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Somewhere in the crowd

I am keen to use equity crowdfunding to raise funds for my technology business, although I am also considering selling the business quite soon after raising these funds. Is this possible with equity crowdfunding or is there another alternative I can consider in terms of non-traditional finance to raise cash quickly?

There are essentially two models of equity crowdfunding and if you're considering selling your business, the best option involves a trust structure. Here the money is invested on behalf of the individuals by a single company which is run and managed by the crowdfunding business.

That company holds the shares in its name on trust for the individuals and this means the business has only one new shareholder – a professional organisation which understands the limits of its role. The investors are protected by the trust and can ultimately control the management of the trust company if they club together.

This is key when selling your business as it means you only have to deal with crowdfunders as one shareholder. Usually a business sale proceeds as a sale of shares. Corralling large numbers of individual shareholders into agreeing to sell can be extraordinarily difficult, time consuming and costly.

The second model involves each member of the "crowd" receiving shares in return for their money which are registered in their name. That can mean that you can go from having a few owner-managers to a large number of shareholders, many of whom may have a small stake and little understanding of the business or what being a shareholder means.

The main alternative finance model is peer-to-peer lending, which can be much quicker than crowdfunding. The main difference is that you have to give the money back at some point. But if you are selling in the near future then that should not be a problem.

Jonathan Thornton is head of the corporate and commercial team at law firm Russell-Cooke