

A Marketing Perspective on Crowdfunding as Promising Contemporary Digital Platform

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Abstract:

Despite the increased popularity of crowdfunding in practice it has received very little attention in marketing theory. In this article we aim to provide a deeper understanding this promising contemporary digital marketing platform. The conceptualising of crowdfunding from a marketing perspective are presented. Potential crowdfunding marketing opportunities and challenges are critically reviewed and illustrated by a number of practical cases. Some direction for future research is proposed. This conceptual paper is the first to offer a marketing perspective on crowdfunding.

Keywords: Conceptualisation, Marketing, opportunities and challenges

Track: Digital Marketing & Social Media

1. Introduction

The statue of Liberty, Mozart's or Beethoven's music compositions are all success stories which made possible by public voluntary contribution of funds raised from a crowd (Scholz, 2014). These days, these types of initiatives are known as crowdfunding. Crowdfunding evolved from the wider concept of crowdsourcing, which refers to the tapping of resources from an indefinite public group in an open call via the internet with a common goal to find ideas or solutions to a given problem (Howe, 2006). Three major role players involved in the contemporary crowdfunding are *fundraisers* seeking funds for a project or a cause, *funders* supporting the fundraiser's project or cause by willingly providing funds, and *crowdfunding platform* or websites where fundraisers and funders meet and interact (Agrawal, Catalani & Goldfarb, 2013). Depending on the crowdfunding model, in exchange, the fundraiser will provide through the crowdfunding platform – either gratitude i.e. public acknowledgements or personal communication through e-mails or telephone (donation-based model), rewards i.e. small gifts such as gadgets (reward-based model), refund (lending-based model) or return on investment (investment-based model).

The global market for crowdfunding has increased dramatically and is predicted to continue. In 2019 the global crowdfunding was estimated at US\$6,923.6m US Dollars. This value is projected to increase at an annual growth rate of 14.7% in the following five years, resulting to the total of US\$11,985.6m in 2023 (Statista, 2019). The number of funding campaigns is expected to increase from 187,24.0 thousand in 2019 to 12,063.9 thousand in 2023 (Jovanovic, 2018). Most of the information about crowdfunding can be found in a variety of industry publications such as press releases, blogs and websites (e.g. Fundly, 2018; The balance small business, 2018). This evidence suggests that a wide variety of industries across the globe have begun to appreciate the unique advantages offered by crowdfunding. However, crowdfunding has not received the attention it deserves in contemporary academic literature (Jovanovic, 2017). Despite the increased adoption by small and large businesses, aggressive expansion and opportunities offered by crowdfunding; there remains a lack of appreciation of crowdfunding from a marketing perspective. The systematic literature review by Jovanovic (2017) revealed that limited articles have been published on this important business research topic. The majority of past research examined the motives and behaviours of funders and fundraisers (Belleflamme, Lambert, & Schwienbacher, 2013; Daskalakis & Yue, 2017, Ryu & Kim, 2016). Other studies examined crowdfunding models as a way for entrepreneurial ventures to obtain finances (Agrawal, Catalin & Goldfarb, 2014; Agrawal, Catalini & Goldfarb, 2011; Cholakova & Clarysse, 2015; Mollick, 2014). However there remains a lack of articles

with a conceptual focus pursuing a deeper understanding of the concept (Jovanovics, 2017). Some exceptions are literature reviews summarising the current state of scientific knowledge regarding crowdfunding in entrepreneurial finance (Bouncken, Komorek, & Kraus 2015; Cumming & Vismara, 2016; Jovanovics, 2017) and frameworks aimed at improving the understanding of crowdfunding mechanisms in Information Systems (Beaulieu, Lambert, & Schwienbacher, 2015) and financing (Tomczak & Brem, 2013). The marketing opportunities and challenges of crowdfunding are thus not apparent. Furthermore there is no orderly, integrated basis to describe and research the features of this up-and-coming modern digital marketing platform. This article aims to overcome these identified gaps by offering a marketing perspective on crowdfunding as promising contemporary digital platform.

2. Conceptualising Crowdfunding

Contemporary online crowdfunding is a novel process which has triggered the interest of several disciplines such as finance (Tomczak & Brem, 2013), marketing (Brown, Boon & Pitt, 2017, Matusik, 2014), entrepreneurship (Giudici, Nava, Rossi Lamastra, & Verecondo, 2012) and computer sciences (Gerber & Hui, 2013). The meaning of crowdfunding seems to remain elusive, since it applies to various mechanisms and has many implementations, ranging from simple donation-based models (Kuppuswamy & Bayus, 2013) to risky investment-based models (InfoDev & Opment, 2013). Due to the diverse interpretation scholars from various disciplines have attempted to define the concept of crowdfunding, In the field of entrepreneurship, the focus remains on crowdfunding as an opportunity for fundraisers to fund their initiatives and boost innovation (Kuppuswamy & Bayus, 2013). In economics, crowdfunding is perceived as a new way to dynamize business and alleviate poverty (InfoDev and Opment, 2013). In marketing (Belleflamme et al., 2016) and computer sciences (Gerber et al., 2012), crowdfunding definitions revolve around the novel way to engage with a crowd using the Internet. When considering all the interpretations it is clear that crowdfunding entails soliciting funding online from a large crowd of people. Crowdfunding is the process by which project bearers (the fundraiser) collect small amounts of money from a large pool of investors (funders) through an Internet platform in the view of financing their venture. This implies the involvement of three factors: the people, the project and the platform: People, fundraisers and funders, come together to propose and support a project on an online platform.

However, it is also apparent that crowdfunding is more than just an instrument for raising capital, it has developed into a tool with multiple marketing purposes. For example, Belleflamme et al. (2013) illustrated how brands can apply crowdfunding for testing, promotion and selling their offerings to a broader market. Correspondingly, Brown et al. (2017) point out

that besides the benefits of crowdfunding to raise capital, it can also be used to obtain engagement, referrals, endorsing ideas and as distribution channel to deliver products to backers of the idea. Other marketing scholars focussed on the potential to create online promotion or viral marketing effects via crowdfunding (Gerber & Hui, 2013; Gierczak, Bretshneider, Haas, Blohm, & Leimeister, 2016). Henceforth, it is proposed that the process of crowdfunding has grown from primary being an instrument to source capital to a dynamic process that delivers marketing values for business via an added value creation process.

3. Crowdfunding Marketing Opportunities and Challenges

Fundraisers are driven by various motives to launch a project on a crowdfunding website. One motivator is evidently fundraising, which allows financial support for people and organisations that do not have easy access to banks, angel investors, and venture capitalist. However fundraisers often considered the marketing aspect of crowdsourcing just as important or even more important as raising funds (Gerber & Hui, 2013). Some studies on crowdfunding as a marketing tool revealed that fundraisers use crowdfunding platforms effectively to enhance brand image and prepare the market for their new offerings (Brown et al., 2017; Gerber & Hui, 2013; Gierczak et al., 2016). Others showed that crowdfunding can be applied as a pre-buying and demand estimation tool. Analysing the reaction of fundraisers on the crowdfunding platform towards their project can be used as an estimation of product acceptance and potential level of sales in the market (Agrawal et al., 2014:25; Belleflamme et al., 2013:56; Mollick, 2014:14). Other scholars examining crowdfunding had a different marketing orientation than fundraisers, they focussed on the consumer behaviour of funders (Bretschneider et al., 2014; Gerber et al., 2012; Hui et al., 2012; Kläbe & Laycock, 2012; Kuppuswamy & Bayus, 2013). Indeed, understanding the motivations of the audience could improve matching the offer with the expectations of the public and therefore the chances of success. In the light of the preceding, crowdfunding relates to the marketing discipline in two major ways which are: 1) crowdfunding as the use of platforms to communicate in a more dynamic and original way with the target public, 2) the need for fundraisers to market their projects efficiently in order to reach their fundraising goals.

3.1 Crowdfunding used as a marketing platform.

Businesses are increasingly applying crowdfunding platforms not only as a basis to obtain finance, but also as marketing platform (Brown et al., 2017). The existing literature on crowdfunding as a marketing tool for businesses has been classified according the 4Ps of Marketing (Gerber & Hui, 2013; Brown et al., 2017; Moissejev, 2013):

- *Crowdfunding applied as pricing tool: i) Evaluation of prospective demand and profits of a venture:* Crowdfunding can be used by fundraisers for market testing, especially with regard to prices. In certain instances, funders are offered to pre-purchase products from a new venture (Belleflamme *et al.*, 2013). Fundraisers therefore, over a limited period of time could project the potential performance of the given venture based on the prices and volume of pre-sales (Gerber & Hui, 2013:8). *ii) Crowdfunding allows marketers the opportunity to apply to price discrimination.* Marketers can drive high-value consumers to pay more for a product by strategically setting their crowdfunding campaign goal and pre-order price. To guarantee production logical consumers who have high valuation for a product will back a crowdfunding campaign and pre-order the product even if they realize that the product will ultimately become available in the market at a lower price (Sayedi & Baghaie, 2017).
- *Crowdfunding applied as promotional tool: i) Allowing fundraisers to establish relationships with funders to obtain engagement, feedback, repeat purchases or referrals.* Crowdfunding projects represent an opportunity for fundraisers to make funders more involved with the organisation and its operations (Brown *et al.*, 2016). For example, the electronics giant Philips launched a crowdfunding campaign named “#BIGIDEA” on Indiegogo where entrepreneurs were encouraged to submit a novel idea that would address the gap in the areas of healthy living, well-being and enjoying life. Besides driving positive exposure, the company gained patronage from the public and secured a pool of innovative ideas that can be used in the future (Indiegogo, 2013). *ii) Creating brand association with a suitable cause.* Crowdfunding can be applied for marketing purpose in cause marketing whereby a company or a brand uses crowdfunding to support a cause and incidentally gain sympathy from its target audience. One example includes the crowdfunding platform Feenix, launched in 2017 by Standard Bank with the partnership of the public benefit organisation, the Feenix Trust. Through the platform, any South African student in need can create a profile (written profile, videos and images) and receive funds from any individual or enterprise willing to help. The funds are directly paid to the university (Businesstech, 2017).
- *Crowdfunding applied as production tool: i) Crowdsourcing rather than crowdfunding can generate ideas from a crowd of enthusiasts and then use them as a means of judging product viability.* Fundraisers can seek ideas from their target public in order to create new products or improve existing ones. This allows a better connection between the target market and the product as they are placed at the heart of the production process. The toy and game manufacturer Hasbro started a crowdfunding campaign through the platform Indiegogo to

sell a new game. Despite reaching funding goals, the campaign did not attract a large number of funders. The company, then chose not to proceed with wide distribution. The company used the crowd to judge product viability rather than seeking funds (Kastrekas, 2016). *ii) Crowdfunding can be applied to launch a new product to a large market.* Fundraisers can create crowdfunding campaigns in order to create awareness for themselves and their new products. New products at any developing stage can be exposed to a large crowd in a more original and less costly fashion than traditional marketing organisations. This allows fundraisers to create a hype for their product online through viral marketing effects (Gerber & Hui, 2013; Gierczak et al., 2016). They can benefit from the wide scope of crowdfunding platforms and social media to increase their outreach (InfoDev & Opment, 2013). Eric Migicovsky, the creator of the Pebble smartwatch, successfully used the crowdfunding platform Kickstarter to fund product development for the first time in 2012, reaching funding goals of \$10.3 million. That campaign made Pebble a well-established contender in the smartwatch industry. However, in 2015, Pebble launched a second Kickstarter crowdfunding campaign which totalled \$20.3 million. It is believed that the company's primary objective in the second crowdfunding campaign was not funding but rather a way to distinguish itself from its competitors such as Apple and Samsung. Kickstarter was a more dynamic and engaging way for Pebble to connect with its core target market (Brown, Boon & Pitt, 2017).

- *Crowdfunding applied as distribution tool: i) Distribution testing when used as a test market to evaluate the potential demand for a product before committing to wide-scale distribution.* Crowdfunding allows pre-buying and helps estimate demand post product launch which is a great opportunity for market testing. In this case, large volumes of pre-sales are regarded as strong indicators of future market acceptance. Indeed, certain crowdfunding platforms allow funders to pre-purchase products for the period of the campaign (Wang, 2016:6). Fundraisers tend to use crowdfunding success as an indicator of market potential: they observe the dynamics of their crowdfunding campaign before actually launching the product and engaging further costs. Consequently, unsuccessful crowdfunding campaigns showed lack of interest for the project and prompt them to abandon the venture (Viotto de Cruz, 2018). These early sales may contribute to finance the rest of the project but also give signals of quality of the proposed project (Agrawal, Catalini & Goldfarb, 2014; Belleflamme, et al., 2014; Mollick, 2014). Fundraisers will be able to measure market acceptance from a reliable pool of users post-launch based on the volumes of the crowdfunding pre-sales. *ii) Crowdfunding can be used as a direct sales channel by*

rewarding backers with the first samples or versions of offerings and ensuring a readily available sales pipeline. Crowdfunding allows funders to show support by purchasing the first samples of the product rather than donating money to the project. FirstBuild, a subsidiary of General Electric launched a crowdfunding campaign on the platform Indiegogo. Funders were asked to pre-purchase their upcoming ice maker, the Opal. The campaign was a major success as FirstBuild raised \$2.8 million. This positive feedback on market acceptance made General Electric confident enough to commit to wide-scale distribution, the Opal was then made available for purchase in regular stores (Cowley, 2016).

3.2 Challenges and risks associated with crowdfunding

Crowdfunding is a novel concept spreading significantly across the world because it presents several advantages compared to other financing methods. However, certain pitfalls - associated notably with the environment and the actors - exist and deserve attention both for academic or industry purposes.

- *Environmental challenges of crowdfunding.* Firstly, crowdfunding often lacks a legal framework for secure transactions, notably in developing countries (Infodev & Opment, 2013). In many African and emerging countries there is no regulation specific to crowdfunding (Eliason, 2014), which may increase prospective funders' scepticism. Secondly, the lack of suitable electronic payments options and limited Internet access are indispensable in the development of crowdfunding which may limit certain developing countries (Afrikstart, 2016). Thirdly, the novelty of crowdfunding often result in prospective funders' scepticism (Sayedi & Baghaie, 2017). The culture of crowdfunding-friendly attitudes towards risk must be supported by government in order to contribute to the emergence of crowdfunding (Infodev & Opment, 2013:39). Indeed, in order to decrease such scepticism, the crowdfunding eco-system needs to be regulated and supervised by the government. The different actors will feel safer and more inclined to engage in crowdfunding activities.
- *Crowdfunding challenges for fundraisers.* The following are major disincentives for fundraisers to use crowdfunding (Agrawal, Catalini & Goldfarb, 2013:16; Gerber & Hui, 2013:34): i) Platforms might not be able to attract the number and the nature of audience required for certain projects. ii) Fundraisers might ruin chances of future investment, if their crowdfunding campaigns fail or projects gain a poor reputation on the platform. iii) Fundraisers might not be prepared the invest the time, resource and effort required and turn to quicker and more effortless financing sources. iii) The public and social nature of crowdfunding has also led to the susceptibility of ideas of being

stolen or copied after disclosing it on a platform. iv) Raising money from the crowd rather than from professionals such as angel investors or venture capitalists can result on loss of investor expertise, network and status.

- *Crowdfunding challenges to the funder.* Challenges to the funder revolve around trust due to the openness and lack of regulation surrounding crowdfunding. Three fundamental sources of concern from the funder's perspective can be identified: firstly, funders can become particularly sceptical due the lack of experience/competence of certain fundraisers. The effect is that they might not want to get involved in a project which has low chances of success. Secondly, to date, few instances of fraud were reported worldwide and can become a negative factor with regard to funders' keenness to participate in crowdfunding campaigns (Infodev & Opment, 2013:49). In the same view it was found that funders might distrust fundraisers with regard to the use of the funds. Consequently, certain funders might find some comfort in knowing that they will be refunded if the fundraising goal is not met (Gerber & Hui, 2013:22). Finally, the risk which naturally comes with any project and any form of investment is a potential deterrent to crowdfunding especially for lending and equity-based crowdfunding models.

4. Conclusion and Further Research Avenues

Information on crowdfunding remains to be found form non-academic industry publications or in the domains of Entrepreneurship, Economics and Computer sciences. However very little attention has been paid to inform marketing scholars of this modern electronic marketing platform. The review of the prevailing academic literature revealed a lack of appreciation of crowdfunding applications and opportunities. It also revealed the lack of a proper orderly, coherent basis to describe and research the features of this promising contemporary electronic platform. This article overcome this gap is the first to offer a marketing perspective on crowdfunding.

This article lay the foundation for various further research directions focussing on this promising contemporary digital platform. The opportunities and implications for business applying crowdfunding deserve further attention. It would for example be useful to examine the drivers of relationships between crowdfunding platforms, fundraisers and funders. Scholars could also assess the effectiveness of different crowdfunding marketing applications (Price, Promotion, Product and Place /Distribution) form a consumer as well practitioners' perspectives. Interventions to overcome the potential drawbacks of crowdfunding for fundraisers and funders such as ideas being copied and relational trust issues are other areas that deserve future research.

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