
SEARCHING FOR THE BEST CROWDFUNDING PLATFORM

What are the most important factors when using a crowdfunding platform?

By Emmy Dannehall

Purpose: *The purpose of this paper is to gather information about crowdfunding who is at arise in Sweden, to understand what this phenomenon really is and what the market thinks are the most important factors when using a crowdfunding platform.*

Design/methodology/approach: *The survey conducted for this article was to alight what is the most important for a future investor or entrepreneur when choosing a crowdfunding platform. This is done combined with previous research in the subject.*

Findings: *During the survey, it was clear that the most important factor is that the platform feels safe, both for the entrepreneur and funder. It was also important that someone in the surroundings knew about the platform.*

Keywords: *Crowdfunding platforms, survey report*

Paper type: *Survey report*

Introduction

When coming up with a business idea and wanting to make it come true, an entrepreneur needs money. Today it is not only banks that can be the monetary resource, but also private investors. By using the mean of crowdfunding a small business can get investors to their new ideas when the bank is not interested (Sjögren, 2014).

However, getting money by crowdfunding is a bit different. The entire series of events happens online through a portal. The conversation about funding an idea is

completely open for everyone in the portal to read. This makes it possible to get small investments by many investors, or donors and depends on the difference of the project (Bannerman, 2013). The investors can choose to fund the project with different forms such as e.g. equity purchase, pre-ordering the product or a loan (Belleflamme, Lambert, & Schwienbacher, 2014).

With crowdfunding the entrepreneur gets help with new approaches of how to manage projects and ventures. This leads to new forms of business development that

the so called “ordinary” crowd get the possibility to be more involved in these business, as investors or consumers, or both (Belleflamme et al., 2014).

Method

In order to answer the research question a quantitative digital survey of a minor sort was sent out on social media. This was done for the author being able to reach as many respondents with a large variety as possible in a short period of time. When ending the survey the sample size ended at 203, the goal was to reach at least 200. The questions asked in the survey were simple to make sure as many people as possible have the possibility to answer. All the answers were done anonymously to make sure the respondent could feel secure about giving a truthful answer. The survey has been used together with previous research to get a better understanding how a crowdfunding platform work.

Figures have been produced to display the results of the survey and are embedded throughout the text to give the reader more clarity of the results. There is also a model showing how a crowdfunding platform is designed, giving the reader more clarity of the procedure at the platform.

Empirical findings

Together with the information technology crowdfunding has risen and developed, which has made the search and matching costs reduced for the entrepreneurs with needs fund for their ideas (Kim, Lee, Cho, & Lee, 2016). In the same time it gives the entrepreneur the possibility to do a bit of a price discrimination, which means that the crowdfunding investors pays a bit less for the product when they pre-order it, and the regular customers get to pay full price, and thereby the entrepreneur gets a bigger profit. However, when the funding needs

to be larger, the entrepreneur has to change the pricing scheme in order to attract more people to pre-order the product. If not there is a risk s/he will not be able to raise enough money for the project. In conclusion this means: the larger the pricing scheme change is, the smaller are the profits for the pre-orders (Belleflamme et al., 2014).

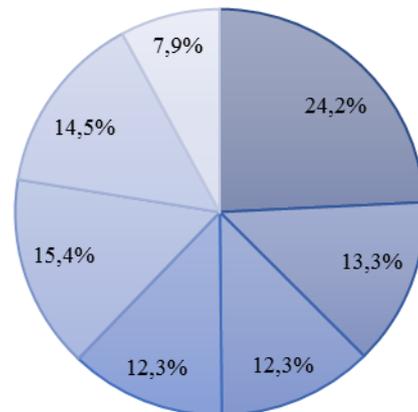
In their article Gedda, D., Nilsson, B., S  th  n, Z., and S  ilen, K. S., collected seven different crowdfunding models and presented them in order to shed some light over what these different models mean. These seven different funds are; donation, reward, sponsorship, pre-order, lending with interest, lending without interest and finally equity. These are different forms of crowdfunding and the name of the form is describing what that sort of funding it is. Since there is no set definition of the variety of crowdfunding in previous research, it is possible that two persons are using different words to describe the same mean of funding. Therefore, the authors have sought to end this confusion by listing the means of crowdfunding and define them (Gedda, Nilsson, S  th  n, & S  ilen, 2016).

The crowdfunding has become a billion-dollar industry and it is not just in the industrial world, but also in the academic and entertaining industry (Gerber, Hui, & Kuo, 2012). But it is not all projects that get funds, in fact, not even half of the entrepreneurs that seeks investment via crowdfunding gets investors. In 2015 only 35% of the projects that were seeking investment were successful. Even though an entrepreneur works hard to keep all of the delivery promises, over 75% of the funded projects fail to deliver on time or even deliver a product at all (Zhao, Chen, Wang, & Chen, 2016).

According to Kang, M., Gao, Y., Wang, T., & Zheng, H. crowdfunding has the potential of being the next big investment trend. Since crowdfunding means a bit of a risk, the funder needs to feel secure about the project and the crowdfunding platform. If an investor thinks that there is a risk that the funded money is not used wisely or the platform does not feel serious, the funder avoids investing (Kang, Gao, Wang, & Zheng, 2016). Another factor is if the funder feels insecure about the performance of the product, if the quality matched the description or if the product will be delivered on time. Therefore, it is important that managers of the crowdfunding websites create certain mechanisms so the funder feels like there is less of a risk investing on different crowdfunding projects (Zhao, Chen, Wang, & Chen, 2016).

Without trust crowdfunding would be an ineffective form of financing ideas and with understanding how trust is created and maintained, crowdfunding can get an improved success rate (Kang et al., 2016). According to the conducted survey for this article the respondents think that it is important the platform feels safe, see figure 1.

Fig.1 - The important factors to the crowdfunding platform



- The platform feels safe
- It is known by some one in mysurroundings
- Esthetically pleasing
- There are different types of funds toconsider
- Easy to find information
- Gives a possibility to leave feedback to an idea without needing to be intrested to invest in the idea
- None of the above

When dividing these factors in gender categories, the majority of both genders thought the platform feeling safe was the

most important factor. The second important factor for the genders were easy to find information (men) and being able to give feedback (women).

However, Kang et al., (2016) says when an entrepreneur is genuine and authentic in their values, a value congruence is possible to develop since the funder has access to all information about the fundraising and therefore, what the authors call, the true self. With this congruence an emotional bond between the two parties takes form and starts to simulate trust. There is research showing that trust and the willingness to invest are related to each other.

During a conference in China, Song, Z., Chen, D., and Yi, T., presented how

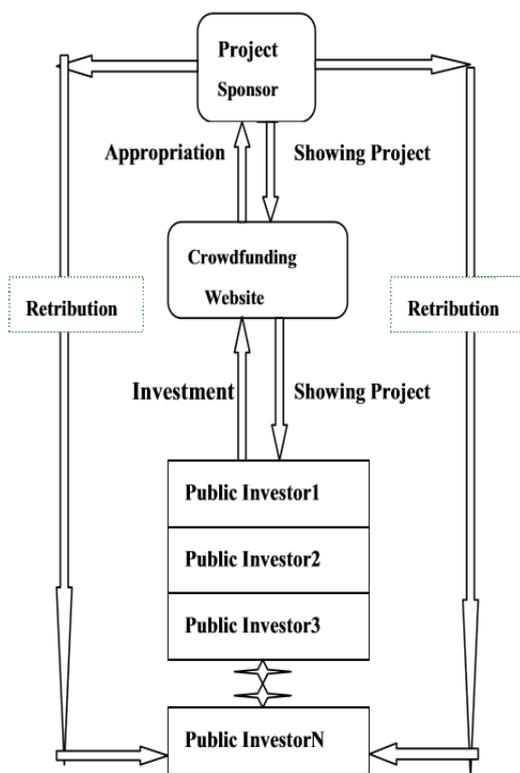


Fig. 2 – The compositions of college students entrepreneurship crowdfunding platform (Song, Chen, & Yi, 2016, May)

college entrepreneurs can use a crowdfunding platform to fund their business idea when the bank say no to a loan. Together with a model (figure 2) they displayed how the crowdfunding platform works (Song, Chen, & Yi, 2016, May).

The project sponsor is the entrepreneur, that do not have the possibility to take a loan from a bank. The project supporter is the investor, that chooses to invest depending on his/her financial situation and in line with interests of the project or personal value. Intermediary platform, is the crowdfunding platform the entrepreneur and investor meet (Song et al., 2016, May) e.g. Kickstarter and FundedbyMe. The entrepreneurs develop a profile on the crowdfunding platform and pitch the monetary goals, how the money will be used and timeline in order to show the funder when the project will reach a certain goal (Gerber, Hui, & Kuo, 2012).

In his paper, Mollick (2014), discusses four points of interest about crowdfunding for both entrepreneur and funder:

- 1) The quality of the fundant seeking application is of great value, since a potential funder wants to have as much information as possible during the descionsmaking process. Therefore it is of great importance, and the project ought to signal preperation.
- 2) The innovation of Internet has made it possible for funder to find potential projects on other geographical places and social medias, and other networks has showed to be a factor of influence in the creation of new ventures.
- 3) With both succeeded and failed projects presented on the crowdfunding platform, the funder gets a good window of upcomming ideas. The platform here provides empirical facts for the funder and s/he can compare different ideas.

4) The entrepreneur must set up strikt goal on how to deliver the products in time and be able to use the investment money as wisely as possible and prepare to be successful, that will give the venture a sign of the entrepreneur being professional.

When a funder finds an idea and expect to become a future consumer of the product the benefits gets bigger, which leads to a benefit for the community aswell, and by donating money, the entrepreneur gets monetary means to carry the project forward. This then leads to that both entrrepreneur and funder can enjoy satisfactory benefits in the community (Belleflamme et al., 2014).

The fuder is therefore looking for something in return when doing this kind of investment, most often the product it self or an experience. The funders goals, information processing, involmnet, attitude, memory, choices, and other contributing factors are key elements that drives the funder in the descioion process when choosing what project to fund (Gerber, Hui, & Kuo, 2012).

Figures 3 and 4 displays what the respondants of the survey thought about seek investment or inversting via crowdfunding. When dividing the respondants into gender categories, the women showed to be a bit more hesitating towards crowdfunding than the men. As can be seen in the figures below, only 21% of the women could imagine to be funded by crowdfunding, while 52% of the men thought the same thing. The women were also more hesitant to invest or do funding by crowdfunding than the men, 19% versus 47% (figures 5-8).

Fig. 3 - The probability to seek monetary means for an idea

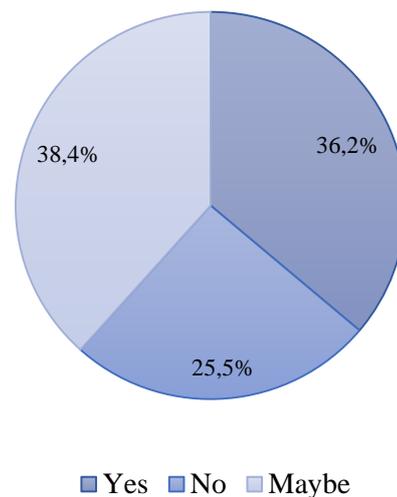


Fig. 4 - The possibility to fund an idea via a crowdfunding platform

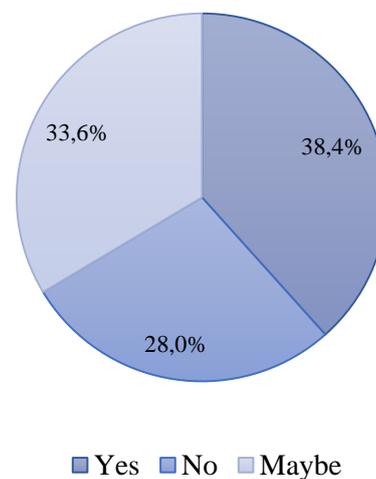


Fig. 5 -The possibility to be funded by crowdfunding (women)

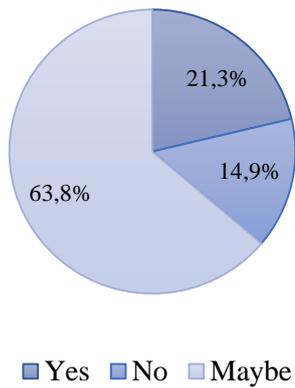


Fig. 7 - The probability to invest through crowdfunding (women)

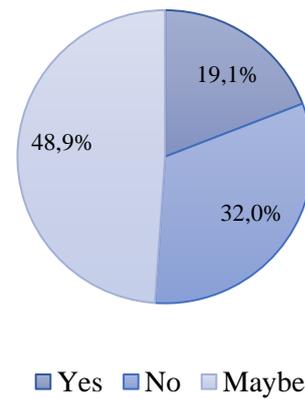


Fig 6. - The possibility to be funded by crowdfunding (men)

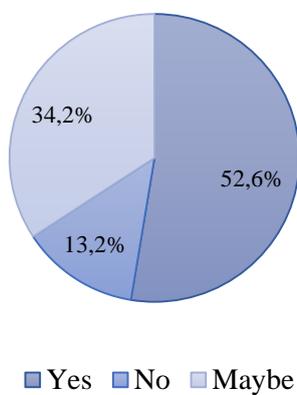
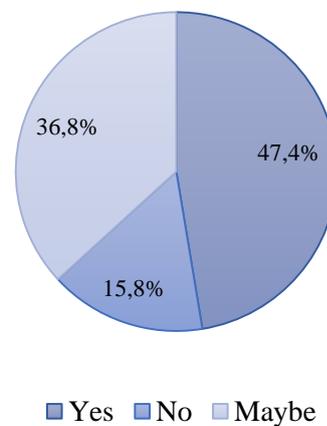


Fig. 8 - The probability to invest through crowdfunding (men)



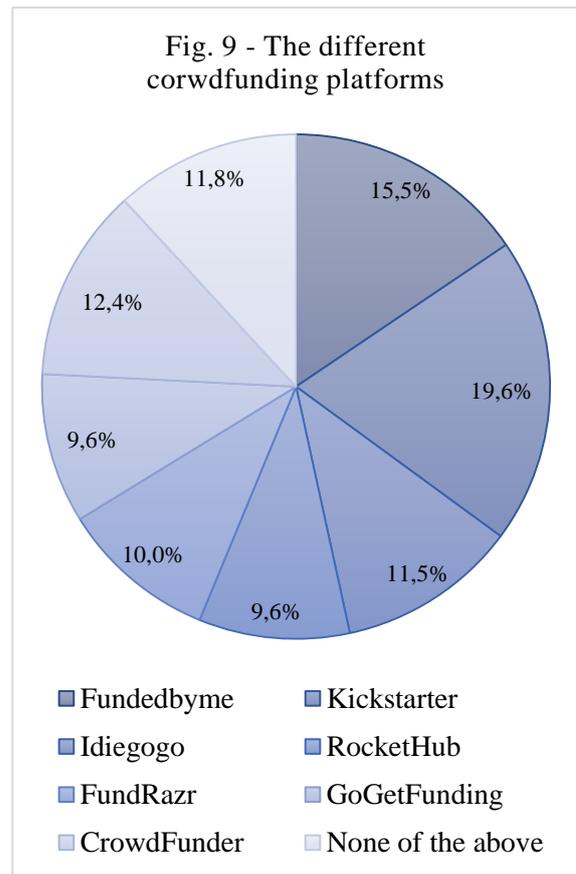
The respondents also had the possibility to specify why they could imagine to get invested through crowdfunding and a few of the answers were: “I can let people know about my project and convince them to invest in it”, “People are always interested in new ideas” and “It's a modern and possibly viral way to go.”.

The same possibility was given to answer why or why not they could think of

investing in crowdfunding: “If the idea seems good I don't see why not”, “If it were a project i care about greatly”, “To make a better world”, “I think it is a good way to support small upcoming companies that have hard to get loan I banks.”. Only a handful of the respondents choose to specify their answer, and very few of them were negative.

Entrepreneurs and funder prefers different types of crowdfunding and according Gedda et al., (2016) the top preferences for the entrepreneur were sponsoring, donation and pre-order. For the funder the top preference was equity. However, this depends on the entrepreneur and the project. If it is a small entrepreneur they commonly prefers the pre-order form of crowdfunding. When lager amount of money is needed to be funded, profit sharing has been proven to be more beneficial, since the entrepreneur then has the opportunity to solicit more funders with a small effect on the profit from the project (Belleflamme et al., 2014).

Due to the Internet, there is now over 1250 crowdfunding platforms world wide (Zhou, Lu, Fan, & Wang, 2016). In the survey only a handful of platforms were listed, among them the biggest one in Sweden and then platforms who are known worldwide. 15,5% of the respondants had preaviously heard about the Swedish platform Fundedbyme, while 19,6% had heard about the platform Kickstarter (see figure 9), who happens to be the biggest crowdfunding platform in the world (Zhao, Chen, Wang, & Chen, 2016).



With the technology of IT, the patters of supply and demans has changed in product categories such as blockbusters and niche products. This has shown to give effects on the the market structure as well as the competition. Crowdfunding has gives niche markets a lot of attention on their projects, but so called blockbusters are considered to have a significant impact on the different crowdfunding platforms (Kim, Lee, Cho, & Lee, 2016, August).

The two most wellknown platforms, according to the survey, Kickstarter and FundedbyMe, has chosen to work differently. Bot of the platforms has a wide span of business and there is a lot of categories to choose from. However, the two companies has chosen to use different forms of crowdfunding. FundedbyMe has chosen to only use two forms of crowdfunding; buyig stocks in the upcoming project or loan money to the

entrepreneur with interest (FundedbyMe). Kickstarter, on the other hand, is using the reward type of crowdfunding, which means that the investor get something out of the investment (Kickstarter). Both of these platforms are using a human jury that chooses which of the projects that are allowed to go live (FundedbyMe; Kickstarter).

Analysis

Throughout the text it has shown that trust of the platform, the entrepreneur and the funder has been a vital part of the crowdfunding experience. To trust a project that have not started yet in order to get the funded product seem to make the funder more trustworthy and willing to spend money. In the survey A big percentage of the respondents were insecure about if they could imagine fund or get funded through crowdfunding. This could be because where the survey was send out. With another type of sample the result could have been different and better displaying of how the market really thinks about crowdfunding. When divided into gender groups there were huge differences in these questions. This could have something to do with the fact that women are known to be more careful and not wanting to do something that does not feel safe or been recommended by someone else. It could also be, once again, because of the sample that was conducted. The men showed to be more willing to crowdfunding, both as fund and get funding. One thought is that more of the men knew more about crowdfunding than the women did and therefore felt more secure when answering the survey since the subject is known to you it is easier to answer better.

The majority of the whole group, as well in the gender groups, the most important

factor when using a crowdfunding platform was that it felt safe. As Kang, et al., (2016) said in their paper, if crowdfunding is going to be the next big way of investment it has to feel right to the people using the different crowdfunding platforms. Because of the funder do not feel that his or her money are being used wisely then why should they spend it on an uprising project? It is therefore very important that the entrepreneur is spending a lot of time on the description of the project, to ensure the funder that the money they are investing in the project is getting used on what is promised. Even though so many of the projects never go live and fail to deliver, by pre-ordering the product the funder gets a small insurance of the invested money actually gets used for the product, and the entrepreneur now get a bit of a pressure to deliver what was promised.

As mentioned earlier only 75% of all projects are successful and that less 50% of all projects up on platforms gets funding. This could be the consequence of entrepreneurs not knowing the depth of the project while it was just an idea. It could also be the fact that the entrepreneur was not prepared enough with the right numbers of the production costs and so forth and therefore asking for a too small amount of money. This leads to the money running out and the project fail, which makes the investor more careful if wanting to fund more projects in the future and in turn leads to less projects are being funded. These are also a bit of what Mollick (2014) was saying in his text.

Since crowdfunding happens online many of the authors in previous research are talking about how IT has made crowdfunding possible. If the platform managers work on building up more trust for both parties, crowdfunding could get

even bigger and more successful. By using a human jury as the final stage is good way to reduce the risk of bad projects going live and the investors therefore gets a risk reducer. In order to make it even more safe and give more projects the possibility to get funding, two independent juries might be something to consider. This does not have to mean that less projects are going live, but it is a way to ensure the investor, since in the end it is their money that are being used for these projects.

Conclusion

This article has had its purpose of finding out what the best crowdfunding platforms are. Since that is a matter of taste the author of this article decided to conduct a survey seeing what factors are the most wanted at a platform. Out of the listed alternatives, the fact that the platform feels safe was the most important factor to the respondents. This goes in line with previous research, saying that trust has a great part of when an investor is choosing a project. They also thought being able to leave feedback for the entrepreneur without the demand to invest were an important factor.

The survey also showed that the different genders had different preferences when it came to wanting to be funded or fund by crowdfunding.

Future Studies

There are plenty of ways to go from here. In the future, it is good if the author conducts a survey that is not based on social media, since it could be difficult to hit the right target segment there. There is also the possibility to narrow the survey and just focus on one area of crowdfunding instead of an oversight of the entire crowdfunding subject.

One interesting point of view could be to see if gender has something to do with the willingness to be funded or fund in crowdfunding and if there is any difference in the various forms of crowdfunding, and find research proving the potential hypothesis. This is because previous research always displays the results with the whole asked population as one group which makes it really hard to see if there is any difference between men and women.

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