

# Crowdfunding - A successful Way of New Venture Financing?

Bearbeitet von  
Alexander Pascal Borner

1. Auflage 2016. Buch. 204 S. Hardcover  
ISBN 978 3 7345 1808 9  
Format (B x L): 14 x 21 cm  
Gewicht: 436 g

Wirtschaft > Finanzsektor & Finanzdienstleistungen: Allgemeines >  
Unternehmensfinanzierung

Zu [Inhaltsverzeichnis](#)

schnell und portofrei erhältlich bei

The logo for beck-shop.de features the text 'beck-shop.de' in a bold, red, sans-serif font. Above the 'i' in 'shop' are three red dots of increasing size. Below the main text, the words 'DIE FACHBUCHHANDLUNG' are written in a smaller, red, all-caps, sans-serif font.

**beck-shop.de**  
DIE FACHBUCHHANDLUNG

Die Online-Fachbuchhandlung [beck-shop.de](#) ist spezialisiert auf Fachbücher, insbesondere Recht, Steuern und Wirtschaft. Im Sortiment finden Sie alle Medien (Bücher, Zeitschriften, CDs, eBooks, etc.) aller Verlage. Ergänzt wird das Programm durch Services wie Neuerscheinungsdienst oder Zusammenstellungen von Büchern zu Sonderpreisen. Der Shop führt mehr als 8 Millionen Produkte.



**“Never Give Up On Your Dreams!”**

**Alexander Pascal Borner**

# **Crowdfunding – A successful Way of New Venture Financing?**



© 2016 Alexander Pascal Borner

1. Auflage

Umschlaggestaltung: Alexander Pascal Borner

Coverbild: Günia al. Özgün Güner Künier

Illustrationen: Alexander Pascal Borner

Lektorat, Korrektorat: Alexander Pascal Borner

Verlag: tredition GmbH, Hamburg

ISBN

Paperback 978-3-7345-1807-2

Hardcover 978-3-7345-1808-9

e-Book 978-3-7345-1809-6

Das Werk, einschließlich seiner Teile, ist urheberrechtlich geschützt. Jede Verwertung ist ohne Zustimmung des Verlages und des Autors unzulässig. Dies gilt insbesondere für die elektronische oder sonstige Vervielfältigung, Übersetzung, Verbreitung und öffentliche Zugänglichmachung.

Bibliografische Information der Deutschen Nationalbibliothek:

Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über <http://dnb.d-nb.de> abrufbar.

# TABLE OF CONTENTS

ABSTRACT .....	- 7 -
INTRODUCTION .....	- 9 -
1. NEW VENTURE CREATION .....	- 13 -
1.1. Who is an Entrepreneur? .....	- 14 -
1.2. Why starting a new Business? .....	- 19 -
1.3. An Introduction into Companies Resources .....	- 25 -
1.4. Required Resource Types for a Start-Up Business ....	- 32 -
1.5. The Risk of Failure .....	- 43 -
2. FUNDING A NEW VENTURE .....	- 51 -
2.1. Family, Friends and Founder .....	- 63 -
2.2. Business Angels .....	- 66 -
2.3. Venture Capital Funds .....	- 70 -
2.4. Grants and Government Programs .....	- 73 -
2.5. Bank Loans .....	- 75 -
2.6. Other Sources of Financing .....	- 78 -
2.7. Crowdfunding .....	- 81 -
3. CROWDFUNDING – AN OVERVIEW .....	- 85 -
3.1. Introduction into Crowdfunding .....	- 85 -
3.2. Different Crowdfunding Models .....	- 102 -
3.2.1. Donation Crowdfunding-Model .....	- 106 -
3.2.2. Investing Crowdfunding-Model .....	- 114 -
3.3. Crowdfunding Platforms and their Diversity .....	- 124 -
3.4. The Crowdfunding Ecosystem, Regulations and legal Implications .....	- 133 -
4. IS CROWDFUNDING A SUCCESS FACTOR FOR NEW VENTURES? .....	- 142 -
4.1. General Success-rates for Crowdfunding Campaigns-	144

4.1.1.	<i>Donation Crowdfunding Business Models .....</i>	- 144 -
4.1.2.	<i>Investing Crowdfunding Business Models .....</i>	- 153 -
<b>4.2.</b>	<b><i>Case Studies of successful New Ventures funded with the Help of Crowdfunding .....</i></b>	<b>- 159 -</b>
4.2.1.	<i>Tile Smartphone Application.....</i>	- 159 -
4.2.2.	<i>Righteous Salad Dressings .....</i>	- 164 -
<b>4.3.</b>	<b><i>Case Studies of failed New Ventures funded with the Help of Crowdfunding .....</i></b>	<b>- 167 -</b>
4.3.1.	<i>Ouya Gaming Console .....</i>	- 167 -
4.3.2.	<i>Smarty Ring.....</i>	- 170 -
<b>4.4.</b>	<b><i>Main Differences between successful and failed Cases .....</i></b>	<b>- 173 -</b>
<b>SUMMARY .....</b>		<b>- 181 -</b>
<b>BIBLIOGRAPHY .....</b>		<b>- 188 -</b>
<b>LIST OF TABLES .....</b>		<b>- 197 -</b>
<b>LIST OF FIGURES .....</b>		<b>- 198 -</b>

## **ABSTRACT**

The main aim of this book is to take a look on the influence crowdfunding has on the success of a new venture. Crowdfunding is a relatively new method of raising funds and the interesting point is, if crowdfunding alone can be the key to success for a new venture, or if there are other influences and if yes which.

The first part of this book is an introduction into the founding process of a new venture, the characteristics of an entrepreneur, and the reasons for the decision to found a new venture as well as the general necessary resources and the risk of failure. In the second chapter, the focus lies on different sources of financial capital for a new venture. Traditional sources are explained as well as crowdfunding as a new source of capital. The next step is to take a look at crowdfunding and the different business models, platforms and regulations. This helps to get an overview over crowdfunding itself as well as to understand the diversity of this new financial source. The following analysis of different success-rates for crowdfunding campaigns as well as the case studies show the possibilities of crowdfunding for the success of a new venture as well as the important factors for the entrepreneur to focus on. The analysis is based on secondary data, collected from several crowdfunding platforms about the success rates of campaigns on this platforms as well as on four case studies of new ventures, which were successfully funded with a crowdfunding campaign. This allowed a conclusion about the general success-rates for crowdfunding campaigns as well as about the importance of financial resources for a successful process of a new venture creation.



The results of the research are showing that the influence of crowdfunding on the success of a new venture is highly depending on a lot of factors and not only on the choice of the source of funding capital. This leads to the summary, that only the choice of crowdfunding as a source of funding capital is not the ultimate success-factor for a new venture and that a successfully finished crowdfunding campaign does not indicate that the resulting new venture will be successful. Besides this, there are some cases in which crowdfunding can be a really good alternative to traditional sources of funding capital.

**Keywords:** crowdfunding; new venture creation; entrepreneurship; company resources; sources of financial capital; crowdfunding success-rates.

## INTRODUCTION

The phenomenon of crowdfunding is gaining more and more attention during the recent years and is often considered as the new, innovative, easy and very successful source of funding capital for new ventures. As an entrepreneur, everything necessary is to just start a crowdfunding campaign and afterwards the necessary money is getting collected almost by itself.

Of course, this sounds too easy and is not providing an exact insight into the problem of funding a business with the help of crowdfunding, since crowdfunding is a very complex method, which actually includes a lot of different business models. This allows a lot of questions, like what is actually meant by crowdfunding and who is the crowd. There are reward-based crowdfunding business models, as well as equity-based or lending-based crowdfunding models and not to forget the donation-based crowdfunding models. Each of these business models has a different functionality and different requirements, as well as different regulations. Even besides these different possibilities, mixed combinations and other special cases are existing. The Internet is the key element for crowdfunding since everything is based on a web-based platform which is functioning as an intermediary between the new venture which is looking for funds and the crowd. The crowd is a group of persons, active on the crowdfunding platform and willing to support crowdfunding campaigns with money. That means everybody who has access to the Internet can be a part of the crowd.

The question behind is, if crowdfunding is really a useful and successful possibility to fund a new venture and if yes, is

it really that easy and beneficial for every kind of new venture. Are there differences between different kind of new ventures and for some crowdfunding is a good possibility and for others the choice of crowdfunding as a source of financial capital doesn't make a sense at all?

In this book, the focus is set on the possibilities of crowdfunding, the different crowdfunding business models, the success-rates, as well as the advantages or disadvantages of crowdfunding and the resulting consequences for new ventures. Another question is, if crowdfunding can be a major success factor for a new venture or if it is just an alternative source of funding capital and the success is still depending on a lot of other factors. According to Blanchflower and Oswald (1998), the theory often states that the lack of capital is one of the main reason why people are not starting a new venture. On the other hand, the role of the entrepreneur and his experiences could be success factors for new venture creation process as well.

In the first part of the book, general information about the new venture creation process are explained as well as the characteristics of an entrepreneur, necessary resources for a new venture and the risk of failure. There are different types of entrepreneurs and especially these different characteristics have a reflection on the new venture and the success of it.

The next chapter is focusing on various funding methods for new ventures. Since crowdfunding is a very new method and by far not the only one, the traditional sources of funding capital for new ventures, like business angels or banks, are explained more detailed as well.

After an introduction into different sources of funding capital for new ventures, the focus is on crowdfunding. To be able to make a good conclusion about the role as well as the possibilities of crowdfunding, it is necessary to take a close look at all different crowdfunding business models, including their advantages and disadvantages. There are a lot of different crowdfunding platforms around the world, offering different crowdfunding business models. Further, they are focusing on different businesses within different markets. This allows the question for entrepreneurs, which platform is actually the best for their new venture. Since this question is not so easy to be answered, it is important to take a closer look on different crowdfunding platforms. It is important to focus on the actual differences between the chosen business models for the crowdfunding platforms as well the different markets these platforms are focusing on. Are there huge differences in the success-rates of crowdfunding campaigns and what is actually required to start a crowdfunding campaign?

The chapter four is focusing on the analysis of success-rates of different crowdfunding campaigns from different categories and on different platforms. This is followed by case studies of successful funded new ventures. Here it is possible to differentiate between crowdfunded new ventures, which manage to be successful afterwards, and crowdfunded new ventures which are still failing, even the funding goal was achieved with the help of the crowdfunding campaign. Is there the case that even a successfully crowdfunded new venture can fail and if yes, what is the difference between this new venture and new ventures that are not failing? Are there other important resources that are responsible for the success of a new venture?

In the summary of this book, the influence that crowdfunding can have on the success of a new venture will be illustrated, as well as the importance of right decisions made by the entrepreneur. Further, it will be explained in which cases crowdfunding can be useful and in which cases crowdfunding shouldn't be used as a source of finance and why. The existence of other, traditional, sources of funding capital plays an important role as well as other resources of a company, besides having enough financial capital.

# **1. NEW VENTURE CREATION**

A new venture creation is a task that is not done with a few simple steps, it is by far more challenging and there are a lot of things that need to be taken care of. The step to create a new and own venture needs to be considered very well at the beginning and it is really important to pay enough attention to everything that is connected with it.

At the beginning is always an opportunity and an idea, which lead to the founding of a new venture. An idea about the product or service which the venture should be offering and the idea of improving things with this product or service which are not done good enough by other companies or not even existing so far. It is possible to say that many entrepreneurial ventures are based on innovative ideas (Collins, 2007). The opportunity is about making a profit with even this idea, about the right time to start a new venture with the given idea and about taking the risk to found a new venture and to transform it into a successful company. The most important step is to use this opportunity and to transform this initial idea into a working venture, which is able to work successfully at the market. This process needs to be considered very careful and it is important to take care of as many influences on the success of the business as possible. The main questions that should be considered to answer before starting a business are the following ones.

- 1) What is the key activity of the venture?
- 2) What are the key resources needed for this kind of business?
- 3) What is the value proposition for potential customers?

- 4) Which are the customer segments the venture is targeting on?
- 5) What key partners are needed for this kind of business?
- 6) What is the expected cost structure and what will be the revenue streams?
- 7) How to fund the new venture?

Besides the fact, that there are some models to help to answer all these questions at the beginning, like the Business Model Canvas, the probably most important question should be the question about the funding.

To have a good idea or to see an opportunity is one thing, but to raise the money to implement this idea into action and using the opportunity is the important and, of course, the difficult part. There are several ways of funding a new venture and with the fast improvement in technology and better communication possibilities today, the channels for funding a business are increasing and changing as well.

### **1.1. *Who is an Entrepreneur?***

The first issue is to figure out what an entrepreneur actually is. An easy description is an entrepreneur is a person who identifies the opportunities and chances of a business and assumes the risk of creating and running this business to take advantage of it (Collins, 2007). According to Spinelli and Timmons (2008), entrepreneurship is an opportunity obsessed way of thinking, reasoning and acting, which is holistic in approach, and leadership balanced for the purpose of value creation and capture. There are different kinds of entrepreneurship but according to Blanchflower and Oswald

(1998), the simplest kind of entrepreneurship is self-employment. According to surveys where people could choose if they wish to be self-employed or an employee, a large number of people would like to be self-employed and see this as a kind of target to reach. From an amount of 1453 Americans, 63% gave the answer that they would like to be self-employed. The percentage is a bit lower in Great Britain, where at least 48% of 1297 asked people wish to be self-employed as well as 49% of 1575 asked Germans (Blanchflower and Oswald, 1998). But unfortunately, not everybody reaches this target and is able to be self-employed one day. The amount of people that is actually self-employed in the three mentioned countries is around 15%, so there is a huge gap to the percentage of people that actually would like to achieve this target (Blanchflower and Oswald, 1998). One of the resulting questions according to this fact is, why some people are able to reach this target and why some individuals not?

In reference to Blanchflower and Oswald (1998), one possible reason is the lack of available capital to actually start the own venture. This fact already shows the importance and necessity of available capital to realize the wish of being self-employed and to start an own venture.

According to Filion (2008), there is a wide range of entrepreneurial roles as there are venture creators, intrapreneurs, extrapreneurs, self-employed people, technopreneurs and many others. All of them should result in the creation, realization and enhancement of value and not just for the owners of the business, as well for the other participants and stakeholders (Spinelli, Timmons, 2008). The entrepreneurship itself is a set of activities with human, managerial,



technical and other characteristics, which need a set of diverse skills to be performed on a good level (Filion, 2008).

Another interesting approach according to Dollinger (2008) is, that the general view on what an entrepreneur actually is changed over the last years. A few years ago, entrepreneurs were seen as small business founders which are strongly tending to be independent and which are born like this, but not made because of some circumstances. Today this is seen different and the part of being a leader is getting a more important role. An entrepreneur nowadays has to lead the organization and the employees and it is important to be able to motivate employees as good as possible as well as to set a role model which leads to the culture of the business. These new entrepreneurs can come from totally different backgrounds and thanks to globalization, the entrepreneurial spirit is promoted to big and small companies, as well as that the huge improvements in information technology made it possible for small start-ups to actually compete against big businesses (Dollinger, 2008).

The word “entrepreneur” comes from the French language and is derived from the verb “entreprendre” which actually means something like “to do”. If the word entrepreneur is divided into the two parts entre and preneur, it basically means something like “between-taker”. The term first appeared around 1253 in literature and was used very commonly in the 15<sup>th</sup> and 16<sup>th</sup> century (Filion, 2008).

In the common opinion, an entrepreneur is a person that is owning and leading an own business, but specialists use a lot more elements to define entrepreneurs (Julien, 1998). Like already mentioned above, there are different kinds of

entrepreneurs and there are a lot of activities connected with being one. Fillion (2008) identified 15 elements which are mentioned most frequent for the definition of entrepreneurship in literature and which are probably the most relevant once.

Table 1.1. Most frequent mentioned elements in the definition of an entrepreneur

<b><u>Elements defining the entrepreneur</u></b>	<b><u>Authors</u></b>
Innovation	Schumpeter (1947); Cochran (1968); Drucker (1985); Julien (1989; 1998).
Risk	Cantillon(1755); Knight (1921); Palmer (1971); Reuters (1982); Rosenberg (1983).
Coordination of resources for production; organizing factor of production or of the management of resources	Ely and Hess(1893); Cole (1942 and in Aitken 1965); Belshaw (1955); Chandler (1962); Leibenstein (1968); Wilken (1979); Pearce (1981); Casson (1982).
Value creation	Say (1815, 1996); Bruyat and Julien (2001); Fayolle (2008).
Projective and visionary thinking	Longenecker and Schoen(1975); Fillion (1991; 2004).
Focus on action	Baty (1981).
Leadership	Hornaday and Aboud (1971).
Dynamo of the economic system	Weber (1947); Baumol (1968); Storey (1982); Moffat (1983).
Venture creation	Collins, Moore and Unwalla (1964); Smith (1967); Collins and Moore (1970); Brereton (1974); Komives (1974); Mancuso (1979); Schwartz (1982); Carland, Hoy, Boulton and Carland (1984); Vesper (1990).
Opportunity recognition	Smith (1967); Meredith, Nelson and Neck (1982); Kirzner(1983); Stevenson and Gumpert (1985);Timmons (1989); Dana (1995); Shane and Venkataraman (2000); Bygrave and Zacharakis (2004); Timmons and Spinelli (2004).
Creativity	Zaleznik and Kets de Vries (1976); Pinchot (1985).
Anxiety	Lynn (1969); Kets de Vries (1977; 1985).
Control	McClelland (1961).
Introduction of change	Mintzberg (1973); Shapiro (1975).
Rebellion/Delinquency	Hagen (1960).

Source: Fillion, 2008

The table 1.1. shows the 15 most often mentioned elements in the definition of an entrepreneur. To be innovative and to take risk are some of the elements, as well as leadership, creativity and so on. It is possible to see, that venture creation is just one of this 15 elements, which means that the actual creation of the venture is not more important when it comes to the mentioned elements than control or creativity. According to Filion (2008), there are many different dimensions that need to be considered in the definition of an entrepreneur and there are different levels of being an entrepreneur, what basically results in the fact, that there is no ultimate and fixed definition.

For the following context of this book, it is important to set the frame that the venture creation is an essential part, since this actually sets the base for leading a venture and having the possibility to be creative and to create values. In other words, the venture creation is the key element and needs to be done before it is possible to get the chance to be a successful entrepreneur in an own business and making the dream of being self-employed real. This matches to the description of Spinelli and Timmons (2008), which say that the classical expression of entrepreneurship is a simple and raw start-up company with an innovative idea that should be developed into a high-growth company.

## ***1.2. Why starting a new Business?***

An entrepreneur is made out of many different elements like it was figured out in section 1.1., but why somebody is starting a new business? The survey presented by Blanchflower and Oswald (1998) showed that a lot more people would like to be an entrepreneur than the amount of people

actually are. As already mentioned as well, one of the biggest reasons why not everybody is just starting its own venture, is the lack of capital to do so, or more precise, the actually needed capital to fund a venture.

What is the main intention of being an entrepreneur and to start a new venture? The desire to be self-employed is not the only reason, but, of course, one of them. Other reasons are to achieve financial independence, to enjoy the creative freedom and to find the best way of own skills and knowledge. Entrepreneurs are mostly people with a vision, people that are willing to take a risk to reach the desired goals (Collins, 2007). According to Arthurs, Busenitz and Townsend (2010), one of the most common motivating factors of starting an own venture is the believing in own abilities. For sure there are other purposes as well like to have the prestige of being the person in charge or to just have the possibility to be involved in the total operation of the business, starting with the concept and ending at the daily business operations. The term of entrepreneurial self-efficacy has an important role and describes the believing of an individual into its own according to reach a goal or to complete a task. According to Drnovšek, Wincent and Cardon (2010), entrepreneurial self-efficacy includes three dimensions and generally involves the individuals' beliefs regarding their capabilities to accomplish success and controlling the recognition for successfully reaching the challenging goals of a new venture creation process. Entrepreneurs have different goal beliefs, which are assessments of one's capabilities to take actions and engage in activities that will lead to a successful outcome of a task or the whole new venture creation process as well as control beliefs, which are the beliefs of an entrepreneur about his capabilities to control negative