



Crowdfunding and social media: is it a symbiotic relationship?

For crowdfunding to be successful, communities, whether local or national, must be involved. As a result, social media has become a critical component of crowdfunding. Indeed, one might wonder if the two are so intertwined as to be impossible to separate. Crowdfunding relies on people of shared interests supporting an entrepreneur, what better way to support than by publicizing a crowdfunding project to one's community. But the benefit of social media also comes with a cost.

Defining Social Media

Social media can be defined as “a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content.”* In ideological terms, social media allows users to create tribes based on shared interests, as opposed to, for example, geographic location. In practical terms, these technological foundations include a range of popular tools used by individuals to post, share and disseminate information, such as blogs, Twitter, Facebook, Google+, and a host of other websites and mobile applications. Although each platform may differ, all of the platforms enable users to engage with information (i.e. content) in similar ways, e.g. to create new content, share content, comment on content, and so forth.

Social Media in the context of crowdfunding

As social media has grown, so has crowdfunding. Although the two might not appear to be directly intertwined, the correlation is no surprise. In fact, social media is a critical component of crowdfunding on the Internet. And, perhaps most importantly, social media and crowdfunding

are only becoming more intertwined as crowdfunding becomes more popular, sophisticated, and institutionalized.

Crowdfunding enables entrepreneurs to raise money from a community with shared interests in their project or business. Sometimes that community is very close and local. But often, the community is more of a far-flung diaspora, spread out nationally. In those instances, crowdfunding relies on the community promoting the venture within itself by leveraging various social media channels. While email can be used, other social media tools are more likely to be effective. For example, many people broadcast information they want to share across Twitter because it can more easily be retweeted and reach others within the community they don't know.

Proposed legislation to make crowdfunding easier will only increase the importance of social media. Namely, one proposed piece of legislation, H.R. 2940, would remove restrictions on public solicitation. As a result, entrepreneurs would be able to launch their own campaigns via social media platforms to promote their venture instead of relying on just the community. This is powerful because it would enable entrepreneurs to create marketing campaigns that are cheap, consistent, and with a high degree of engagement, thereby encouraging more participation.

Challenges to social media in the world of crowdfunding

Social media, however, is not without its issues, specifically in the world of crowdfunding. Crowdfunding, while a collective effort, is a form of investment. At the moment, the financial industry is going through a revolution in social media with a huge growth in the number of blogs, forums, and other means to disseminate information about investing. But this growth has also brought along some common problems with the content provided: increased noise from competing content providers trying to grab readers attention, wide variations in quality, and people acting with ulterior motives.

Social media, however, has also raised challenges more specific to crowdfunding that need to be addressed; namely, the lack of a shared language. For instance, as a marketing tool, social media solves the issue of publicizing a new venture. But social media does not operate with a shared

language; each platform has its own dialect. As a result, it can be difficult to pass information across platforms, or more accurately, to pass along the most relevant information about a new venture. Information that might encourage wider confidence in potential investors for a new venture. More simply, the fragmented social media landscape enables rapid dissemination of information to reach potential entrepreneurs that might not otherwise know about a venture; but that same fragmentation prevents consistent information to be shared or, e.g. a shared document to be easily passed without alteration.