

## **Crowdfunding – a model for targeted market expansion and investment capital growth**

By Laurids Siig Christensen, Taste of Denmark

Crowdfunding has become a model for acquiring investment capital for innovative farmers and food producers in Denmark – yet its use is still limited due to lack of knowledge. One model of crowdfunding developed by the co-operative retail company COOP Denmark was presented in May 2018 at the REFRAME conference in Denmark. The background for the contact between Taste of Denmark and COOP was the identification of the need to finance an increase in production among small innovative food SMEs. The increase in market production is based on market expansion, such as entry into supermarket supply chains. Another major benefit of crowdfunding is an increase in consumer loyalty developed among the "investor crowd" by buying-in to a product or to the production values of a producer.

COOP crowdfunding is initially a pilot project. With this platform they hope that they can help visionary food producers who have a good idea, but lack funding to realise their ideas. In this way the general public will be able to benefit from the cooperation by getting even better food products.

<https://crowdfunding.coop.dk>



The COOP crowdfunding program has two versions:

### **1. The reward version**

The reward version is relevant if a funding in the range of €10,000 is the goal. A project is formulated and published on COOP's crowdfunding platform and on social media etc. Investments come from purchase of the products or services delivered according to an agreement made between producer and investor. In addition, a reward is offered. This reward can take many forms: a price discount, an offer

to visit the production site, subscription to newsletters, etc. This model is particularly relevant for a small increase in production, tests of consumer satisfaction and the introduction of new products to the market.

## **2. The loan version**

The other version is a loan for which a creditability assessment is made, and an interest is paid based on this assessment. This version is applicable if a sum of up to €130,000 is the goal. A project is formulated and offered to a group of 5,000 “crowd investors” predefined by COOP as well as to other groups of potential investors. All are asked to make an investment loan of €130 each for which an interest is paid. The loan is to be paid back in less than 5 years. The motivation for this group of investors can be very different and varied ranging from pure idealistic to hard core financial. Again, a major benefit of this funding is the possibility to raise awareness about the company and its products to a large group of potential customers. This group of investors is motivated by the potential financial return to support the success of the company.

## **Discussion**

The idea of crowdfunding can be implemented in many ways in Denmark – the COOP model being only one of many. The form varies with type and size of investment needed and the requirements of the target group of investors. One major hurdle to market expansion identified among local food SMEs is entry into the supermarket supply chain. Failure to overcome this hurdle can be hugely damaging or even fatal to such companies. Crowdfunding, which offers a link between acquisition of investment capital and building customer loyalty, is an extremely attractive route to market expansion as well as building local infrastructures for farming, food production, food processing and marketing. Developing an understanding of the methods and advantages of using this form of capital acquisition can be of great benefit to small innovative food SMEs and deserves to be further explored. It offers many advantages to all concerned.

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