Equity Fundraising Solutions: Traditional VCs or Cryptocurrencies?

If you’re an experienced, well-connected entrepreneur, all you need is a good idea to find an investment. However, if you’re new to the game, you may want to learn about equity tokens.

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Until recently, new companies had one option to raise funds — sell an uncomfortably large chunk of it to an interested venture capitalist or angel investor and hope they don’t get in the way of the creative process. Otherwise, they need to build from the ground up, and that’s not always the most effective strategy for many business models.

Suddenly, there’s a second option — cryptocurrency. Legally, it wasn’t always feasible. Starting in 2018, coins known as “equity tokens” have allowed more traditional businesses to tokenize equity in their company and sell these “shares” in an ETO (Equity Token Offering). In the past year, Liechtenstein and Switzerland have passed new laws to accommodate this emerging industry. With the right approach, equity tokens are now accessible to the average entrepreneur.

This is all new and unknown, which may be a cause for hesitation. But the underlying technology creates a powerful, versatile platform with a solid legal framework that is accessible to a wide range of entrepreneurs. It has nothing to do with coins or competing monetary systems. In this context,

it’s simply a new way to structure a business and raise funds. There are many benefits to equity tokens, but there are also many reasons why someone might choose the more traditional route.

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Here, I’ll explain the pros and cons of each. Cryptocurrency offers the ability to crowdfund resources, but this isn’t always ideal for companies with sensitive intellectual property. It appeals to a wider audience, but it is often the individual investor who wants all or nothing and is willing to pay for it. Finally, the blockchain provides simplified and cost-effective legal solutions, but many companies require a more nuanced approach.

Cryptocurrency offerings are a form of crowdfunding, which isn’t a new concept. IPOs follow a similar model. Even merchandise, like books and t-shirts, is a form of crowdfunding. GoFundMe and Kickstarter were the next evolution, but they are very limited in capability. It’s a great way to access a much larger pool of capital and a wider potential audience. For example, Intercoin is essentially the Kickstarter for crypto companies, providing a platform to raise funds for new projects. Intercoin comes with a variety of other tools for new projects, including a built-in community, infrastructure and automated tasks.

There are drawbacks to this method. The company is put on display for everyone to see before it has a chance to get a foothold in the market. Any company with a high proprietary model would want to stay within the protection of private investments. Private meetings and NDAs are there for a reason. It’s also possible that no one takes an interest. Crowdfunding spreads the rewards thin. Some potential VCs prefer the high risk and high reward of a private raise and will often contribute other resources, like connections and personnel,

that crowdfunding can’t offer.

But there is a new wave of sentiment around crowdfunding and decentralization that may be a selling point for new investors. Liti Capital presents a new way to decentralize litigation finance by crowdfunding litigation asset purchases. The LITI token gives its holders a vote in the decision-making process.

“Investing in litigation finance was only accessible to the rich,” said David Kay, CIO of Liti Capital. “But the blockchain gave us a way to access a much larger pool of investors.”

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Tokens give users a way to interact more intimately with the companies they have invested with, providing more incentive for retail investors to choose a project and help projects raise the funds they need. Tokens also provide novel ways of raising funds for existing companies. OneOf is an NFT platform that allows artists to raise funds through NFT sales. By positioning themselves within the green blockchain sphere, projects are one step closer to utilizing the tools that the Tezos blockchain has to offer. Blockchain projects benefit from high interoperability with each other and streamlined partnerships.

The legal fees involved in forming a corporation are often a major hurdle for new companies.. Not only are the fees a burden, but the legal system is as well. Structuring a business without help from a lawyer can be very complicated, leading to more fees. Companies like Neufund can create documents automatically and allow new projects to configure the details in a guided process. These simplified templates allow potential business owners to dodge a tremendous amount of stress and legal fees. This significantly lowers the barrier of entry for a large number of entrepreneurs who are

self-starters and who have the vision to make their company succeed.

More complex entities may need a customized solution that doesn’t fit into the cookie-cutter boxes offered by blockchain platforms. Simplicity is a lifesaver for companies with very basic legal structures and a liability for companies who need multiple layers of complexity. Some companies also require multiple layers of jurisdictional protections under multiple entities. This requirement can also apply to crypto companies who may need out-of-the-box solutions that modular platforms can’t offer. With all of the regulations and pressure on cryptocurrency, new projects often hire the best lawyers for an airtight legal framework.

If a project fits within the guidelines and limitations of cryptocurrency ETOs, crowdfunding the capital raise could be highly effective and lucrative — saving time and money. This option also benefits from the popularity of cryptocurrency and decentralization sentiments. That said, there are still good reasons to do things the old way. Many companies need to raise a large amount of money in private before showing their creation to the world. It’s possible and understandable that this new market doesn’t have a perfect solution for everyone. You should do what is best for your developing brand.

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