

CAMPUS FUNDSOURCE: AN ACCELERATOR-ASSISTED START-UP

Michele K. Masterfano wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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By the fall of 2010, Campus FundSource, in Philadelphia, Pennsylvania, was at a crossroads. The original founding team had gone through an entrepreneurial boot camp and launched its service, a brokerage that would help college groups raise funding to put on events and offer services to students. Dan Levin, Rob Falcone, and Tony Colantonio came together while Falcone was a student in a Master of Business Administration (MBA) program at Drexel University, where he had also obtained his undergraduate degree. The three friends were sitting in their office, a shared space in the Laurence A. Baiada Center for Entrepreneurship in Technology at Drexel University's campus. They were pondering the question that had dogged them since they launched their venture: How could they attract both the student groups who needed funding and the big, national brands that wanted to attract and keep college students as their customers? Which came first: the students or the brands?

START YOUR ENGINES!

Levin and Falcone started Campus FundSource in late 2009 as a purely mission-based idea, with no business model. Their idea was to help college student organizations raise money—something that had historically been difficult and time consuming for students. Colleges and universities provided basic funding to recognized groups out of the activity fees that each student paid. There was no standard way of providing funding for student groups across all colleges and universities, and there were no national statistics that described college student group funding. A 2009 study provided by Drexel University's student life organization,¹ which surveyed almost 30 universities, showed that most universities received from US\$500,000 to \$2 million² per year from student activity fees, although there were outliers on either end of that range (see Exhibit 1).

Funding patterns among universities varied, and each institution had its own formula. However, in this study, the majority of universities delivered 80 per cent of their student activity fee revenue directly to the student groups, including club sports groups and student government groups, for their activities (see Exhibit 2).

¹ J. M. Gonzalez, "Student Activity Fee Research" (Philadelphia, PA: Drexel University, November 5, 2009).

² All figures are in U.S. dollars unless otherwise specified.

Administrative expenses consumed the remaining 20 per cent. The Drexel University study did not provide exact percentages within the 80 per cent distributed to student organizations.

Activities boards were generally in charge of programming events that benefited the entire university, while all other student organizations typically held events specific to their membership. Therefore, these campus groups—club sports teams, fraternities and sororities, booster clubs, language clubs, and the like—always had to raise more money to host their planned activities.

Levin's research showed that nearly 50 per cent of students participated in some kind of organization while in college. According to the National Center for Education Statistics, the total college enrolment in 2007 (the last year for which figures were available) was more than 18 million.³ That meant that there could have been almost 9 million students looking for funding for their campus groups enrolled in just over 4,000⁴ colleges and universities in the United States—a promising market for any brand!

What Levin and Falcone hoped to build was a kind of brokerage to bring these campus groups together with companies that had reasons to connect with this particular demographic and money to spend to on such connections. They thought of it as an app for campus groups: members would interact with the brands in some way—defined by the brand and hosted by Campus FundSource—and in return, groups would receive small amounts of money for each individual interaction. Since the amounts were small per interaction (often measured in cents) campus groups were encouraged to get all their members, and then some, to participate. The more participation, the more money raised. Campus FundSource would make its money by taking a percentage of the money raised by each campus group (see Exhibit 3).

The type of activities that students would participate in depended on the brand, but examples included online scavenger hunts or trivia quizzes. Most of the time, of course, there was some connection to the brand, but it was never as obvious as the brand directly sponsoring the campus group's event or donating products to the group. The students would not have to sell products, nor would they be required to market products; they would not receive any products from the companies, and they would not have to do anything for the companies that could be considered work or even volunteer activity. They might have to view online ads, but most of the time, the activities were fun, interactive, online undertakings, like games. Because the amount collected per interaction was quite small, the activity would be short, enjoyable, and focused on being fun and interesting to college students. Hopefully, the activities would induce students to participate over and over again.

How could Levin and Falcone turn this idea into a valid business concept? They spent about six months considering and discussing the idea before they decided to write up a concept paper. This paper was a three-page document describing what they were trying to do: bring together students who needed money and national brands who wanted to sell their products. Campus FundSource would make money by taking a percentage of what the campus groups were able to raise from the brands. This was the typical revenue model for most brokerage companies, regardless of the industry. Levin and Falcone needed no hard assets because they could lease server space to run their website; this meant they would only need to raise financing for salaries, typical office expenses, and whatever growth expenses were required over time. They would continue to operate on a shoestring budget. Nevertheless, the amounts they could collect from each individual group's activity would be quite small, so they needed to scale quickly, even as they kept expenses low (see Exhibit 3).

³ National Center for Education Statistics, "Table 188. Total Fall Enrollment in Degree-Granting Institutions, By Attendance Status, Sex of Student, and Control of Institution: Selected Years, 1947 through 2007," accessed September 8, 2010, http://nces.ed.gov/programs/digest/d08/tables/dt08_188.asp.

⁴ United States Census Bureau, "Statistical Abstract of the United States: 2002," accessed September 26, 2016, www.census.gov/library/publications/2002/compendia/statab/122ed.html.

The idea came together in December 2009, when Falcone was preparing his winter term schedule for his MBA program at Drexel University. He opted to take a class called “New Venture Planning,” in which he hoped to learn how to increase the probability of success in a start-up. At the same time, Falcone and Levin began investigating ways to jump-start the idea. They elected to enter multiple university business plan competitions, including those of Drexel University, Rice University, and Wake Forest University. In the Drexel University pitch competition—an “idea challenge” that simply asked students to turn in a one-page description of their business idea and how it worked, then invited students to give a three-minute presentation—they placed fourth out of 75 entrants. They did not place in the other competitions, but that was not going to stop them.

Levin and Falcone also looked into DreamIt Ventures, a Philadelphia-based business accelerator program that selected start-up companies to spend a summer getting their businesses up and running. Launched in late 2007, with its first “class” in the summer of 2008, DreamIt Ventures provided a platform for launching businesses quickly, as well as access to experts with needed skill sets. The program provided start-up companies with \$50,000 cash; office space; legal, accounting, and public relations help; weekly access to a number of entrepreneurs and skills workshops; and introductions to equity investors. In exchange, DreamIt Ventures took a 6 per cent equity stake in each company it accepted into the program.

DreamIt Ventures was founded by three entrepreneurs who were investing in early-stage companies after successfully exiting their own companies: Steven D. Welch had built valve maker Mito Technologies Inc., and sold it to Parker Hannifin; David Bookspan had founded and sold MarketSpan and its legal data service, renamed CourtLink, to LexisNexis; and Michael Levinson had sold PTS Learning Systems to Global Knowledge Network.

The founders of DreamIt Ventures wanted to induce more young people both to stay in the Philadelphia area and to start companies of their own. They convinced law and accounting firms to provide free advice to their accepted companies, and they used their own personal funds and funding from economic development organizations at the city and state levels to get DreamIt Ventures off the ground. Further, the founders brought in Philadelphia-area angel investors and venture capitalists to help select companies for the summer-long program, and other company leaders to provide advice. In 2011, DreamIt Ventures expanded to New York City. It had since developed two vertical business accelerators, DreamIt Health and DreamIt Education.

THE CREW

The three original founders of Campus FundSource came from diverse backgrounds. Levin, the chief executive officer, worked briefly at Drexel University in the event services office. In the spring of 2008, he left Drexel University and started Phame Entertainment, a business focused on booking entertainment for college events. He also worked with other booking companies and producers, producing celebrity charity events and sponsorships. Those events, whether through Phame Entertainment or other booking companies, included such major artists as The Roots, John Legend, and Lupe Fiasco. Phame Entertainment and related activities led Levin to consider using music to engage in philanthropy.

Levin and Falcone, the chief operating officer, met when Falcone was the leader of the famed DAC Pack, a Drexel University basketball fan club named for the Daskalakis Athletic Center, where the basketball team played, and Levin was working in the Drexel University event services office. When Falcone took over the DAC Pack, there were fewer than 50 members; when he graduated and stepped down as president, there were more than 1,000. In addition to growing the fan club, he forged strategic partnerships with the university and some community groups, which resulted in an annual funding increase of 400 per cent.