

Empirical paper

Strategies for reward-based crowdfunding campaigns



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ABSTRACT

Crowdfunding represents an alternative way of funding entrepreneurial ventures – and is attracting a high amount of interest in research as well as practice. Against this background, this paper analyzes reward-based crowdfunding campaign strategies and their communication tools. To do this, 446 crowdfunding projects were gathered and empirically analyzed. Three different paths of successful crowdfunding projects could be identified and are described in detail. Practical implications of crowdfunding strategies are derived, and are dependent on the required *sales effort* and the *project added value*. The terms *communicator*, *networker* and *self-runner* are created for this crowdfunding strategy and filled with practical examples. This paper contributes to the literature in different ways: first, it sheds more light on the developing concept of crowdfunding, with an overview of current academic discussions on crowdfunding. Furthermore, the analysis of success factors for crowdfunding initiatives adds to an emerging area of research and allows entrepreneurs to extract best practice examples for increasing the probability of successful crowdfunding projects under consideration of the key influencing factors of communication.

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Estrategias para campañas de crowdfunding de recompensa

RESUMEN

El crowdfunding representa un modo alternativo de financiar proyectos empresariales – y está atrayendo un gran interés tanto en el ámbito de la investigación como en la práctica. En este contexto, este artículo analiza las estrategias de campañas de crowdfunding de recompensa y sus herramientas de comunicación. Con este fin, se han reunido y

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analizado empíricamente 446 proyectos de crowdfunding. Se han podido identificar tres formas diferentes de proyectos con éxito de crowdfunding, que son descritos en detalle. Las implicaciones prácticas de las estrategias de crowdfunding son obtenidas y dependen del *sales effort* requerido y del *valor añadido del proyecto*. Los términos *comunicador*, *networker* y *self-runner* son creados para esta estrategia de crowdfunding y explicados con ejemplos prácticos. Este artículo contribuye a la literatura en diferentes formas. En primer lugar, aclara el concepto en desarrollo de crowdfunding al proporcionar una visión general de las discusiones académicas actuales de en esta materia. Además, el análisis de los factores de éxito para las iniciativas de crowdfunding es valioso para esta área emergente de investigación y permite a los emprendedores extraer ejemplos de las mejores prácticas para así aumentar la probabilidad de éxito en proyectos de crowdfunding bajo la consideración de factores influyentes de comunicación clave.

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Introduction

Facing the problems of insufficient cash flows and an information asymmetry with investors about the venture's quality, the greatest challenge for entrepreneurs is to attract outside funding for their venture, especially in the beginning of their entrepreneurial activity (Cosh, Cumming, & Hughes, 2009). A lack of operating history and/or proven track record contributes to the challenges of obtaining credit (Stemler, 2013). Entrepreneurs therefore often turn to a variety of external capital sources, including venture capitalist funds, banks, leasing firms, as well as private individuals (Cosh et al., 2009) such as the entrepreneur's friends and family (Agrawal, Catalini, & Goldfarb, 2014). The use of internal financing through personal funds, family and friends, also called *bootstrapping* (Belleflamme, Lambert, & Schwienbacher, 2014; Brush, Carter, Gatewood, Greene, & Hart, 2006; Ebben & Johnson, 2006; Sannajust, Roux, & Chaibi, 2014; Winborg & Landström, 2001), remains one of the most used options. However, many ventures are not successful in attracting sufficient capital due to failed attempts to convince investors, a lack of sufficiently large sums from investors in general, and a lack of concrete specification of industries or what capital is needed for (Lambert & Schwienbacher, 2010). A new form of funding for small entrepreneurs has however recently emerged: entrepreneurs turn to a large number of individuals, the crowd, to raise funds (Agrawal, Catalini, & Goldfarb, 2013; Kleeman, Voß, & Rieder, 2008; Unterberg, 2010). So-called *crowdfunding*, which describes a large number of investors' contributions of finances to projects, products, or business ideas (Wenzlaff, Gumpelmaier, & Eisfeld-Reschke, 2012), has emerged as an alternative possibility for individuals to receive funding in different ways (Tomczak and Brem, 2013).

The concept of mobilizing funding in small pieces is not new, and traditionally occurs in almost every corporation (Fiedler & Horsch, 2014; Harrisson, 2013; Zademach & Baumeister, 2013). Contrary to typical financial investments, crowdfunding is fundamentally open to everyone (Blohm, Leimeister, Wenzlaff, & Gebert, 2013; Wenzlaff et al., 2012). The concept originally gained prominence with the financing of artists or creative projects and then spread across further sectors (Bradford, 2012; Meinshausen, Schiereck, & Stimeier,

2012). Initiatives in journalism, software, and fashion constitute examples of the ongoing spread of this funding concept (Schwienbacher & Larralde, 2010).

The remainder of this paper will first see a literature review discussing several alternative definitions of crowdfunding, clarifying the main concepts of this type of funding, including different models and actors. This part sets a common understanding of crowdfunding. The methodology section then defines key variables, analyzes the prior-defined dataset, and describes the approach taken to answer the research question "What factors are responsible for a successful crowdfunding campaign?". Third, a discussion of findings provides the reader with greater insights into relevant factors that determine the success of crowdfunding initiatives. The conclusion summarizes key thoughts and theories, discusses limitations of this study, and points to future research directions.

Background

Definitions

Crowdfunding has evolved from the concept of crowdsourcing and represents one dimension of this phenomenon that includes crowdvoting and crowdcreation (e.g. Leimeister & Zogaj, 2013; Leimeister, 2012; Richter, Seidler-de Alwis, & Jötten, 2014). The term originally comes from Howe (2006a, 2006b, 2008), who defined crowdsourcing in an online article in 2006:

"The act of taking a job traditionally performed by a designated agent (usually an employee) and outsourcing it to an undefined, generally large group of people in the form of an open call." – (2006a, p.1; 2006b, p.1)

This definition to date remains the most prominent scientific one, which we will therefore follow (Brabham, 2009; Starbird, 2012). The term *crowdsourcing* stems from "crowd" and "outsourcing," pointing to the meaning to outsource specific functions to a group of external persons (Kleeman et al., 2008). Entrepreneurs and companies not only can obtain feedback and creative solution to business problems, but can also

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