For Startups, Being Social Counts

Crowdfunding allows entrepreneurs to raise money for their project or venture through a large number of people. There are many types of crowdfunding – from raising money for nonprofit organizations to funding film projects – and now, startups can seek equity investments via crowdfunding. In October of 2015, the SEC adopted final rules on equity crowdfunding, which relaxed the rules by which the public can invest in the equity of a company. The new SEC rules allow companies to offer and sell securities through the JOBS Act.

This has expanded the ways startups can raise funds, especially important at a time when venture capital investment opportunities for startups are declining. For those startups who are utilizing this new avenue for investment, it is clear that social media is playing a major role. According to an analysis done by Crowdfund Capital Advisors, an investment advisory fund, startups with a larger number of social media followers have raised more money in the months since crowdfunding investment for startups went into effect. In fact, those startups with only 2,500 followers on social media raised less than $100,000, as compared with startups with over 10,000 followers on social media who raised between $200,000 and $1million each.

Social media has long been important for emerging companies; however, it has largely been utilized as a marketing tool as they start to grow brand awareness and create a loyal customer/fan base. Platforms such as Facebook, Instagram and others have provide a remarkable opportunity for a startup to spread the word about their company or product without the traditional limits of geography or personal networks.

This analysis of equity crowdfunding and social media followers highlights yet another reason that social media is an important marketing exercise for every startup. The social media platform allows startups to reach investors in a way they have not been able to before, expanding networks and reaching a larger number of potential investors.

Popularity on social media could also be a selling point to potential investors. Every follower, like or share your company collects on social media are indicators of your company's support from potential customers – those who will try your product or utilize your service. The more of that support you have, the more confidence investors will have.

Equity crowdfunding is still in the beginning stages, and only time will tell if this will prove to be a substantial source of funding for startups in the long-term. However, even in the early stages of equity crowdfunding, social media followers seem to be a key factor in securing larger amounts of funding, and those followers will continue to be a key component of marketing, brand awareness and sales moving forward.