

Crowdfunding as a resource in business start-up processes

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Abstract

Crowdfunding (CF) represents a new tool to support either entrepreneurial or non-for profit projects. This new phenomenon has received an increasing attention by academic scholars, mostly focussed on understanding the main features of CF. The goal of this paper is to explore more in depth the nature and relevance of CF in terms of resource access and development through the analysis of participation of start-up firms to more than one CF project, including both equity (ECF) and non-equity (NCF) crowdfunding. To achieve this objective this paper adopts as conceptual framework the resource interaction approach developed within the IMP perspective. This preliminary analysis shows that CF represents at first a contingent opportunity to be exploited in the start-up initial dynamic stages, then it emerges as a viable resource - however complex to be managed - more carefully assessed and used also thanks to learning processes and increasing commitment by start-up entrepreneurs, within a growing integrated CF orientation. CF campaigns allow also for interacting with experts providing useful technical feedback, for mapping potential markets, segments and customers and more importantly to gain brand and product visibility and reputation.

Research objectives, background and methodology

Crowdfunding (CF) represents a new tool to support either entrepreneurial or non-for profit projects. It involves an open call, mostly through the Internet, for the provision – by a given time period - of financial resources either in the form of donation, or in exchange for the future product or other forms of financial or non-financial rewards to support specific initiatives (Belleflamme et al., 2014).

This new phenomenon has received an increasing attention by academic scholars (Lagazio, Querci, 2018), which have been engaged in both conceptual and empirical studies, mainly in the for-profit context. These studies have been mostly focussed on understanding the main features of CF, the main factors affecting the participation of both proposing and supporting actors, the networked dimension (Brown et al., 2018). One main issue emerging in recent contributions concerns the benefits of CF beyond the raising of financial resources (Brown et al., 2017). Therefore it is apparent that CF could represent a key resource for a variety of purposes pursued by start-up firms,

which are increasingly involved in more than one campaigns, thus leading to the serial CF phenomenon (Butticè et al., 2017).

The goal of this paper is to explore more in depth the nature and relevance of CF through the analysis of participation of start-up firms to more than one CF project, including both equity (ECF) and non-equity (NCF) crowdfunding. Specifically, we aim at investigating the behaviour of start-up firms using the CF platform as a resource to support innovation and growth. Therefore the main research questions are the following: i) how do start-up firms participate in multiple CF projects? ii) which is the impact of multiple CF participation on start-up firms' resource development processes?

The motivation to pursue this theme is twofold. Firstly, existing contributions focus mainly on single participation to CF projects. Over the years the phenomenon of multiple or sequential participation has increased and therefore deserves to be explored in depth (Butticè et al., 2017). Secondly, the analysis of multiple participations allows for a better understanding of both the nature of CF projects - equity/non equity - and their combined effects on the resource development processes of start-up firms. This focus is further justified by the emerging orientation of CF platforms on providing integrated services including both ECF and NECF (Cholakova, Clarysse, 2015).

The background of this paper takes into consideration the growing field of studies on crowdfunding and the literature in IMP studies on start-up businesses. We argue that the research question could be addressed using the IMP perspective, in the light of its emphasis on business networks and resource development.

Extant literature on CF is fast-growing but, basically, still in its infancy. Scholars agree that CF represents an innovative and 'clever' solution to financial constraints in particular for early stage start-up firms (Brown et al., 2017). CF is described as a multifaceted phenomenon (Lagazio, Querci, 2018) for two main reasons. First, this is a hybrid practice, since it involves both economic and social aspects (André et al., 2017; Butticè et al., 2017). Second, there are different forms of CF (donation-based, reward-based, lending-based, and equity-based crowdfunding), each one showing specific features, even though they are all based on a peer-to-peer dimension (Bruton et al., 2015) enabled and boosted by specific digital platforms (Belleflamme et al., 2014).

Existing studies are mainly about reward-based CF and ECF. Both of these CF models are based on a reward to be delivered to the funder at the end of the campaign as a compensation. The main difference between the two lies in the goals of the parties involved in the exchange (Mollick, 2014). In fact, ECF tends to create an entrepreneur-investor relationship (even though funders usually are not professional investors), while in reward-based CF projects supporters act as consumers seeking for novelties, opportunities or other intangible (symbolic or experiential) rewards. This, in turn, affects the kinds of benefits that companies can get from a CF campaign. From this point of view, reward-based CF is establishing itself also as a special marketing tool (Mollick, 2014), even for well-established companies (Brown et al, 2016). As for ECF, to the best of our knowledge there are no studies to date which consider this practice in a perspective other than the financial one. This is worth

exploring well as the interplay between reward-based and ECF from the proponents' point of view in a networked approach to resource procurement.

In the IMP literature in recent years there is a growing attention on start-up processes (Baraldi et al., 2018). Existing contributions rely on the main IMP concepts - interaction, business relationships, networks - and on the main theoretical frameworks - ARA model, resource interaction/4Rs - (Hakansson et al., 2009) to investigate this theme. Various studies focus on the role of networks and initial relationships in the path undertaken by start-up firms, placing emphasis on the interplay between social and business networks, which became key nodes for gaining access to relevant resources. Thus new businesses are engaged in "assembly of resources" with the involvement of partners, customers and suppliers (Ciabuschi et al., 2012). Recent contributions - albeit limited - in the IMP field start to analyze the role of web-based technologies and platform supporting the development of small businesses (Bocconcelli et al., 2017). IMP concepts has been recently adopted also in the study of the role of social/business networks in CF activities (Brown et al., 2018). Therefore we propose to investigate the above research questions using the resource interaction/4Rs model based on product, production facilities, business units and business relationships (Baraldi et al., 2012).

The research methodology is based on qualitative multiple case study analysis in the light of the explorative nature of the research questions. The empirical analysis follows a longitudinal approach - as the processual dimensions of the RQs requires - and concerns two case studies of start-up firms engaged in i) more than one CF projects; ii) different combinations over time of types of CF projects (ECF and NECF); iii) the offering of a product with both tangible and intangible features to reduce heterogeneity in case selection. The selected companies are Alpha (producing smart glasses) and Beta (producing smart tiles).

Empirical analysis

Alpha is established in 2012 with the goal of designing and producing smart glasses for the B2C market. Michele - with a background in management - has the initial idea in 2012 and attempts to develop it with other two technical partners in the company, but without positive results. However the start-up obtains a patent and involves on a part time basis technical collaborators leading to a technological demonstrator, which gains the interest of a business angel investing in the start-up. Development and production costs are higher than expected, therefore Alpha chooses to undertake a NECF campaign, using Platform 1 because of its soft requirements and proposing its product as a reward (forecast of 400 units). Notwithstanding the low degree of knowledge about CF, in its first campaign Alpha is very successful in terms of financing, even though the production of smart glasses proves to be very difficult and thus not all investors receive their reward. However Alpha is able to gain access new resources - in addition to the financial side: knowledge in terms of technical feedback and international market knowledge, brand visibility and reputation. In 2017 Alpha launches its second CF campaign based on an equity approach with Platform 2 to boost its business. However reaching the target requires a longer time period, also because of the low support by Platform 2. Thus Alpha involves two people for

Marketing activities - mainly through LinkedIn - related to this campaign. After the second CF campaign Alpha changes its product strategy focussing on B2B markets, thus developing smart glasses for technical staff engaged in complex production and logistical processes in large firms. These companies ask Alpha for small numbers of personalized products - easier to manage when compared to the high volumes planned for B2C markets. In the meanwhile Alpha is involved in an European R&D Project on smart glasses in the sports sector, and thus the company is again active in the B2C market, thanks also to new orders from foreign consumers. Alpha launches a third ECF campaign in 2018, which easily reaches its target thanks to the knowledge gained by the company with regard to CF and marketing-related activities and to the involvement of its well-known customers gained in the B2B market.

Beta is a start-up established by Marco and active in the design and production of smart tiles, able to record data and store energy. Marco - who has a background in Engineering - has the initial idea in 2012 and in 2014 involves two Electronic Engineers with complementary technological knowledge. The initial search for financing is not successful and the team becomes aware of the need to gain managerial and marketing skills. A key opportunity is the involvement in an incubator who later becomes partner of the newly established company, which in 2016 also to successfully obtains a patent recognized in Italy. However Beta needs financial resources to expand internationally its patent protection and to develop its business. On the one hand Beta exploits the financial support of public funding of two R&D projects, on the other hand the company launches its first ECF project in Platform 3. After initial reluctance by small bakers, a significant investment by a professional baker increases the interest in the campaign accelerating the achievement of the target. This first CF project allows Beta to gain access to the required financial resources and to increase its visibility and reputation in the market. In 2017 Beta launches a NECF campaign in Platform 4 with a clear marketing goal to further strengthen its visibility, reputation and brand in the market. This campaign is carefully planned for three months i) preparing all the communication and promotion materials; ii) organizing "physical" events to promote the campaign; iii) selecting different types of rewards for investors; iv) planning an effective press campaign to support the CF project; v) launching social media communication activities linked to the CF campaign. This second CF round is very successful in terms of financial targets - albeit limited and secondary in this case - and marketing results, in the light of the strong interests among technical experts, specialized press and potential large customers. In the future Beta is planning to launch both NECF and ECF campaigns in order to increase its brand visibility in foreign markets, to attract potential partners - as investors - able to transfer key managerial competences and gain access to additional financial resources for further investments.

Discussion of results and conclusions

This preliminary analysis provides useful insights over how start-up have been involved in multiple CF campaigns and on their role in resource development processes. With regard to the first RQ, three main patterns could be highlighted. Firstly, CF represents at first a contingent opportunity to be exploited in the start-up

initial dynamic and fluid stages, then it emerges as a viable resource - however complex to be managed - more carefully assessed and used also thanks to learning processes and increasing commitment by start-up entrepreneurs, which start perceiving ECF and NECF within an integrated CF orientation. Secondly, these two cases show that start-up tend to use different CF platforms according to their specific purposes. Thirdly, CF platforms are exploited in combination with the existing configuration of relevant actors within the financing context.

With regard to the second research question, the empirical analysis points out the role of both ECF and NECF in resource access and development by participating start-up firms. On the one hand start-up companies have been able to gain additional financial resources useful for business development in their specific market. On the other hand, CF campaigns allowed for interacting with experts providing useful technical feedback, for mapping potential markets, segments and customers and more importantly to gain brand and product visibility and reputation (Brown et al., 2017). Notably, the nature and rules of CF pushed both start-up firms to upgrade their marketing resources in order to complete and fully exploit all the CF campaigns. Therefore it seems that the end result of multiple campaigns through CF platforms has been the growth of technological start-ups showing higher financial stability, an innovative and well-known product, increased marketing resources and business relationships developed within wider business networks - composed by users, investors and partners - supporting them. Under a theoretical perspective, the resource interaction/4Rs model (Baraldi et al., 2012) proposed within the IMP framework has been a useful conceptual scheme to investigated more in depth the role of CF platforms as web-based facilities having an impact on other key resources - products, organisational units and business relationships.

The main contribution of this paper is related to the in-depth preliminary analysis - in terms of paths and key resources development processes - of the serial CF phenomenon, which represents a relevant and still unexplored theme (Butticè et al., 2017). Future research steps concerns i) the inclusion of two additional cases - focussed each on ECF and NECF only, thus covering the whole variety of combinations of ECF/NECF campaigns, which show different features; ii) the collection of additional data on the CF campaigns and on the key resources developed within the investigated start-ups. This research has also relevant managerial implications: on the one hand CF campaigns might generate various benefits in terms of financial resources, product innovation and marketing activities; on the other hand CF campaigns are increasingly complex in the light of the different policies by CF platforms and the variety of activated business and social networks. Therefore start-up firms interested in participating to these campaigns require careful planning and adequate marketing competences to effectively capture all the CF benefits.

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