FOODSERVICENEWS
Volume 31• Issue 4 The News and Information Source for Restaurants and the Foodservice Industry April 2020
www.foodservicenews.net

Is crowdfunding in your future?

Dennis Monroe

IT'S BECOME MORE AND MORE common for restaurants to raise capital through crowdfunding. There are two types of approaches to crowdfunding: One is rewards-based, which gives the contributors gift certificates, free food and special benefits, such as private parties at the restaurant. It's usually done through a platform like Kickstarter. The other approach is equity-based crowdfunding, where rather than getting rewards, the investor gets an equity position or possibly a debt position in the restaurant. Both approaches have their advantages and disadvantages.

In equity crowdfunding, the business works through a funding portal to entice investors to put money into their business to receive either equity or sometimes a note. This does not have to be registered with the SEC, but you do have to use a registered portal, of which there are a number. Some of examples of portals are StartEngine, Wefunder or SeedInvest. There are also funding portals that cater to restaurants, such as EquityEats. Minneapolis has been a good source, not just for restaurants, but for other retail operations to use this equity-type crowdfunding.

The problem is that once a restaurant is finished with a crowdfunded offering, it may have to deal with a large number of

investors which can be difficult. On the bright side, it also gives the restaurant hundreds of customers or supporters. Those investors will spread the word about restaurants they own a piece of and can grow the restaurant customer base. So, while equity crowdfunding is more time consuming than rewards-based crowdfunding, it has the ability to raise more capital and significantly grow the restaurant customer base.

Now let's look at reward-based crowdfunding. Basically, rewards-based crowdfunding is to utilize some benefit the person can receive from the restaurant. I have seen all kinds of benefits. The most common is gift cards, but you can also become an exclusive patron or you could have ongoing discounts. KickStarter is the primary portal that has been utilized.

There are also other novel approaches. Recently, Matty O'Reilly, a local owner of a number of restaurants, used a membership approach. While it is not technically crowdfunding, it is prepayment, so this creates a deeper base than the KickStarter approach. You can do the membership approach where investors get a certain number of meals and/or you can sell gift cards all year round at favorable discounts and terms.

With pure rewards-based crowdfunding, the most I've ever seen raised is a couple hundred thousand dollars—by a concept in Chicago, Kerfluffle's Marshmallows.

The marketing firm you choose to help is key to any kind of crowdfunding, whether it's rewards-based or equity-based — particularly key with an equity-based. One group in Minneapolis that's been doing quite a bit of crowdfunding is Lola Red in downtown Minneapolis.

Examples of crowdfunding nationally are Brooklyn Soda Works, the aforementioned, Kerfluffle Marshmallows and Vergennes Laundry by CK. All have been successful in raising money.

I still think it's difficult to do an equity raise because of the number of investors, particularly since most of these entities are flow-through entities where only losses flow through to investors and those investors probably cannot use the losses.

So while the use of crowdfunding can help you bootstrap your funding, I think in many cases you are still going to need to have either a SBA loan or some other kind of lending to complete your funding needs.

A special thank you to one of my St. Thomas Law School students, Monica Pelkey, for helping with this article. FSN

Dennis L. Monroe is a shareholder and chairman of Monroe Moxness Berg PA, a law firm specializing in multi-unit franchise finance, mergers and acquisitions and taxation in the restaurant industry. You can contact him at (952) 885-5999 or dmonroe@mmblawfirm.com. For more information, please refer to www.MMBLawFirm.com.