

A Saviance Technologies Whitepaper

Understanding Crowdfunding & its Role in Healthcare

What is Crowd funding?

Crowdfunding also called as crowd financing, equity crowd funding, crowd equity, crowd-sourced fundraising, is an effort of raising funds from large number of individuals via Internet to support some cause or efforts initiated by other people or organizations. Crowd funding is an excellent way of supporting a wide variety of activities like disaster relief, support of artists by fans, political campaigns, Startup Company funding, free software development, inventions, scientific research, and civic projects and so on.

Simply put, crowdfunding is defined as the collection of funds through small contributions from many parties in order to finance a particular project or venture.

This whitepaper comprises the broader concept of crowd funding and its role in healthcare industry.

Role of the crowd

The process of crowd funding involves two parties the creators (individuals who request funds) and the donors (individuals who give money). In this whole process of crowd funding, the role of a donor is the most critical. The inputs of donors trigger and influence the crowd for the ultimate value of the offerings or outcomes of the process. Each donor acts as a catalyst in the process of crowd funding, motivating others to make offerings and promoting the projects in which they believe.

Motivation for participation of the donors comes with the feeling of being at least partly involved in the success of others' initiatives, a desire for patronage or social participation, or to be a part of a philanthropic initiative, and a desire for investment, seeking a payoff in return for their contributions.

But the creators also play equally important role as the donors, as they are the ones who motivate donors in the first place and ignite various overwhelming emotions of the donors which ultimately drive them to give funds.

Understanding the motivation behind crowdfunding is critical as small individual contributions from creators and funders can lead to the formation of new companies, launching of new platforms to serve the niche areas, and fundamentally impact how we function economically and socially. Soliciting funds from the individuals is not easy. There are many crowd funding platforms such as RocketHub, Kickstarter, IndieGoGo and so on, which provide opportunities to reach out to people and motivate them to donate funds. They study the psychology of giving as why certain people make charity and how to get more individuals to do charity. Factors for making charity include emotions like sympathy and empathy, guilt, happiness and identity and through funding somebody's campaign, vision, or idea, we get something tangible, virtual, in return.

How does Crowdfunding work in practice?

Crowdfunding is a rapidly growing industry that focuses on providing funds to support some cause or help entrepreneurs and startup businesses to find capital for their smooth jump-start. It is a fantastic tool for a startup for receiving funds without even taking loans or paying EMIs. Investments or donations are usually made through online platforms, which then coordinate and administer the funds.

Crowdfunding works in two ways, firstly, it raises funds for the community-based projects with no financial return for the donors, purely for altruistic purpose, and secondly for some monetary gain for the donors.

There are some traditional crowd funding platforms such as ArtistShare and Kickstarter which treat funds as donations, but entrepreneurs and others eye crowdfunding as a good way of securing investments. Creators, on these platforms, own the intellectual property and give funders a "reward" in return for their donation which includes a ticket to an event, a bag of goodies, or a lunch with the creator. Funders do not become owner nor do they expect to be paid back. It attracts those who want to do some philanthropic work.

Kickstarter uses an 'All-or-Nothing' funding model, which means that if a funding goal is not reached, the funds are returned to the funder and the creator receives no funds. Whereas, RocketHub adopts the 'All & More' fundraising system, where creators can keep the money they raise even though their funding goals are not achieved. If creators reach or exceed their funding goals, RocketHub will offer an additional benefit, which is to waive the submission fees for creators' first few projects launched. Similar to RocketHub, IndieGoGo uses the 'keep-what-you-raise' funding model. However, a higher fee will be charged from creators if they don't reach the funding goals.

Types of Crowdfunding

The UK Crowdfunding Association (CFA) officially recognizes three different forms of crowdfunding: donation, debt and equity.

- 1. Donation crowdfunding-** People donate simply because they strongly believe in the cause. Rewards can be offered in different forms such as free tickets or free gifts and so on. Returns are considered intangible. Donors have a social or personal motivation for putting their money in humanitarian causes and expect nothing back, except to receive a feel good factor.
- 2. Debt crowdfunding-** Donors or investors receive their money back with some monetary benefit. Also called peer-to-peer lending or lend-to-save. Returns are financial, and investors also have a feeling of contributing to the success of an idea they believe in. Where crowd sourced money is lent to the very poor, most often in developing countries, no interest is paid on the loan and the lender is rewarded by doing social good.
- 3. Equity crowdfunding-** People invest their money in an opportunity in exchange for equity. Money is exchanged for a share in the business, project or venture. Like any other share business, if it is successful the value goes up. If not, the value goes down and you end up losing all your money.

Risks and barriers involved with crowdfunding

Crowdfunding also comes with a number of potential risks or barriers for the creators.

- 1. Reputation** – Reputation is at stake, if creators fail to meet campaign goals or to generate crowd interest, or unable to reach financial goals and gather substantial public support. Also, being unable to deliver on a project for some reason can severely negatively impact ones reputation.
- 2. IP protection** –There are high chances that an idea can be copied once it is posted, as there is little or no intellectual property protection provided by the sites themselves. Creators are reluctant to publicly announce the details of a project before production due to concerns about idea theft and protecting their IP from plagiarism.
- 3. Donor exhaustion** – There is a risk that if the same network of supporters is reached out to multiple times, that network will eventually lose interest and stop to supply necessary support.
- 4. Public fear of abuse** –Supporters are concerned that without a regulatory body, the likelihood of a scam or abuse of funds is high. The concern may become a barrier to public engagement.

Crowdfunding in the Healthcare sector

Healthcare is one of the areas that could benefit the most from Crowdfunding, largely because many patients (the crowd) have a philanthropic interest in healthcare issues. The crowd come together to support fund solutions for the world's most deadly and virulent diseases.

Crowdfunding has proved to be a boon for the projects in life sciences or other related projects which lack enough funds. Funding research projects that could lead to better treatments or find cures for deadly diseases is not the only way crowd funding is benefitting the healthcare industry but also it is supporting financially the smaller private companies that are constantly in search of capital or angel investors.

In the U.S., one of the principle causes of personal bankruptcies is enormous medical expenses. As reported 62% of personal bankruptcies despite having medical insurance took place in 2007, and nearly 2 million people filed for bankruptcy protection in 2013. Crowdfunding has provided a means for people to reach out for help in covering exorbitant medical costs for life-saving treatments.

Crowdfunding plays a major role in helping early stage biotechnology companies when they need financial help to validate their commercial potential. Sometimes, it is difficult for these companies to raise capital for a continued development. However, the recently enacted JOBS Act has made crowdfunding a new avenue that could help these companies to gather the funds needed. It is the great opportunity for new investors to invest in companies working on therapies close to their heart. Someone who has a cancer patient in his family won't hesitate investing in a company working to find cure for the disease.

Conclusion

Crowdfunding is proving to be a lifeline in healthcare industry, especially for scientific research projects which require excessive funding. Projects those are more philanthropic than commercial, such as research on cancer treatments, and the other most deadly diseases which require extensive research for finding cures and possible treatments.

Hence, crowdfunding has revolutionized the healthcare industry, not only through funding research projects, but also in a way saving and improving the quality of lives and reaching out to those who are into dire need of getting treatments and paying their medical bills.

ABOUT Saviance Technologies

Saviance is a US based Healthcare IT Services provider focusing on the newest technology SMAC stack – Social, Mobility, Analytics & Cloud. We provide innovative solutions & enable meaningful use of IT by designing patient engagement portals, collaboration applications & actionable analytics for wellness & population health. Incorporated in 1999 in the US, with over 14 years of excellent industry track record, Saviance offers services & solutions that enable enterprises to achieve critical objectives.

Saviance is a Gold Category Corporate Member with Healthcare Information Management Systems Society (HIMSS), member of mHealth Alliance and Corporate member of NJ-HITEC. We are awarded by INC. 5000 as one of the fastest growing privately held companies in North America. Saviance is also ranked among the Fast 50 Asian American Businesses in the United States by USPAACC (US Pan Asian American Chamber of Commerce) and selected as a 2013 "Top Business" recipient by DiversityBusiness.com. A certified Minority Business Enterprise recognized by NMSDC, Saviance is also partner with leading global brands such as Microsoft, Amazon Web Services, Apple, Samsung and Red Hat.

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