

What use is crowdfunding?

Linnéa A. J. Eriksson

Academy of Business, Engineering and Science
Halmstad University

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”Crowdfunding involves an open call, mostly through the Internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes”.
(Belleflamme, Lamber & Schwienbacher, 2011, s.7)

ABSTRACT

Purpose – The purpose of this paper is to find answers to what use is crowdfunding. This paper will be focused on how and why entrepreneurs select the crowdfunding platforms.

Design/methodology/approach – This paper is a deductive and descriptive study created on primary and secondary sources. The primary sources are gathered through an internet-based survey consisting of 204 respondents with knowledge of using crowdfunding platforms. The secondary sources are scientific article from databases Web of Science and Scopus.

Implication/Findings – This study explain the adversity that small companies and projects stands in front concerning financing. The paper will define with reveal characteristics users of crowdfunding platforms think is most important.

Originality/value – Primary and secondary sources have been used to define and describe crowdfunding platforms and the users preferences.

Keywords – Crowdfunding, Investment, Crowdfunding models, Financing, Crowdfunding platforms

Paper type – Research paper

INTRODUCTION

According to Berggren, (2000) entrepreneurs are driven by the desire to control and that is making them to as long as possible avoid external influence of venture capital. The reason is that venture capital creates participation of investors in decision-making in the business.

Collins and Pierrakis (2012) consider that crowdfunding is a method that established companies or new started business could use to finance investments and projects. The authors mean that crowdfunding separating from each other in variables as

contribution, returns and motivations. The basis of Crowdfunding is that companies or project is funded by a group of individuals, instead of banks or venture capitalists (Schwienbacher & Larralde, 2010).

A company's size affects a company's choice of financing. This allows that smaller companies in some cases encounter difficulties acquiring the funds to finance. When companies use external investment the investor make a background research to avoid risks. This is not easy in crowdfunding because both individuals and companies can investigate in crowdfunding projects (Chakraborty & Mallick, 2012).

An investment associated with uncertainty therefore the investor must collect reliable data and identify potential signals of quality. Data can be the information that companies provide to investors in the crowdfunding platforms (Mollick, 2014). According to Gerber and Hui (2013) crowdfunding is a free method of financing in which the user does not end up in a debt, like a bank loan. Through crowdfunding platforms, investors receive a direct contact with consumers, which allowing humans to decide how they want to market themselves. The authors means that crowdfunding has grown each year, which means that competition between companies and individuals will be greater on the platform.

There are several types of crowdfunding platforms for instance; Kickstarter, Indiegogo and Crowdfunder. Above-mentioned platforms are three of the largest and most well known platforms (kickstarter.com, indiegogo.com and crowdfunder.com). A platform works with different areas for example equity-based (investment), donation-based (donation) and debt-based (loan). That is why it is important to use the right platforms for the purpose (De Buysere, Gajda, Kleverlaan and Marom, 2012).

This article is aimed to describe why human choose the platform crowdfunding to invest and which values investor is seeking for.

The questions are what types of variables is important for the investor when they use crowdfunding platforms?

REVIEW OF PREVIOUS RESEARCH

Financing is a problem for companies that are in the start-up phase. Company are getting more difficult to obtain external capital, which is necessary for the operation (Weinberg, 1994).

Crowdfunding is a way to offer companies to invest in new business ideas. Project how are introduced in this types of platforms are usually new products or services. The platforms are therefore used to make business contacts, create commitment and gather information (Shane and Cable, 2002).

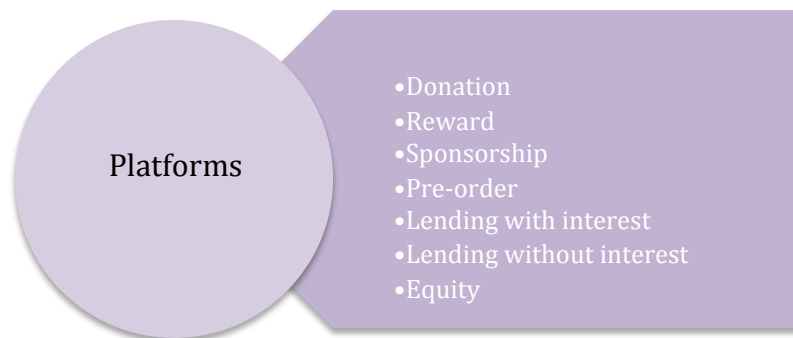


Figure 1. Different types of crowdfunding models (Gedda, Nilsson, S  th  n and Solberg (2016)).

Companies or humans seeking funding through crowdfunding presents its purpose and then awaits companies or humans to invest their money (Dresner, 2014). There are seven types of models for crowdfunding, donation, reward, sponsorship, pre-order, lending with interest, lending without interest and equity. Donation-based crowdfunding is when a human donate money without any opportunity to profit in addition to increased self-esteem (Gedda, Nilsson, S  th  n and Solberg (2016). In this type of crowdfunding investors can follow the course of events to see what the money is used for (Dresner, 2014). Reward is used when funding a project and in return being given a reward. The model sponsorship is when funding a project and the return of the invest will be publicity. Pre-order means that funding a project by pre-ordering the service or product. Lending with interest is funding a project by lending money in order to get return for interest. The opposite of lending with interest is to lender without interest. This means that you lending money without interest. The last model of crowdfunding is equity. Equity is funding a project and buys equity. This will give equity in return.

There are many differences between normal financing and Crowdfunding. Donation-based crowdfunding helps unlike ordinary financing the owner to reach out to large population over Internet. Incentive-based crowdfunding attract many new investors while traditional financing usually deals with existing customers. Credit-based crowdfunding offers in many ways lower interest rates than normal financing at the bank. Investors in proportion-based crowdfunding can settle for a small percentage unlike the traditional financing where the financier requires a higher proportion (Andrew, 2013). Crowdfunding can be used to spread the financial risk to multiple parties. This allows more courage to invest in the company (De Buysere, Gajda, Kleverlaan and Marom, 2012). Project or companies in the start-up phase reach for a

financing in a lower level and use therefore many ways of investment, where among other things, crowdfunding platforms (Bradford, 2012).

The reason why people choose to support Crowdfunding is different from platforms to platforms. A website is not just created for the person how publishing their ideas. Consumers (the visitors) demand that websites should properties customers to be involved in the site. When customer becomes involved with the site commitment creates (Mazaheri, Richard and Laroche, 2012). Customers want to be participating and help the company to deliver service (Vivek, Beatty and Morgan, 2012).

Every crowdfunding platform has their own options and that is why the user needs information about the platforms to choose with one to use (Ordanini, Miceli, Pizzetti and Parasuraman, 2011). This figure shows the ten most useful crowdfunding platforms and every platforms function (Gedda, Nilsson, S  th  n and Solberg, 2016).

Platform	Global Alexa Rank	Donation	Reward	Sponsoring	Pre-order	Lending without Interest	Lending with Interest	Equity	Payout Model
Kickstarter.com	512	X	X	X	X				All or nothing
Indiegogo.com	1396	X	X	X	X				All and more
Gofundme.com	1446	X	X	X	X				All or nothing
Teespring.com	2077				X				All or nothing
Angel.co	2373							X	Club membership
Patreon.com	5310	X	X	X	X				All or nothing
Lendingclub.com	9582						X		All and more
Kiva.org	12575					X			All and more
Pledgemusic.com	27118			X	X				All or nothing
Crowdfunder.com	28178							X	Holding

Table 1. The 10 most viewed crowdfunding platforms and their properties (Gedda, Nilsson, S  th  n and Solberg (2016).

Kickstarter, Indiegogo and Crowdfunder is three of the largest and most well known platforms (De Buysere, Gajda, Kleverlaan and Marom, 2012). The platforms are growing every day (Voelker & McGlashan, 2013). Kickstarter is build for creative projects in categories such as art, dance and food (Kickstarter.com). Indiegogo helps people to solicit funds for an idea, charity or a start-up business (Indiegogo.com). The platform Crowdfunder offers subscription depending on how much capital the project needs. The difference in subscription leads to various benefits (Crowdfunder.com).

Kickstarter and Indiegogo provide properties as donation, reward, sponsoring and pre-order. The crowdfunding platform Crowdfunder only provide equity (Gedda, Nilsson, S  th  n and Solberg, 2016).

METHODOLOGY

The sense of this research is to discover why humans choose to use the crowdfunding platforms. The understanding of how the method will be presented is necessary for researchers in all fields, describes Hahn Fox and Jennings (2014). According to the writer one of the most important parts in the article is the method. This is according to the fact that the readers use the information in the method to interpret the validity and evaluate the quality of the article, describe the writers.

This paper is a deductive and descriptive study created on primary and secondary sources. The primary sources are gathered through an internet-based survey consisting of 204 respondents with knowledge of using crowdfunding platforms. The secondary sources are scientific article from databases Web of Science and Scopus. The way that this article is written this study is of a deductive method. The title has been used to identify keywords. Keywords have been the sense for searching literature databases. This research is based in scientific articles about crowdfunding and the advantages and disadvantages with the platforms.

Survey design

This survey was a digital survey created in Google Drive. It is important according to Jacobsen (2002) that a survey reaches the right target to get credible answers and create validity to the article. The survey has been posted on a forum for crowdfunding and companies in the investment business have also been used to get a trustworthy empiricism and maintain reliability.

This survey focused on finding people who have knowledge in using crowdfunding platforms. The survey consisted of six questions and the respondents were giving different answers and were supposed to mark the answers that fit their opinions.

The first question was if the respondent knows what crowdfunding platforms were. The alternatives were yes, no and do not know. The reason for including this question was to find the respondents how know about the crowdfunding platforms and if they have been used them.

The second question was about gender and the alternatives male, female and other were given. Question number three was if the respondent have been used the crowdfunding platforms and included the alternatives yes, no and do not know. The purpose of this question was to find information about how many of the respondents that have been use the platforms.

Question number four was “For which purpose would you or your company use crowdfunding?”. In this question five answers were given, financing a business or a project, donation, finance an investment, sell shares in the company or use it for marketing. In this question respondents had the opportunity to select “other” and

write their own answer. The fifth question was “Which crowdfunding model do you prefer?”. In this question there were only closed answers based on crowdfunding models (Gedda, Nilsson, S  th  n and Solberg, 2016).

The last question was to find the properties that humans were looking for in the crowdfunding platforms. Respondents are free to choose from four answers, which was “industry-based, large and well known, geographical area and donation-based.

EMPIRI

The survey is based on six questions that 287 respondents have answered. The questions are shown in table 1 below. Table 1 also states that there are some missing answers at question 2-5. This survey is based on the 204 respondents with had knowledge about the use of crowdfunding platform.

	Do you know what crowdfunding is?	Gender	Have you/your company used crowdfunding platforms?	For which purpose would you/your company use crowdfunding?	Which crowdfunding model do you prefer?	What/which property is most important when choosing crowdfunding platform?
N Valid	287	204	204	204	204	204
Missing	0	83	83	83	82	83

Table 2. The questions in the survey that the respondent has been answered in.

Figure 2 presents the respondents' answers to the question “Do you know that crowdfunding platforms is?”. This shows that 204 respondents of 287 in the survey answered yes, 80 answered no and 3 of the respondents answered do not know

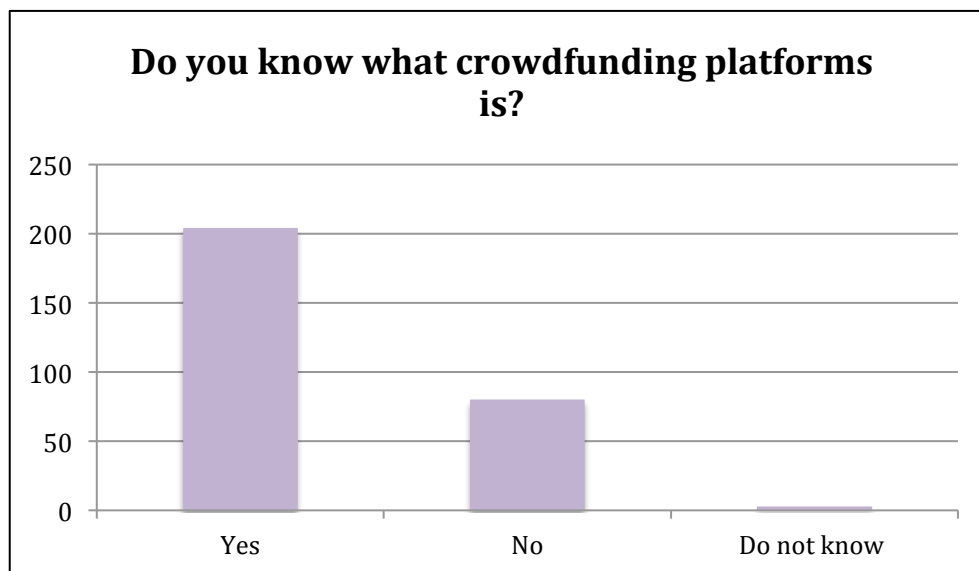


Figure 2. Respondents' answer on the question “Do you know what crowdfunding platforms is?”.

Figure 3 shows that 204 respondents has been answered to the question “ Gender?”. These present that 114 respondents selected female, 88 respondents selected male and 2 respondents selected other.

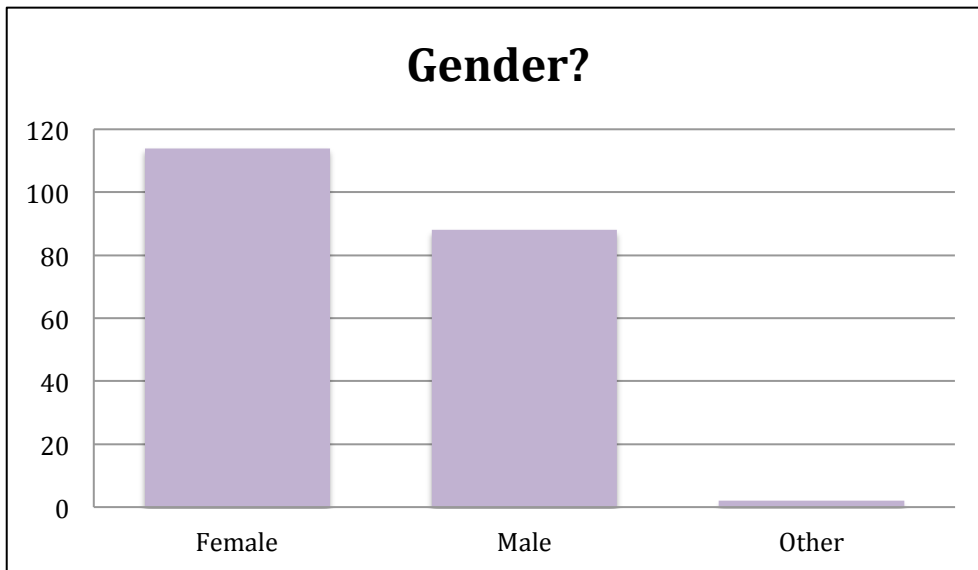


Figure 3. Respondents answer to question “Gender?”.

Figure 4 show the outcome of the respondents answers to the question “ Have you or your company used crowdfunding platform?. In this question 77 answered yes, 117 answered no and 10 of the respondents do not know if they or the company have been used crowdfunding.

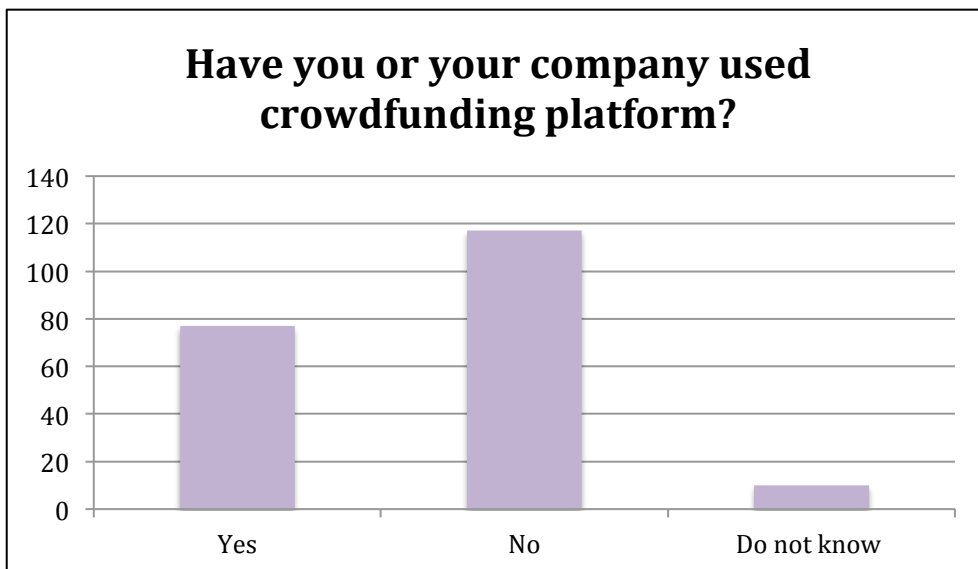


Figure 4. Respondents answer on the question “Have you or your company used crowdfunding platform?”.

Figure 5 present the answers to questions “For which purpose would you or your company use crowdfunding?”. These shows that 82 respondents will use crowdfunding to finance a business or a project, 42 in donation, 59 to finance an investment, 10 to sell shares in the company and 5 respondents will use crowdfunding in purpose of marketing. 6 respondents select the answer “other”.

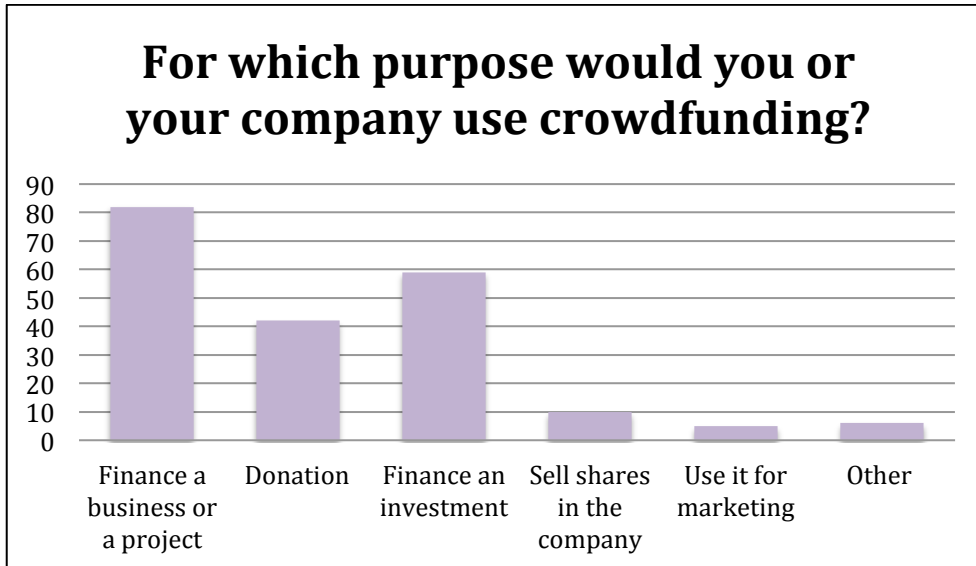


Figure 5. Respondents answer on the question “For which purpose would you or your company use crowdfunding?”

In question (figure 5), the respondents were allowed to write their own comment. Figure 6 shows what the respondents that select other has been answered on the question, which leads to the category “Create commitment” and “School trip”. Create commitment means that humans want to be a part of the project, example “We have hired people who have helped us with our crowdfunding campaign”. Two respondents have been used crowdfunding to gather money for a school trip.

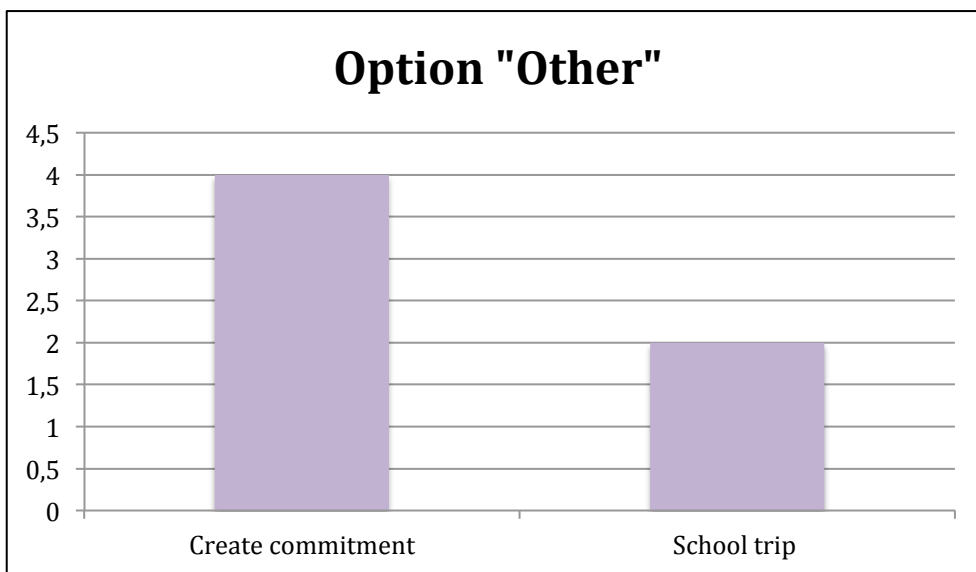


Figure 6. Respondents answer in option “other” in.

Figure 7 present the answers to questions “Which crowdfunding model do you prefer?”. These shows that 26 of the respondents using crowdfunding as a reward, 22 sponsorship, 34 pre-order, 14 lending with interest, 9 lending without interest, 28 equity and 71 donation.

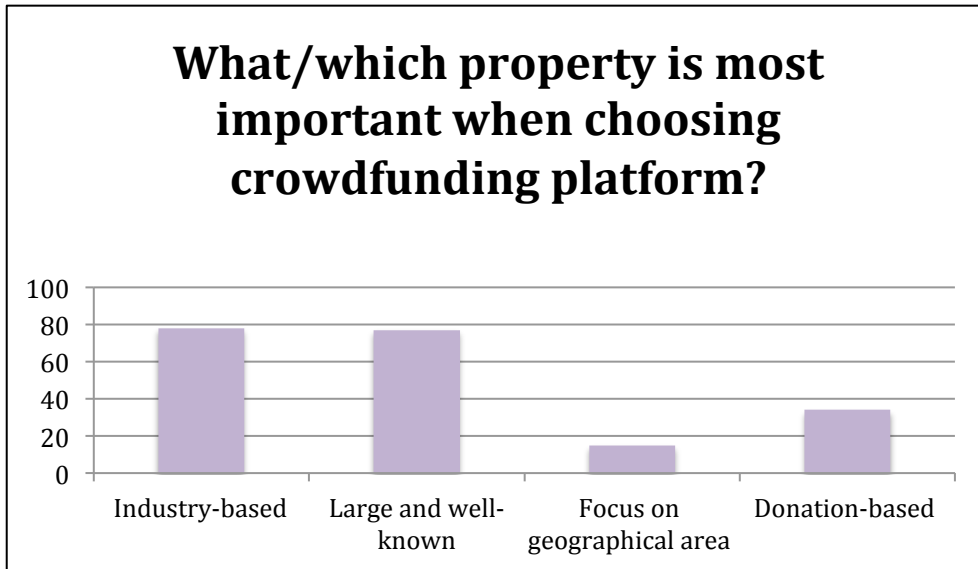


Figure 7. Respondents answer to the question “Which crowdfunding model do you prefer?”.

Figure 8 present the question “What/which property is most important when choosing crowdfunding platform”, 78 respondents choose the answers industry-based, 77 thought that it is important that the crowdfunding platforms are large and well known. 15 respondents present the answer focus on a geographical area and 34 choose that the platform must be donation-based.

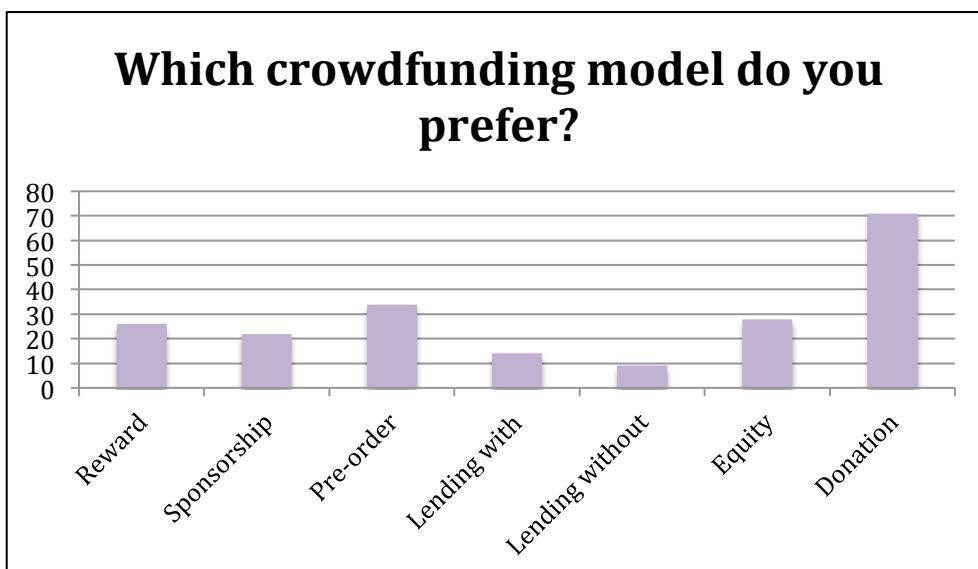


Figure 8. Respondents answer to the question “What/which property is most important when choosing crowdfunding platform?”.

RESULTS

The result of this survey shows that the majority of the respondents were female in the question "Gender?". This survey shows that 71 % of the respondents know what crowdfunding were. This can be likened to Voelker and McGlashan (2013) theory that crowdfunding are growing every day witch leads to the spread of this investment method, crowdfunding.

Financing a project or a company is difficult in the start-up phase and according to Weinberg (1994) external capital is necessary. This survey shows that 77 respondents, which are 38 %, have been used crowdfunding at some time instead of a traditional investment option. According to De Buysere, Gajda, Kleverlaan and Marom (2012) crowdfunding can unlike traditional financing spread financial risks to multiple parties.

This survey present that the using of crowdfunding platforms are different from person to another person. 40 % of the respondents answered that they will use crowdfunding to finance a business or a project. This answer gets strength in Bradford (2012) theory that companies or projects in the start-up phase use many ways of investment to finance in a lower level and therefore uses crowdfunding platforms. Then 32 % of the respondents answered that they will use crowdfunding to finance an investment and 21 % will use it for donation.

6 respondents of 204 do not use the answers that were given in the question and selected "other". Four of the respondents thought that the purpose with crowdfunding was to create commitment. One respondent wrote, "We have hired people who have helped us with our crowdfunding campaign". This can be likened to Shane and Cable (2002) theory on how crowdfunding allows humans to invest in companies with new business ideas or projects. The author means that platforms are used to find information, create contracts and increase engagement with third parties.

According to Andrew (2013) there are many differences between normal financing and crowdfunding. Crowdfunding is more "open" and allows different people to be involved in project and business. The writer means that crowdfunding creates a commitment and openness between investor and the creator. Openness leads, according to Mazaheri, Richard and Laroche (2012), commitment from the customers. Customer will therefore help the company to deliver service, tell Vivek, Beatty and Morgan (2012). This theory shows credibility when respondents writer about crowdfunding creating job opportunities.

In previous research about crowdfunding models is, according to Gedda, Nilsson, S ath en & Solberg (2016), sponsorship the model with highest rank. After sponsorship comes donation and pre-order. This survey present that 34 % of the respondents prefer crowdfunding models with donation and 16 % of the respondents prefer pre-order. The reason why donation models got a higher rank can according to Dresner (2014) theory be that investors can fallow the course of events to see what the money is used for. Pre-order means, according to Dresner (2014), that the company sell the product or service in the same time that they is fund.

According to Ordanini, Miceli, Pizzetti and Parasuraman (2011) a crowdfunding platform has their own opportunities. This survey states that when entrepreneur choose crowdfunding platforms the most important options was that the platforms is industry-based and well known. 38 % of the respondent thought that industry-based was important and 37 % of the respondents thought well known were important. The answer that gained lowest answers was focus on geographical area, which was 4 % of the answers. In this survey the entrepreneur prefer crowdfunding models with donation and pre-order.

CONCLUSION

To conclude this paper it is difficult to finance a business or a project today and even more difficult when there is no security and willing financiers. This makes crowdfunding becomes a tool for companies in different industries and sizes. Crowdfunding is not just a way to increase their capital; crowdfunding encourages commitment and can also be used for in purpose of marketing.

Out of this study the same results in the question about useful crowdfunding models can be found in previous research (Gedda, Nilsson, S  th  n & Solberg, 2016). This present that this studied respondents are representative of the population witch is people with knowledge about crowdfunding. According to this survey the respondents select donation and pre-order. This answer gain strength through Gedda, Nilsson, S  th  n and Solberg (2016) presentation about the ten must used crowdfunding platforms. Two of the must used crowdfunding platforms is Kickstarter and Indiegogo witch both provides mentioned donation and pre-order.

According to this survey and previous research the respondents was clear witch two answers that was most important when choosing crowdfunding platforms. The respondents select industry-based and large/ well known platforms. Crowdfunding and the platforms ability to reach a large group on the Internet can be the reason why focus on geographical areas was so low.

In future research it can be interesting to find out if there is a connection between gender and the use of crowdfunding platforms.

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