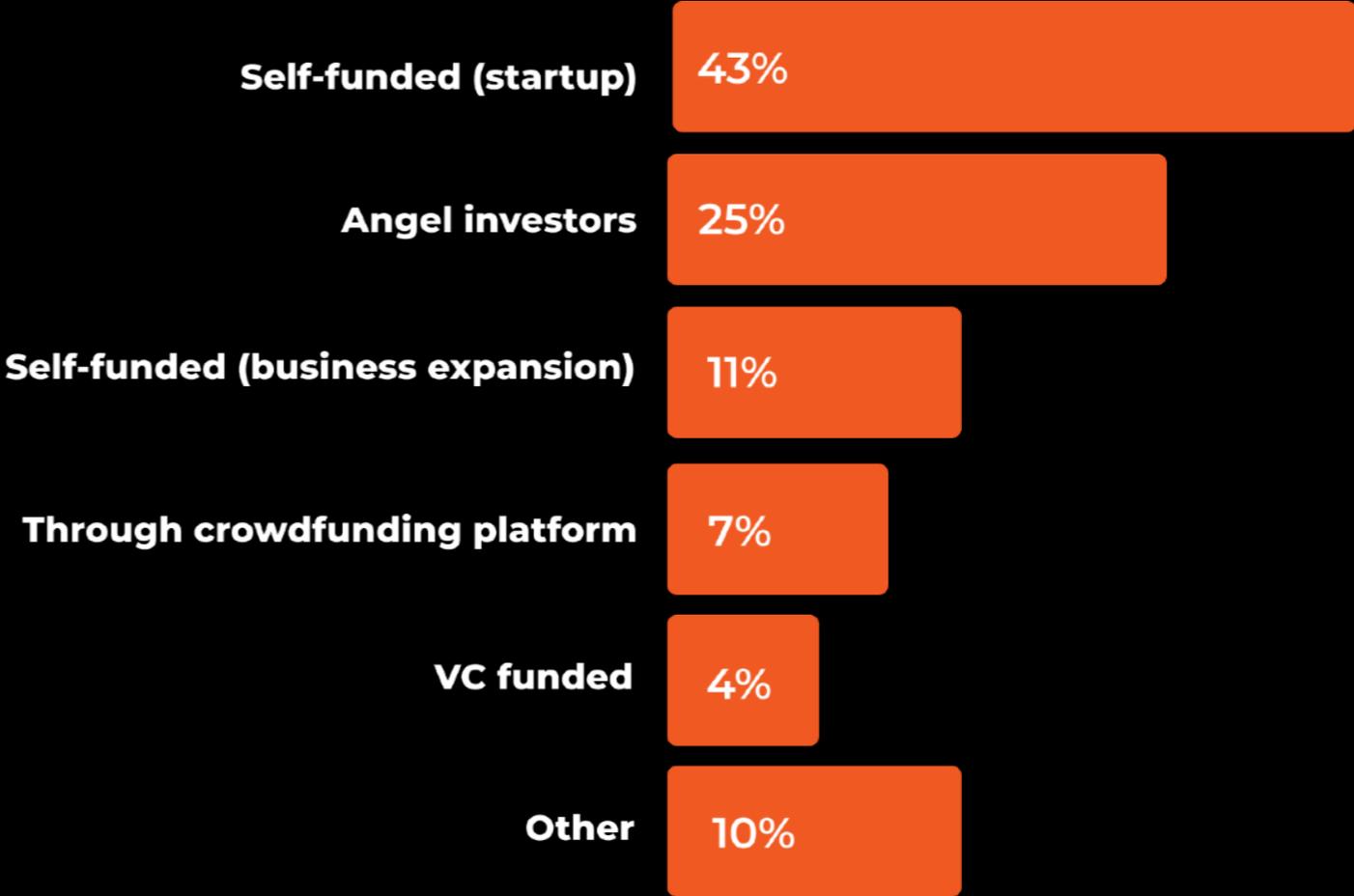


COMPANY FUNDING

43% of the respondents are **self-funded startups** with no outside capital. One third of them launched their crowdfunding platform with a white-label crowdfunding software, which is usually less expensive than custom built solutions.

The most popular outside funding type is through **angel investors**: 25% of survey participants chose this type of investment. Only 4% are VC funded businesses.

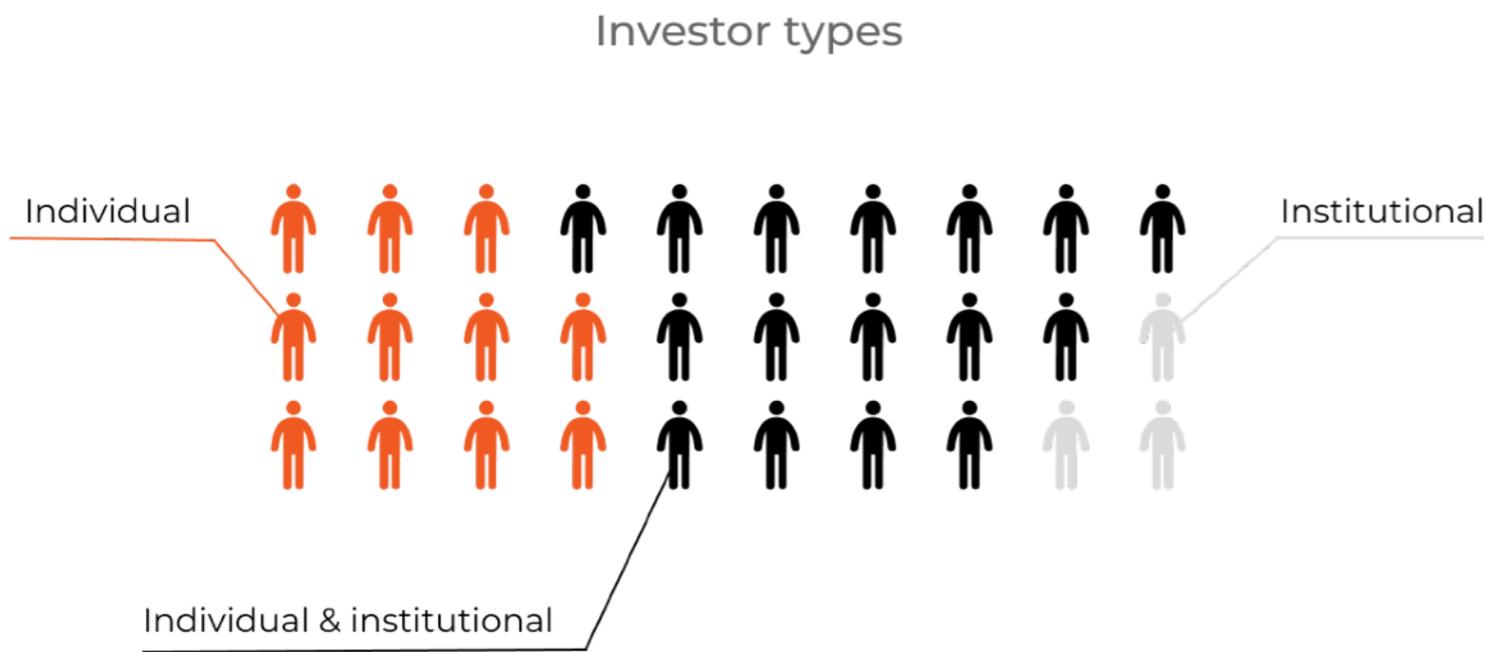
Overall, 46% of respondents received the outside capital through seed investors, crowdfunding platforms, or VCs. **All of them have built custom crowdfunding solutions.**



MAJORITY OF PLATFORMS WORK WITH BOTH INSTITUTIONAL AND INDIVIDUAL INVESTORS

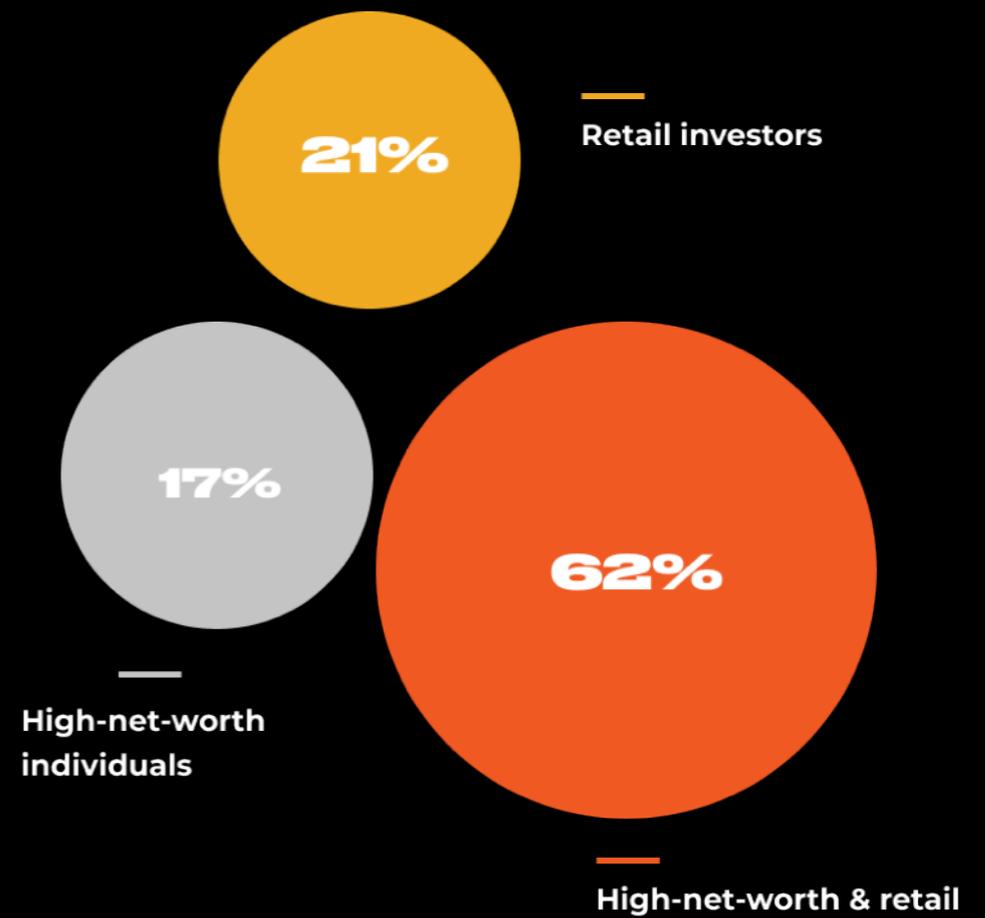
56% of platforms offer investment opportunities **both to individual and institutional investors.** 4% cater exclusively to institutional investors and 35% — only to individual.

At the dawn of the crowdfunding era, platforms mostly targeted individual (retail) investors and gradually expanded to involve bigger players, which is supported by our data.



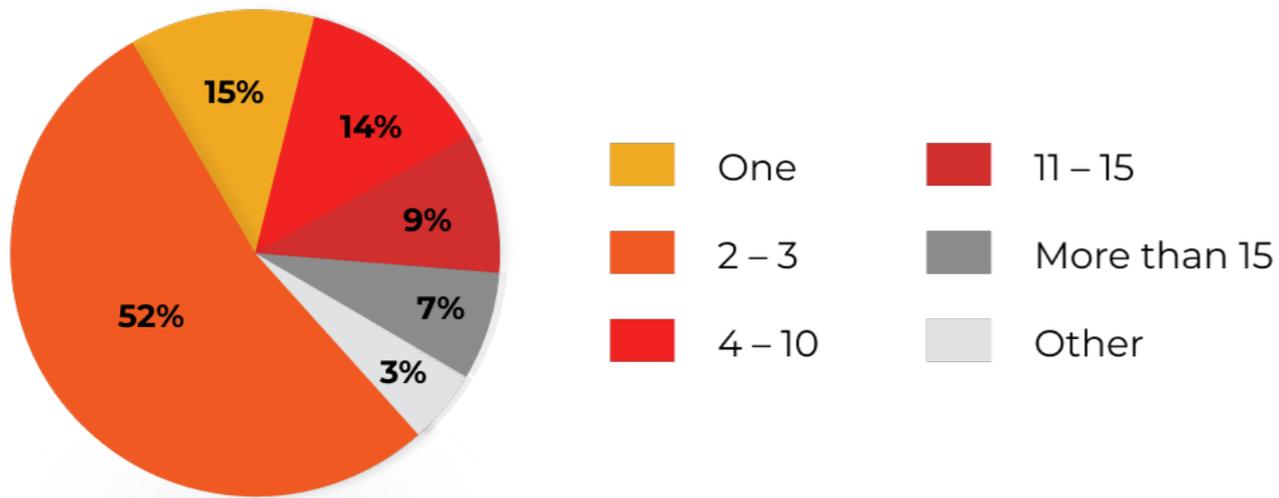
Individual investors are targeted by 52% of platforms

Out of all platforms that deal with individual investors, 17% work only with High-Net-Worth individuals, 21% — only with retail investors, and 62% with both of them.

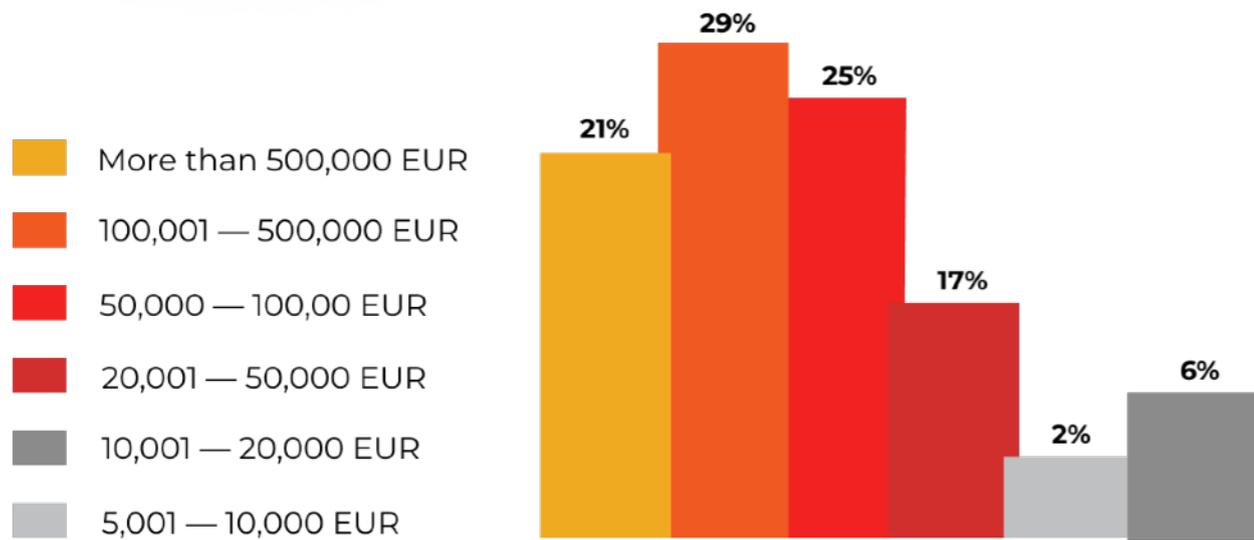


PROJECT FUNDING

Average number of open deals



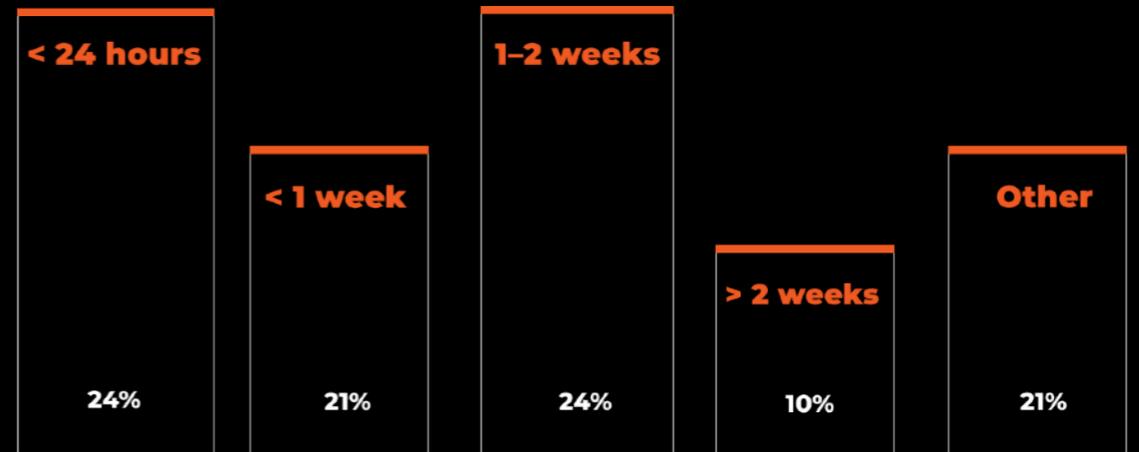
Average deal funding amount



21% of platforms close deals under 24 h

The most common number of active investment opportunities is 2-3 at a given time (50% of respondents). 22% of the platforms offer only one active offering, 5% - more than 10 at a time.

As for the average time to reach the funding goal, 21% of crowdfunding platforms manage to do within 24 hours.



Deal funding amount varies greatly. More than 36% of the platforms offer investment opportunities from 100,000 to 500,000 EUR and at least 13% of respondents indicated funding amounts of more than 500,000 EUR.



IMPACT OF COVID-19 CRISIS

OVERALL IMPACT

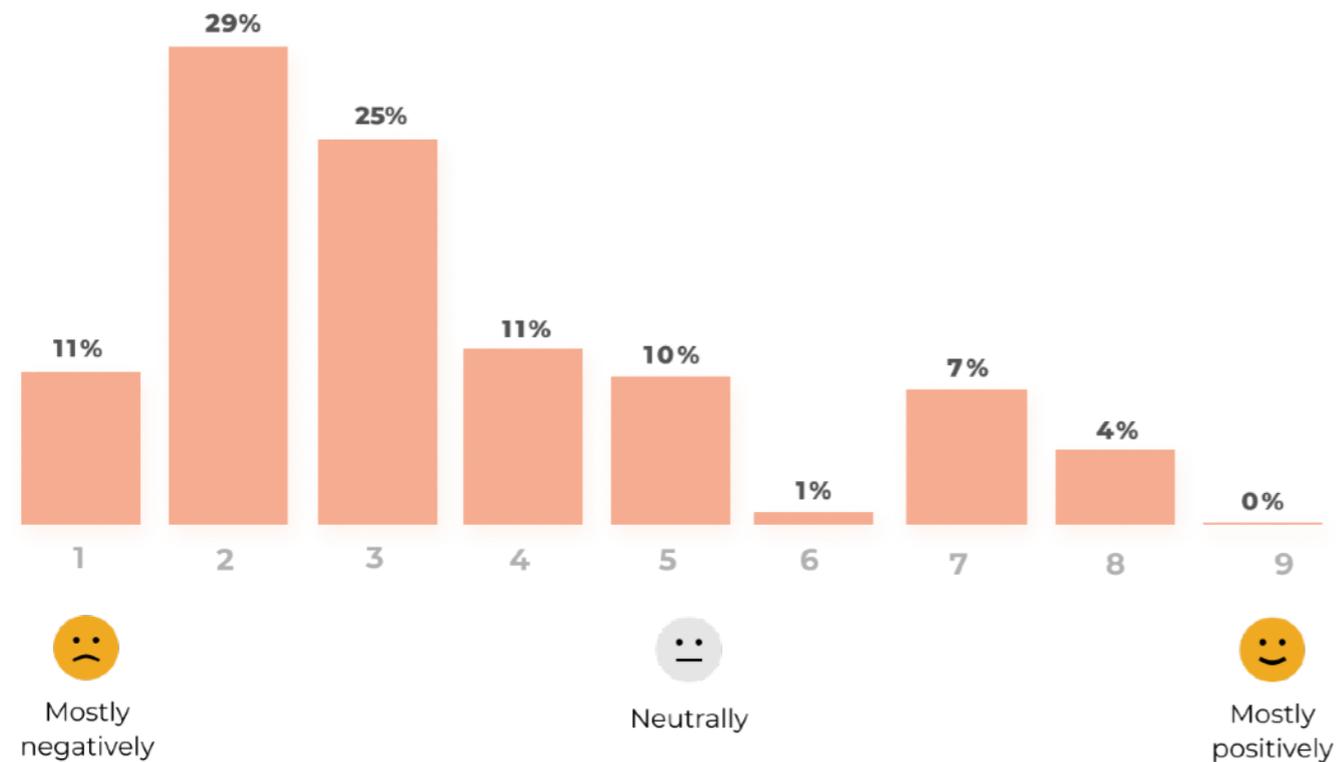
The majority of platforms (29%) experience difficulties and the negative impact of the COVID-19 health crisis on their business.

At the same time, at least 4% of respondents reported a mostly positive impact, while 10% consider the impact neutral.

On a scale from 1 to 9, the **average impact score is 3.94**, which translates into a negative impact on the crowdfunding industry in general.

The **impact score of the real estate crowdfunding platforms averaged at 2.6** and correlates with the challenges that the real estate industry is facing due to social distancing measures and real estate market

Green energy and BioTech seem to be the most resilient sectors whose average impact score is 4 and 5, respectively.



Impact vs software type

Even though the impact score is a complex multi-factor parameter, we can assume that crowdfunding platforms running on custom software could be represented by more mature businesses that were able to find new opportunities or quickly execute the backup plan.

According to our data, custom built platforms are in a better shape with the average impact score **3.88** compared to white-label based platforms that average **2.67**. While this difference is not huge, the respondents from the custom-built software group have indicated scores as high as 7 and 8, whereas the maximum score in the white-label group was 5.



We are in the midst of looking for investors for a Series A.

Together with the high level of reluctance on the part of borrowers (SME and private) and investors, the situation is more than challenging.



SME LENDING PLATFORM

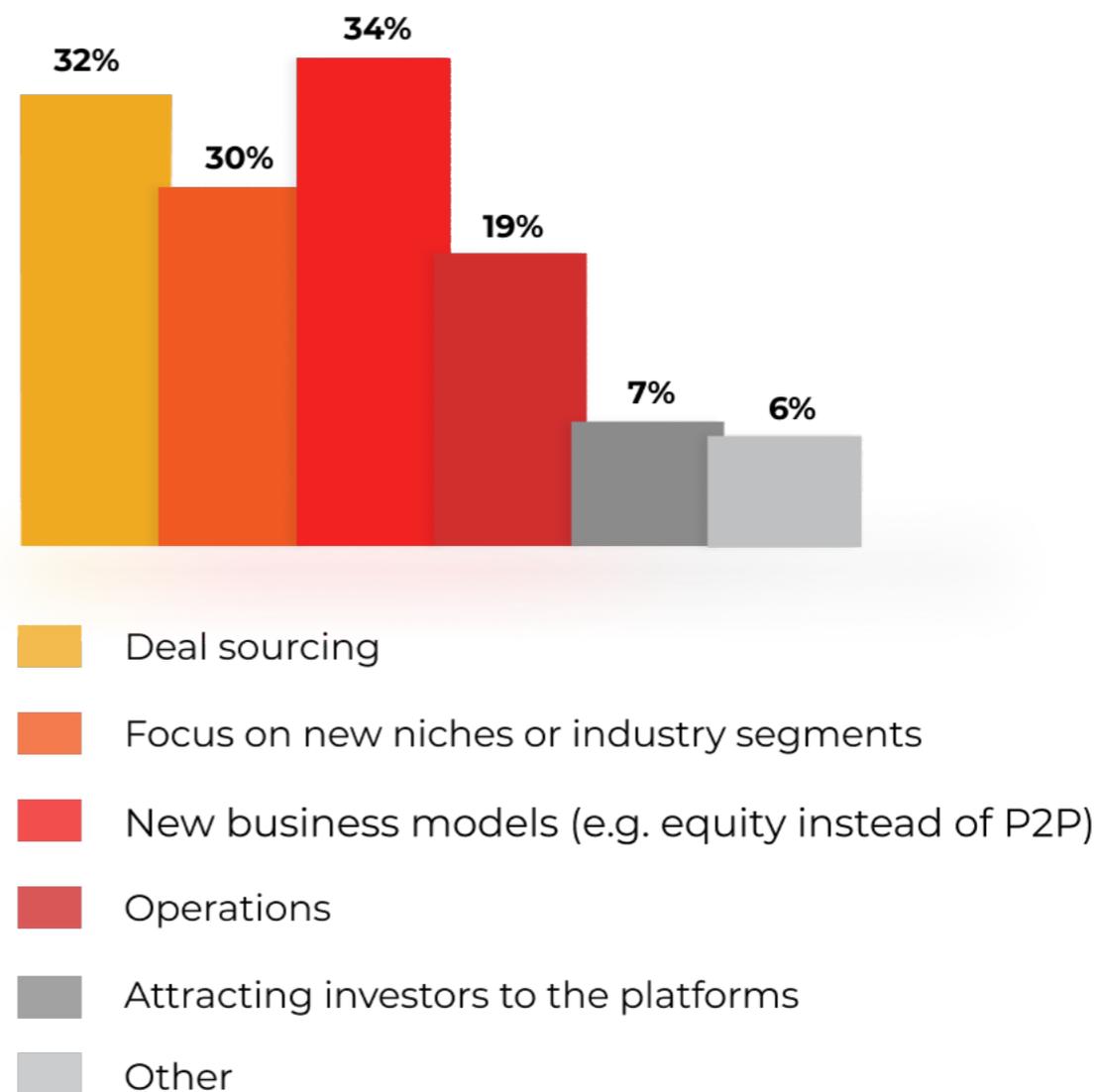
Switzerland

POSITIVE IMPACT: 34% SHIFTED TO NEW INDUSTRY SEGMENTS

Despite the negative impact, crowdfunding platform owners also indicate that **certain areas of their business received a positive push.**

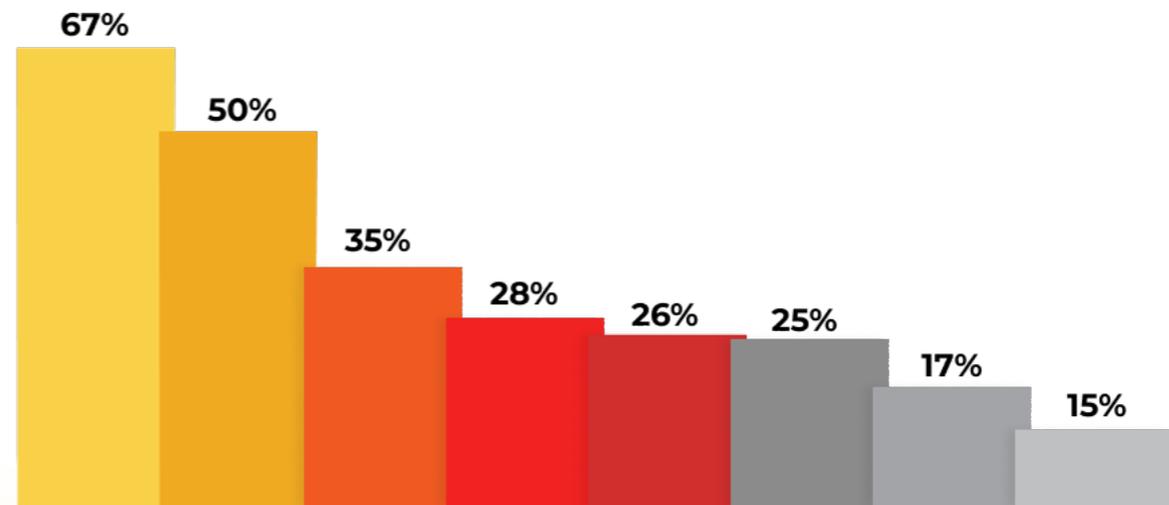
While it's become much more difficult to attract investors who are hesitant to invest in high-risk loans, the number of deals from companies looking for funding has significantly increased.

At least 32% of respondents said they have more deals now, and 34% have shifted their focus to other niches and industry segments.



NEGATIVE IMPACT: 67% HAVE TROUBLES ATTRACTING NEW INVESTORS

Reimbursement default by the borrowers has become an issue for 35% of the crowdfunding platforms.

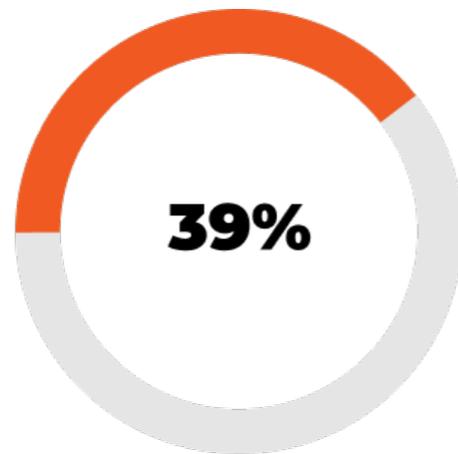


- Attracting investors to the platform
- Fundraising for the business
- Reimbursement delay requests
- Funded deals
- Open deals
- Deal sourcing
- Reimbursement default by borrowers
- Operations

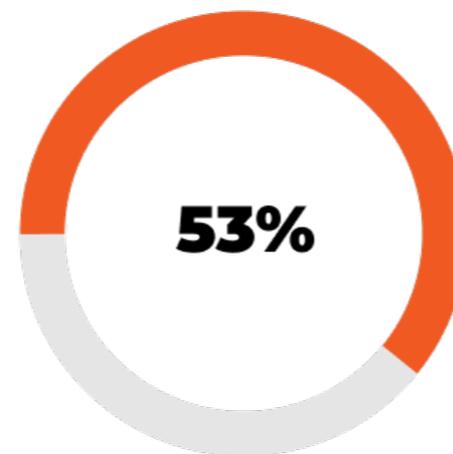
8% HAVE NO CRISIS MANAGEMENT STRATEGY IN PLACE

Most of the platforms (92%) have a clear idea of the measures to take for crisis management, and 39% have a formalised action plan. 53% of the platforms will play it by ear, while at least 8% have not yet decided on the strategy.

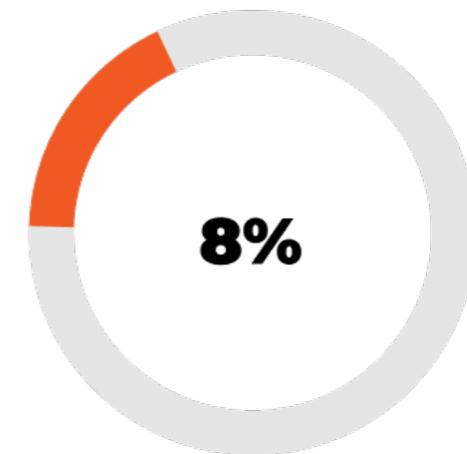
Some of the respondents mentioned that their highest priority for the moment is to keep default rate as low as possible and in the same time show the correct and professional approach to dealing with defaults to keep the trust of investors who will be ones losing their investments.



Yes, we have a formalised business continuity plan



Yes, we know what to do, but there is no formal document



No plan or strategy so far



Overall there has not been a great decrease in crowdfunding, at least from our main crowdfunding clients.

The trends in the types of projects could have changed a bit, towards either project to help people in need, to make the most of this large change in the market.

However, how lasting the changes in the market really will be, we'll see. I would forecast that in 1 or 2 months activities will go back to normal.



OLIVER RIVERA
MangoPay



TECH BEHIND THE CROWDFUNDING PLATFORMS

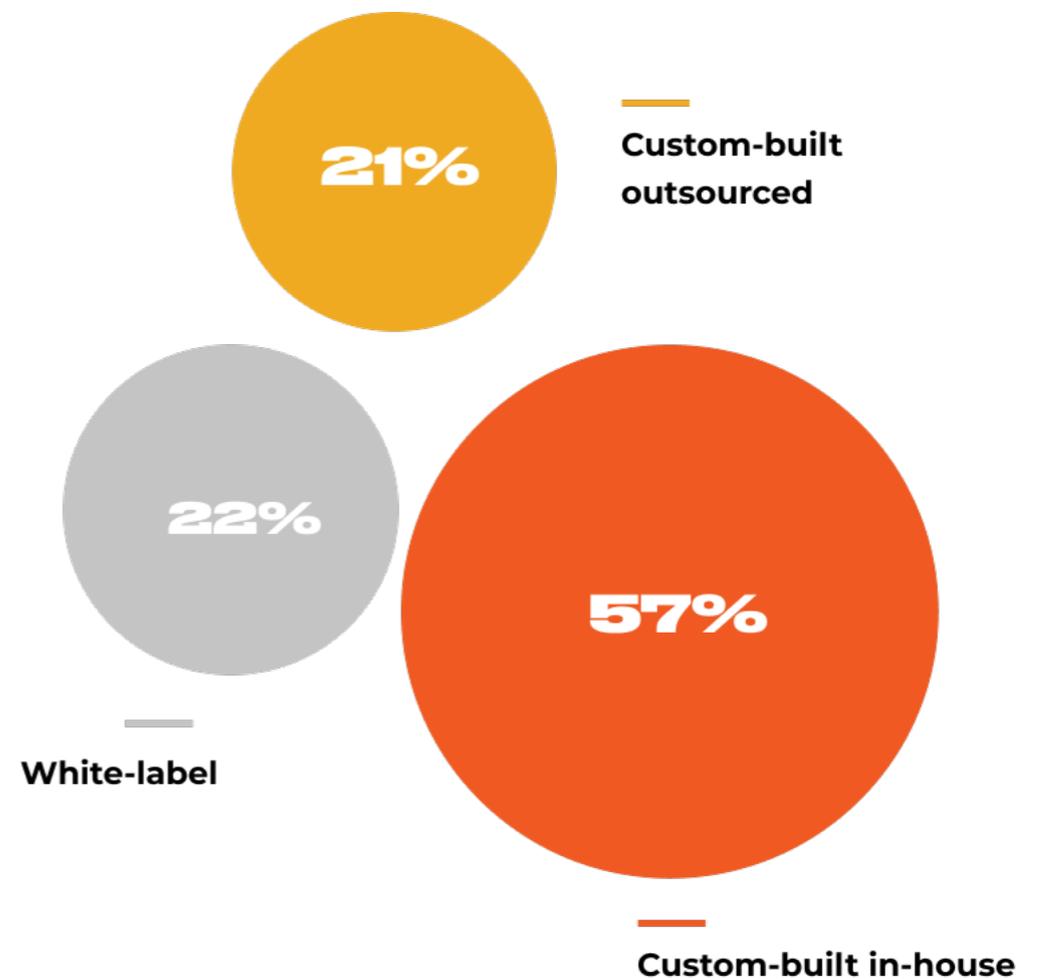
ONLY 21% OF PLATFORMS RUN ON WHITE-LABEL CROWDFUNDING SOFTWARE

The choice of crowdfunding software usually correlates with the size of business and in a way reflects its long-term strategy. **Company funding also defines the platform choice as it is directly related to the development budget.**

The data we gathered shows that the overwhelming majority of respondents have built custom crowdfunding platforms, either in-house (57%) or outsourced to software development companies (21%). All of them received outside capital and allocated on average at least **100,000 EUR** to build a custom solution.

22% of respondents said that they use white-label crowdfunding software. It's a good choice for those companies who need help with regulation compliance or go with the lean approach towards building a complex solution later.

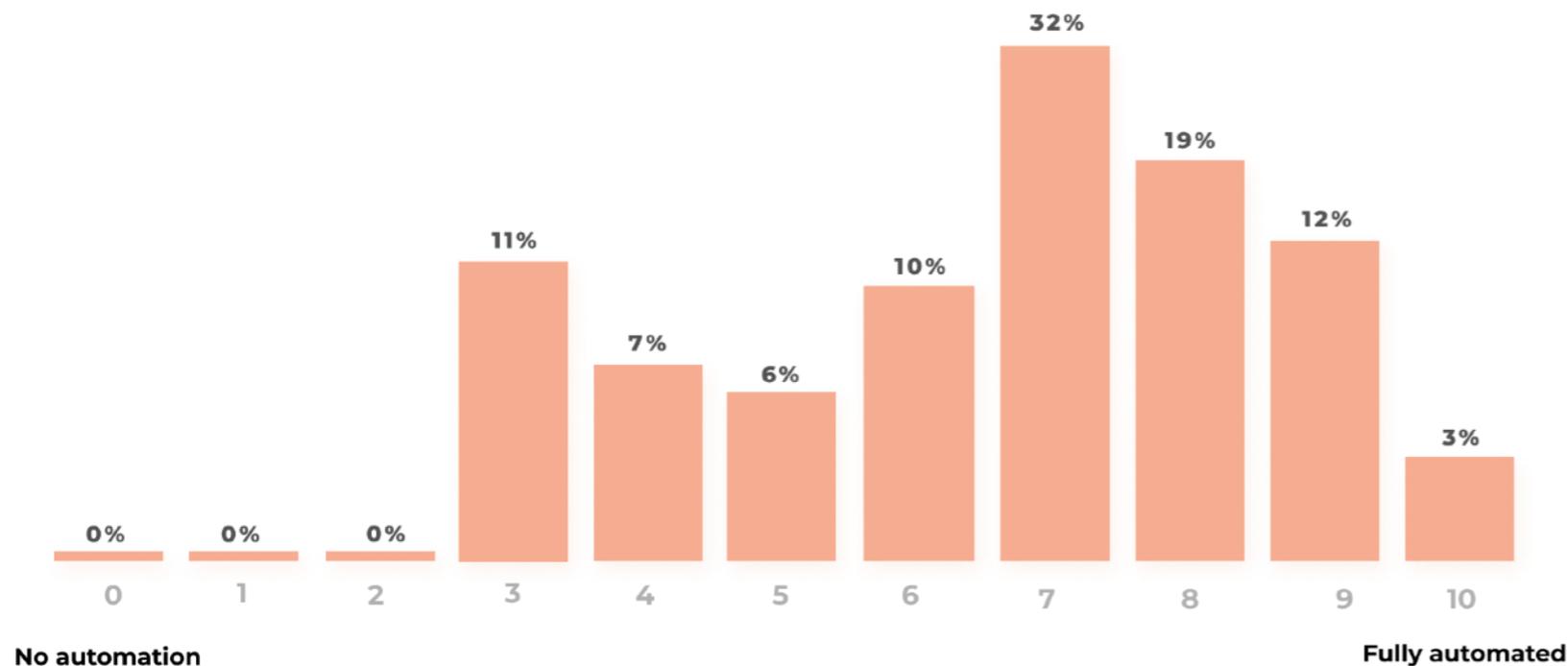
Its benefits, however, usually go together with difficulties building custom scenarios and flows, since white-label solutions offer limited expandability of their built-in features.



13% OF PLATFORMS LACK AUTOMATION

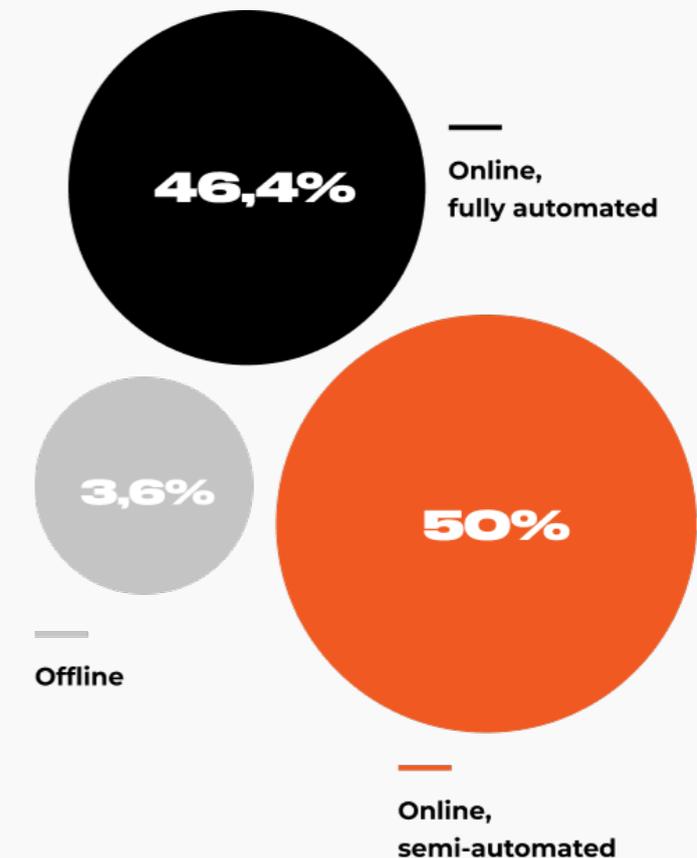
When asked to evaluate overall automation score, 26% of respondents consider their crowdfunding platforms to be quite automated, while 13% mentioned that they lack automation. Average automation score across all platforms surveyed is 6.6.

Custom-built platforms have a somewhat lower automation score than white-label platforms: 6.5 versus 7.2. This can be associated with different perception of what automation is in the first place as well as with overall amount of functionality. Simpler flows included in white-label solutions are easier to automate, while some highly specific processes might be difficult or impossible to automate at the moment, owing also to regulation restrictions.



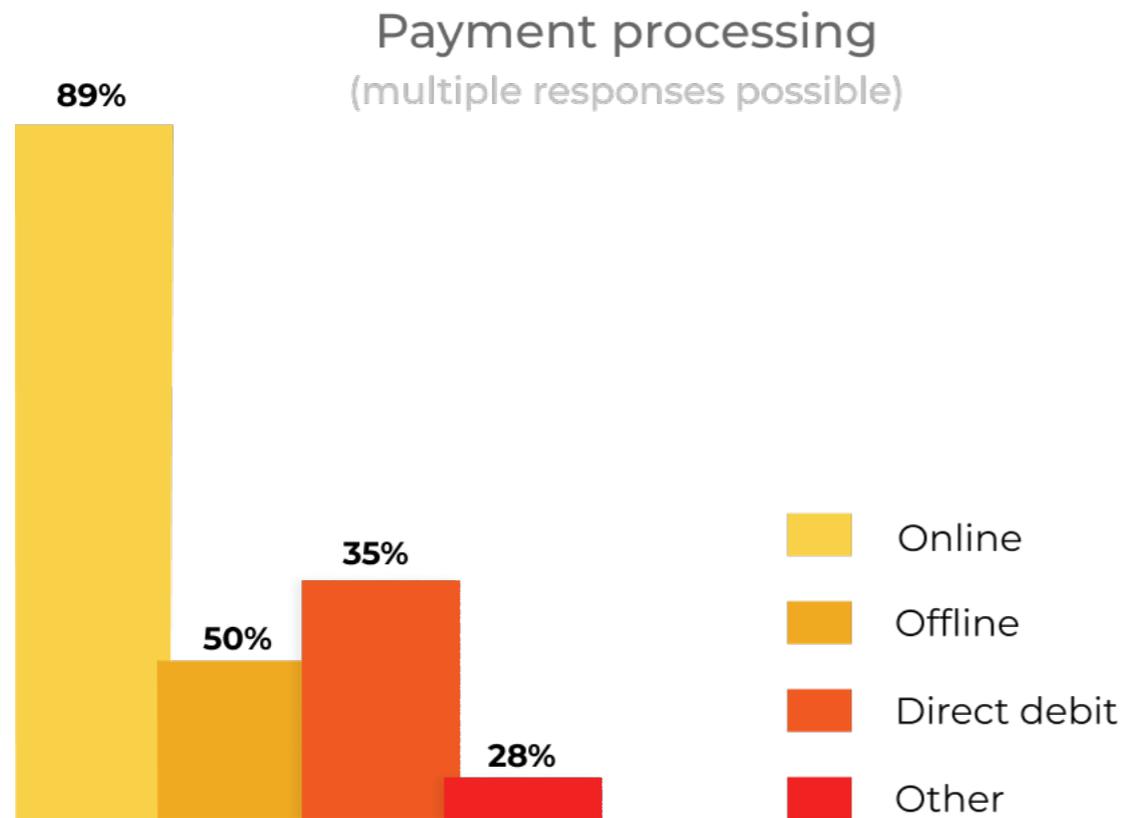
Know Your Customer (KYC) check is one of the most time-consuming workflows that can be successfully automated to improve operational efficiency.

96% of platforms surveyed perform KYC online, with 46% having completely automated checks.



AUTOMATED PAYMENT PROCESSING

Online payment processing is widely used throughout all platforms surveyed (89%) and sometimes comes along with direct debit payment options (17%) or offline methods (10%).



Popular payment gateways

Mangopay and **Lemonway** are the leaders in online payments implemented (25% and 22%, respectively).

Other solutions are **GoCardless** (9%), **Stripe** (7%), **Paysera**, **Sagepay**, **EveryPay**, **Secupay**, **IBS**, **LHV Bank**. 2% of crowdfunding platforms use custom-built payment gateways.





Many platforms that we serve have taken advantage of the quieter period to enrich their offer.

The European market will rebound very strongly (at least + 50% vs. 2019) fuelled by the most booming segments (real estate and invoice trading), favourable regulations, greater liquidity brought by the secondary market and greater ease to invest with open banking.



DAMIEN GUERMONPREZ

Executive Chairman at Lemonway

AUTO-INVESTING, SECONDARY MARKET AND REFERRAL SYSTEM ARE THE MOST POPULAR ADVANCED FEATURES

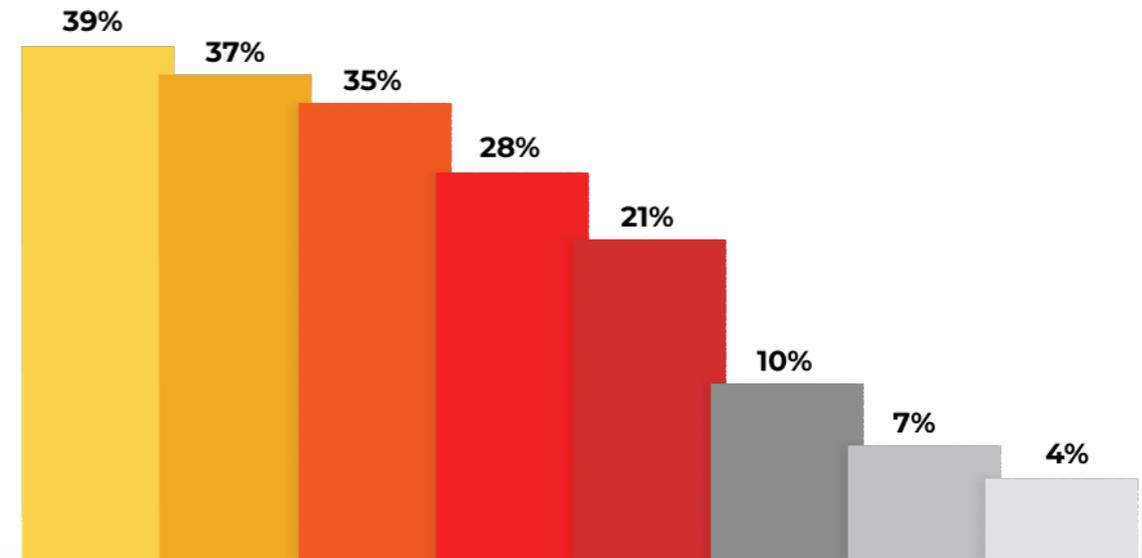
Based on the responses we received, **auto investing is the most popular feature** that crowdfunding platforms either have already implemented (39%) or would like to implement in the future (63%).

The next most wanted feature is a secondary market (55%). 10% of the companies offer mobile apps in addition to web platforms and 37% would like to provide them in the future.

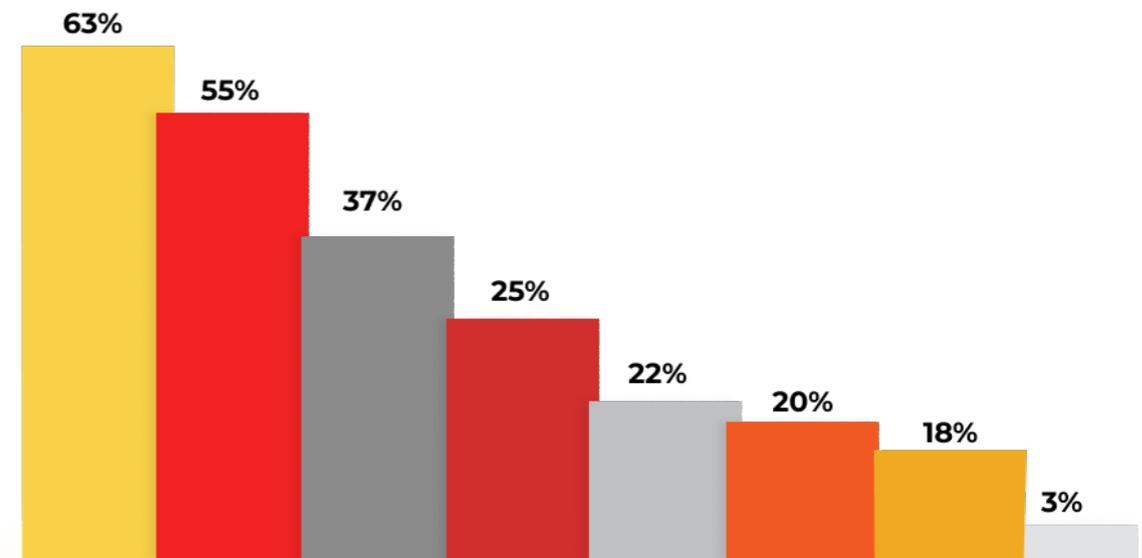
Other features include referral program, gamification, investing through an advisor, international scaling, and early access for a special audience.

- Auto investing
- Early access for special audience
- Referral system
- Secondary market
- Investing through an advisor
- Mobile app
- Gamification
- Other

Already offered advanced features
(multiple responses possible)



Would like to offer advanced features
(multiple responses possible)

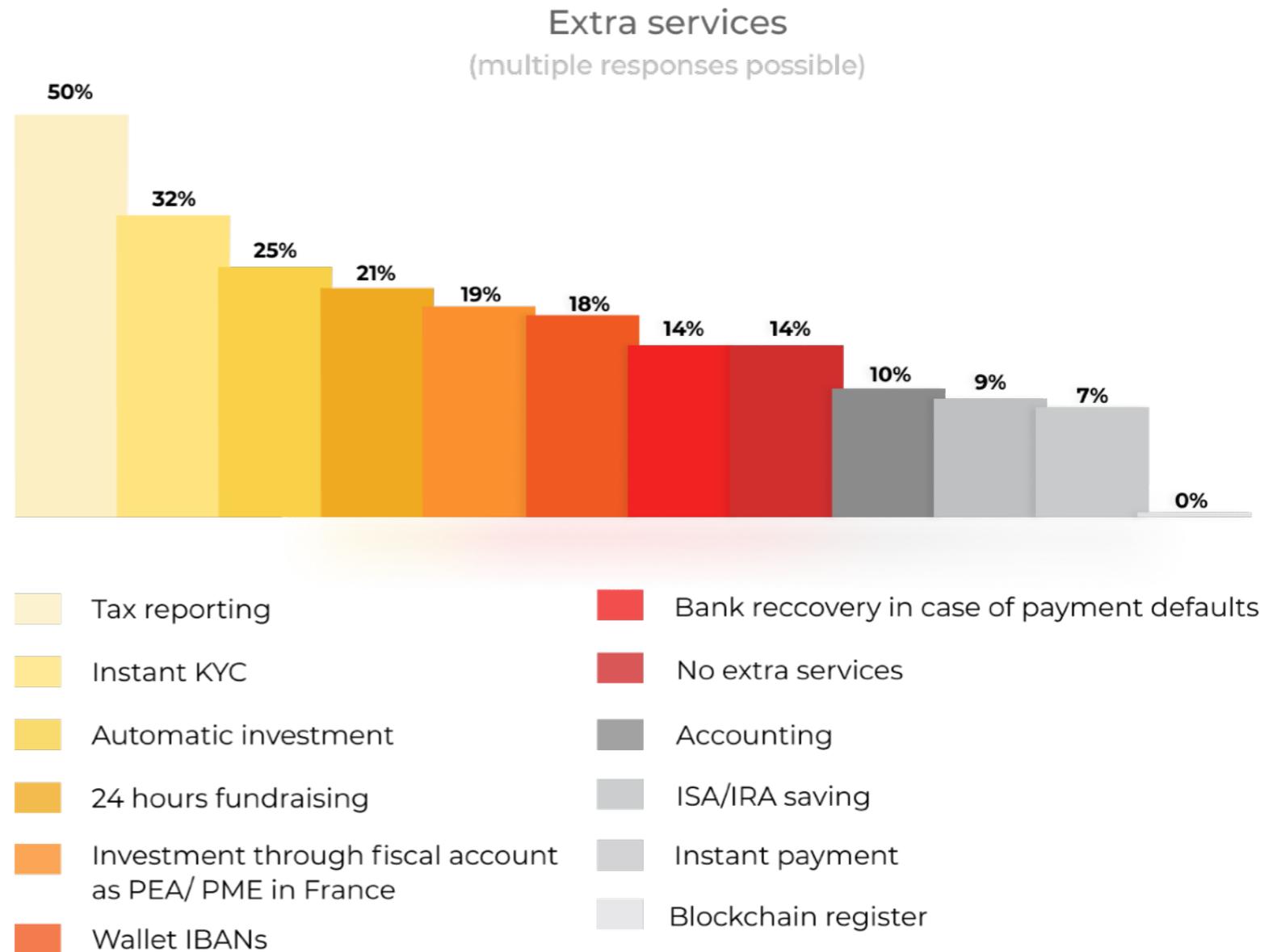


ADVANCED FEATURES: ONLY 17% OFFER BANK RECOVERY FOR PAYMENT DEFAULTS

87% of crowdfunding platforms surveyed offer extra services on top of investment and funding opportunities. Half of them provide tax reporting (50%), instant KYC verification (32%), automatic investment (25%), 24-hour fundraising (21%), bank recovery in case of payment defaults (14%), wallet IBANs (18%) and accounting (10%).

Platforms operating in France offer investment through the fiscal account as PEA / PME, and UK platforms provide ISA/IRA saving.

None of the platforms surveyed use blockchain, which may suggest its significance is overrated.



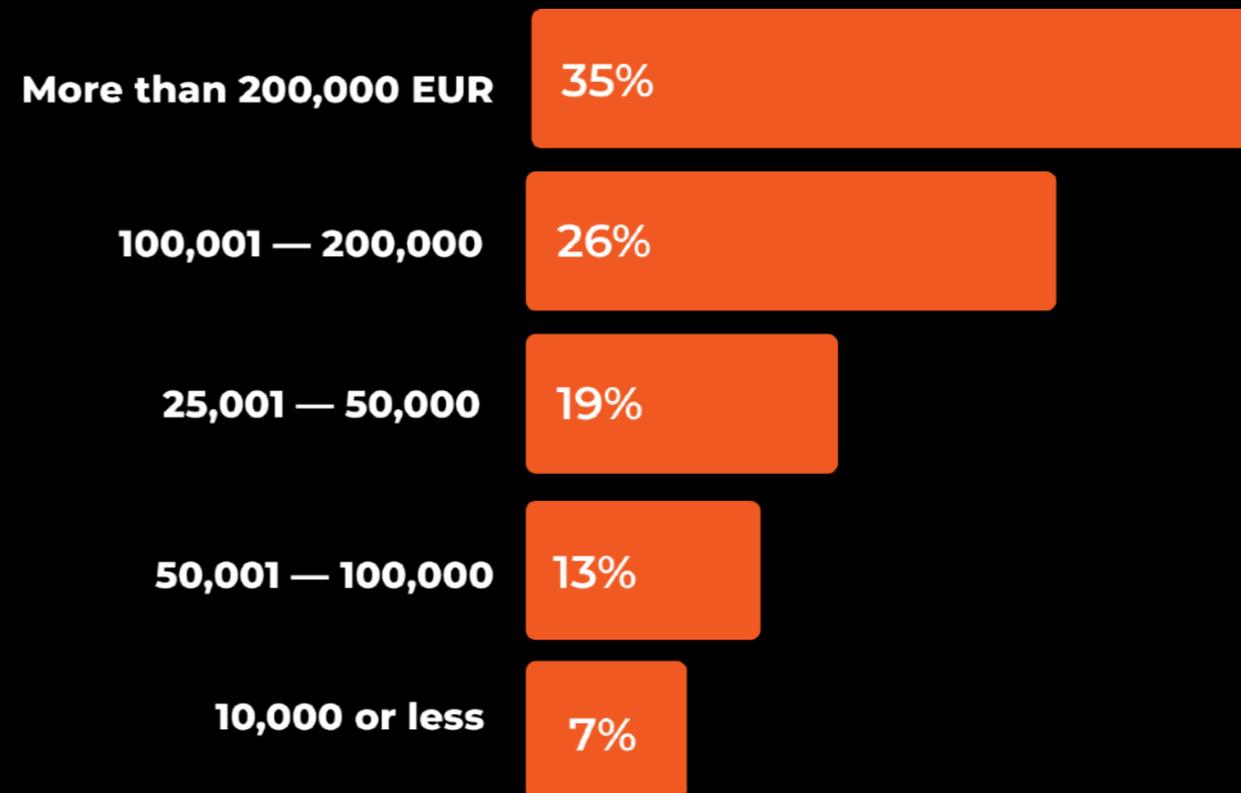
ON AVERAGE, COMPANIES SPEND AT LEAST 89,000 EUR TO BUILD A MARKET-READY CROWDFUNDING PLATFORM

35% of respondents said they invested more than **200,000 EUR** and all of them built custom software.

From our experience, this budget allows developing a completely custom crowdfunding platform with complex workflows, fully-automated KYC and payment processing, secondary market, and other advanced features.

On average, **in-house built software is 30% more expensive than outsourced**. This may be related to the complexity of software functionality and feature wise, as well as to the cost of workforce.

Almost 50% of companies that built custom in-house crowdfunding software spent **200K+ EUR** while the average budget for outsourced development was **90K+**.



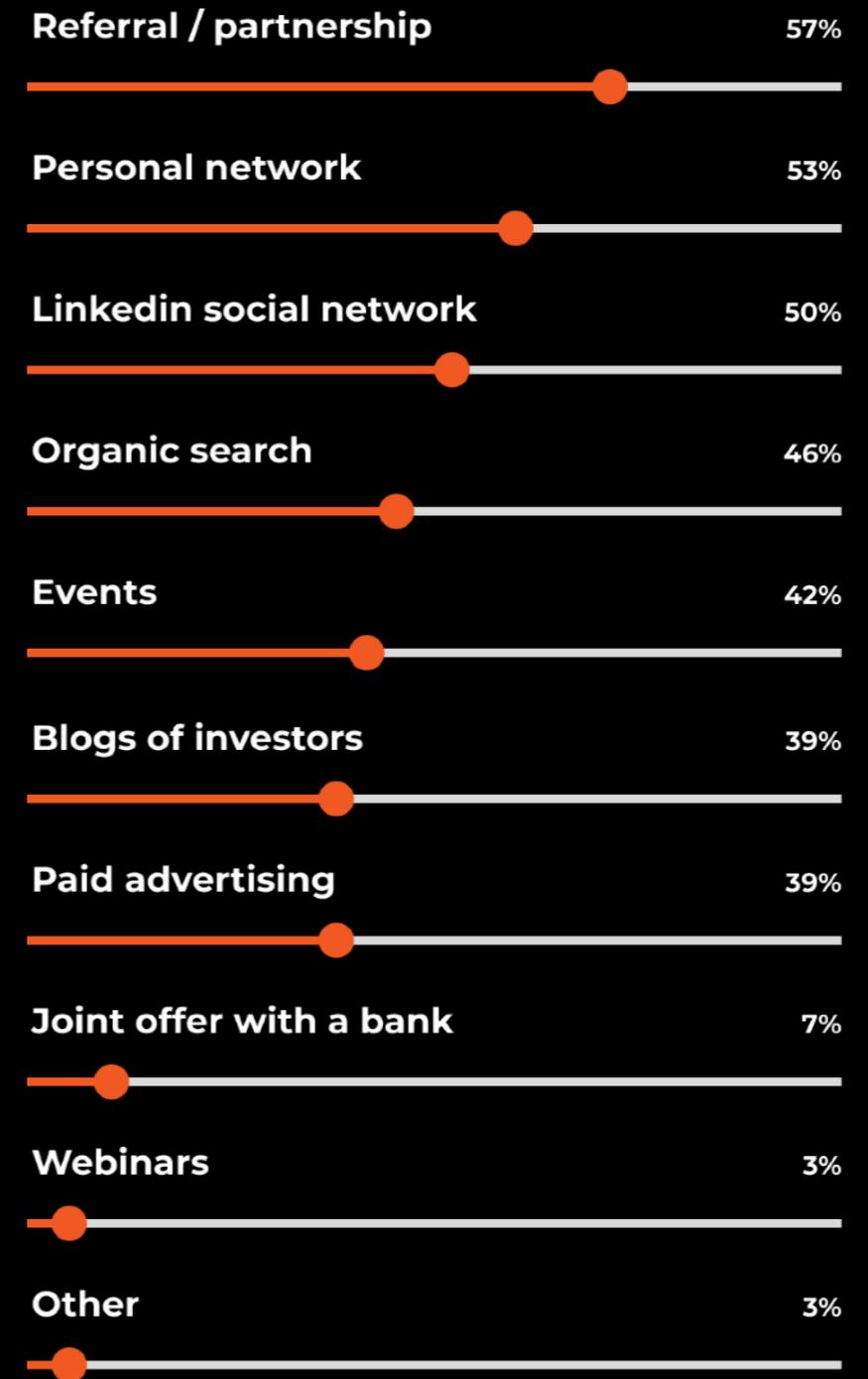
REFERRALS AND PARTNERSHIPS ARE THE TOP MARKETING CHANNELS TO ATTRACT INVESTORS

The choice of marketing channels in the crowdfunding industry differs from that in other industries, although it's always a combination of several options.

While organic and paid search are the most popular options for promotion, they are not as popular in crowdfunding.

The number one marketing channel according to the results we got is referral and partnership programs (57%) and distribution through personal networks (53%).

Other channels are LinkedIn (50%), organic search (46%), blogs of investors (39%), events (42%), paid ads (39%), and joint offers with banks (7%).

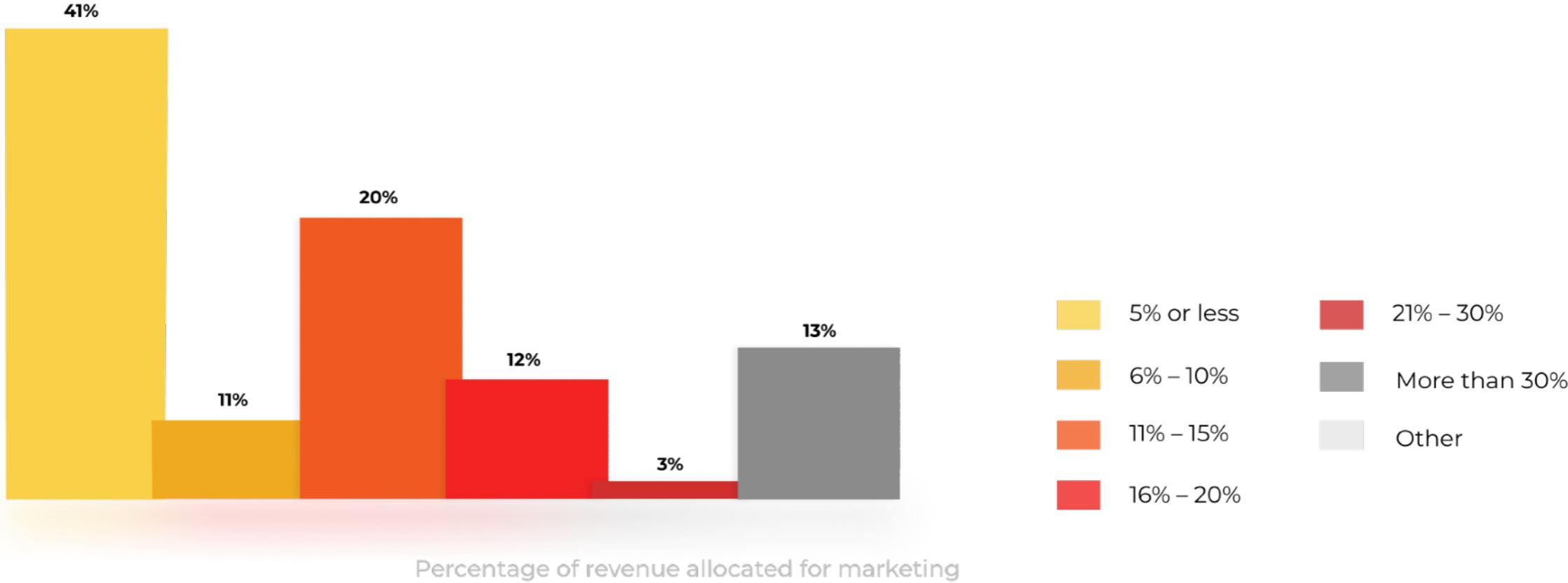




14% OF PLATFORMS ALLOCATE MORE THAN 30% OF REVENUE ON MARKETING ACTIVITIES

Proper marketing strategy is as crucial as good software behind a crowdfunding platform. Marketing budget largely depends on the company maturity and time in business: new companies spend more and tend to use more aggressive marketing, while established business spend less due to earned reputation and brand recognition.

On average, it's recommended to allocate from 2 to 5% of the revenue, which is consistent with the results we got where 41% of the companies allocate 5% or less. On the other hand, at least 14% spend more than 30%.



OBSERVATIONS

According to the opinions gathered from the respondents, crowdfunding platforms are feeling both the negative and positive impact of COVID-19 crisis on their business.

In P2P lending, there is a clear trend for investors to back off from investing in new deals and willingness to withdraw repayments. On the other hand, there is growing interest in reward and donation crowdfunding.

Based on the data retrieved from the survey, the overwhelming majority of crowdfunding platforms surveyed built custom crowdfunding software, half of them have in-house development teams. Budget to build a custom or white-label solution starts from 25,000 EUR and can go up to more than 200,000 EUR for both options. This may be related to the complexity of flows and features developed as well as advanced functionality.

Most of the platforms have streamlined processes for KYC and payment transactions, with only a small portion of platforms (8%) processing payments offline.

The choice of technology for payment processing depends on the country of operations. Lemonway and Mangopay are the most popular payment systems used in France, while platforms from the Northern European countries tend to implement country-specific solutions.

There has been a recent trend in the auto-investing feature for investors, which is proven by the responses from the majority of the platforms: half of them already offer automatic investing and the other half considers it to be the top-priority feature to implement in the future.

Speaking of marketing costs and strategies, the most popular way to attract new investors is through partnership and referral programs, although it's always a combination of several channels. Only 4% of the platforms indicated the use of a single marketing channel (personal networks or paid ads).





In P2P lending, there is a **growth in demand for loans**, and a **decline in willingness to invest** on the investor's side. Some platforms have created options for certain limited delays in repayment when agreed by both borrowers and lenders.

No changes on the equity crowdfunding models.

A **growing interest is seen in reward and donation crowdfunding**. Here, some platforms have added features such as COVID-19 specific listings, streaming possibilities, and other support features for specific projects.



ROTEM SHNEOR

Associate Professor

[UiA Business School of Law \(Netherlands\)](#)



ACKNOWLEDGEMENTS

We would like to thank all crowdfunding platform owners who participated in this survey and all organisations that helped us spread it around their professional networks.

There has been an increased amount of requests to participate in other surveys too, and together with the current situation that everybody is dealing with we especially appreciate the time spent on answering questions from our survey.



ABOUT JUSTCODED

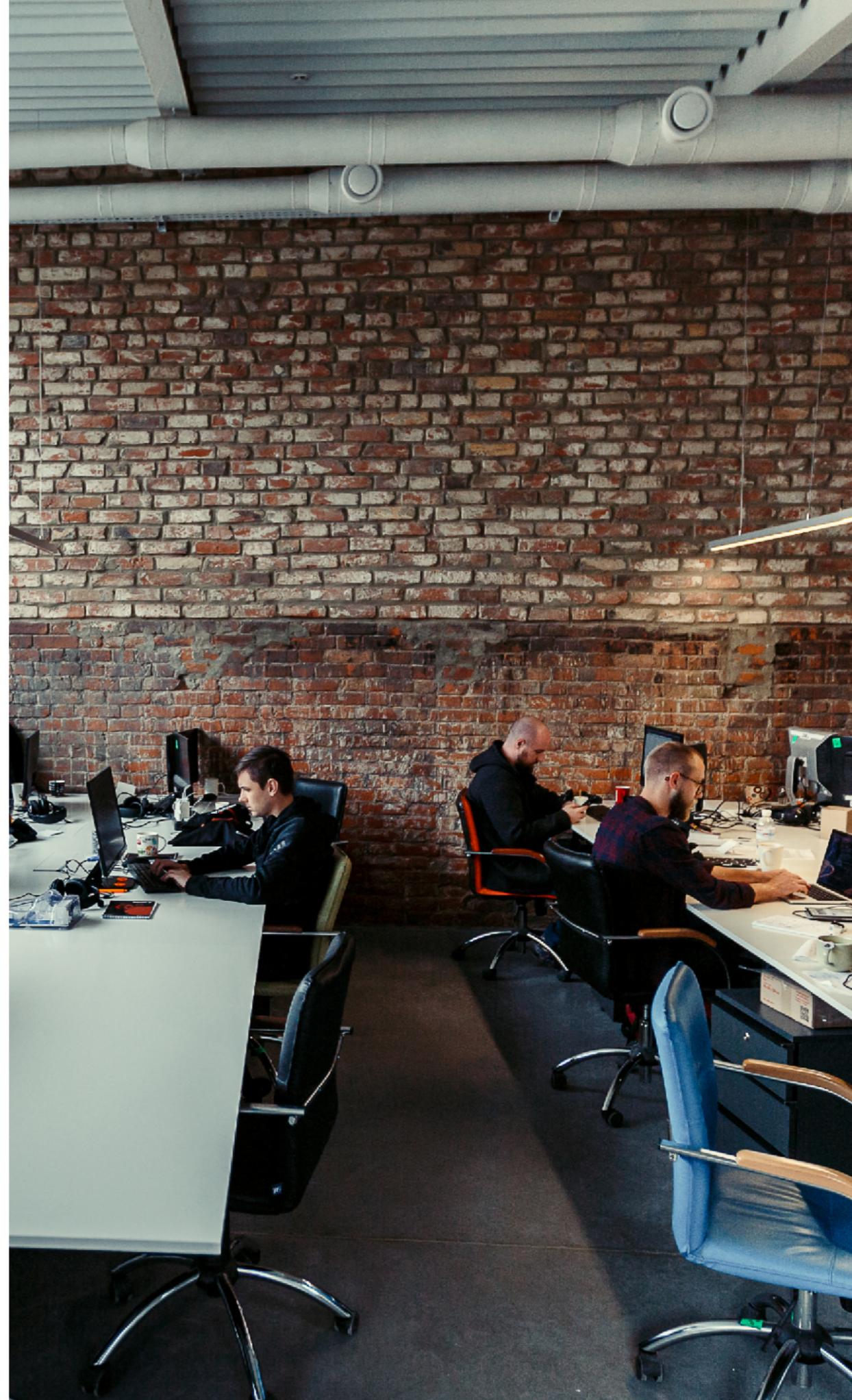
JustCoded is a software development company with a particular focus on the FinTech and real estate industry.

Since 2014, we have been **helping crowdfunding businesses in the UK, Europe and MENA region** build crowdfunding platforms and integrate them with innovative services to increase operating efficiency and improve customer experience.

Having gathered diverse experiences in both technical and business flows specifically in the crowdfunding industry, we built LenderKit — a framework for crowdfunding platforms that comes with a set of readily available investment functionality and can be scaled up further with custom-built functionality.

We keep a close watch on the evolution of the crowdfunding industry across different countries. The rise of digital technology in FinTech inspires us to innovate and improve our crowdfunding software, and we initiated the survey with the aim to better understand the tech aspect of the crowdfunding platforms that are active in the market.

Our team is **open to strategic and solution partnerships with financial startups**, established businesses and technology providers in the FinTech and crowdfunding sector. If you have a particular tech challenge to solve or consider extending the solutions you offer, feel free to [reach out to us](#) and discuss what we can do together.



GET IN TOUCH

Reach out to us if you have any questions about this report or have a particular idea for collaboration in mind.

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