

## SUCCESS FACTORS FOR CROWDFUNDING FOUNDERS AND FUNDERS

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**Abstract:** Crowdfunding has been used as one of the effective ways for entrepreneurs to raise funding especially in creative industries. Individuals as well as organizations are paying more attentions to the emergence of new crowdfunding platforms. In the Netherlands, the government is also trying to help artists access financial resources through crowdfunding platforms. This research aims at discovering the success factors for crowdfunding projects from both founders' and funders' perspective. We designed our own website for founders and funders to observe crowdfunding behaviors. We linked our self-designed website to Google analytics in order to collect our data. Our research will contribute to crowdfunding success factors and provide practical recommendations for practitioners and researchers.

**Keywords:** crowdfunding, entrepreneurship, creative industries, success factors

### Introduction

Entrepreneurs are using social media such as LinkedIn, Facebook and Twitter to get access to information and resources (Song and Vinig 2012). Entrepreneurs usually find it difficult to raise funding during the early stage of their entrepreneurial process (Cosh, Cumming, and Hughes 2009, 1494-1533). Most of them are not eligible for bank loans or debt due to the fact that their businesses' operating history is limited. Some entrepreneurs are able to get funding from "family, friends and fools" (from the so-called three Fs) but in many cases it is not efficient (Mason 2007, 259-299). The emergence of social media provides a different platform for entrepreneurs to raise funding. In particular, they start seeking for financial help from the general public (the "crowd") instead of approaching financial investors such as business angels, banks or venture capital funds (Schwienbacher, A., Larralde, B., 2010).

Crowdfunding, which typically involves collecting small amounts of money from a large number of people (Ordanini et al. 2011, 443-470), is being used as an alternative way of financing projects, in particular for artists, cultural practitioners, designers, programmers, researchers, and small creative social entrepreneurs. All of them can be called as the founders for crowdfunding projects. Correspondingly,

there are also funders for each project. However, the internal crowdfunding mechanisms are beyond our knowledge. Unlike business angels or venture capital funds, crowd funders might not have any special knowledge about the industry nor the crowdfunding project (Belleflamme, Lambert, and Schwienbacher 2014, 585-609). In this paper, we would like to discover the mechanisms that both founders and funders might come across during crowdfunding process, we would like to provide practical recommendation for the future crowdfunding entrepreneurs to raise funding.

### Literature Review

Crowdfunding is described as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes" (Belleflamme, Lambert, and Schwienbacher 2014, 585-609; Schwienbacher, A., Larralde, B., 2010). In other words, crowdfunding typically involves collecting small amounts of money from a large number of people, which is a new label for an activity that has a rich history in many domains (Ordanini et al. 2011, 443-470). Crowdfunding success appears to be linked to project quality, in that projects that signal a higher quality level are more likely to be funded (Schwienbacher, A., Larralde, B., 2010). Crowdfunding platforms are a novel place for fundraising activities, functioning as online intermediaries between entrepreneurs with ideas and the public with money and expertise (Massolution 2012).

Previous research shows that there are mainly four crowdfunding models: 1) the donation-based or patronage model, for philanthropic or sponsorship purposes; 2) the lending based model, as a peer-to-peer and peer-to-business loans; 3) the reward-based model; for non-monetary rewards that are normally the result of the entrepreneurial activity; 4) the equity model, for financial and participation return (Mollick 2014, 1-16). Depending on the crowdfunding project, the founders need to choose different crowdfunding model. Besides crowdfunding models, there are also other factors that might be relevant to the success of crowd funding project such as industries, social

networks, trust etc. Therefore, we will discuss the relevant crowdfunding success factors based on our empirical study.

### Data and method

We designed our own platform for crowdfunding users. We used Google analytics to collect crowdfunding data that generated from our platform. Once founders and funders start using our platform, their behavior data will be automatically collected by Google analytics. We aim to better inform potential founders about what the crowdfunding process involve before they start their own projects. Since all the crowdfunding platforms are related to the business models, we built up a toolkit for the founders to analyze the best platform for their crowdfunding project. Besides, we also considered the amount of time and effort required to work on a crowdfunding project, as well as the reliance on friends and family for money etc.

We invited artists, cultural practitioners, designers, programmers, researchers, and small creative social entrepreneurs to use our toolkit. The website is only useful for projects that aim to raise less than 50,000 euro. It is not intended to assist multi-million-euro startups and businesses. The toolkit draws from the Dutch context of crowdfunding and is therefore particularly useful for Dutch crowdfunding founders.

### Preliminary results

We found a few intriguing results based on our pilot study. We find crowdfunding is more than just raising money. Crowdfunding can be very effective to organize one's personal network such as relatives and friends in other countries. Crowdfunding can make the founders feel more independent compared to traditional forms of finance such as VC funds and banks. However, they had to rely on their personal network during the whole crowd funding process. Both the founders and the funders need to make great efforts on managing the campaign, spanning from one to three months. Promoting their project in front of crowd can not only often raise the expectations of their project but also put a lot of pressure on success. We conclude that prompting the project is one of the most demanding part for crowdfunding. In other words, they spent less time on their creative work. They need to quickly learn how to become a good marketer rather than how to make their project more creative.

We found most of the crowdfunding founders are lack of expertise in how to crowdfund, how to campaign and reach a wider audience through social media. Most of the founders are unlikely to use

crowdfunding platforms next time. This might be caused by big time investment and the uncomfortable feeling of 'begging for money' from close family and friends. Moreover, crowdfunding is not sustainable – most would not do it again unless they are sure they have concrete value to offer. The relationship with their audiences becomes more fragile when they are asking for money before offering the outcome. Moreover, the design choice, the inconsistencies and lack of transparency for crowdfunding platforms may also cause misinformation, offering too much of an optimistic view of what crowdfunding can do.

Crowdfunding is also a business model, even when it's based on donations. All efforts are directed to marketing, outreach, and meeting the goal by any means. However, it comes with an extra baggage of time, free effort, multiple roles, and reliance on their own networks. Crowdfunding platforms tend to push success stories as top results and cover unsuccessful campaigns by making users hard to browse. These design choices need to be reconsidered in order to more truthfully reflect what is really happening.

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