Crowdfunding as an Alternative Source of Support for Entrepreneurial Initiatives

Assist. Prof. Ivaylo Petrov
Faculty of Management and Marketing
‘Dimitar A. Tsiov’ Academy of Economics - Svishtov
E-mail: ipetrov@uni-svishtov.bg

Груповото финансиране като альтернативен източник на подкрепа за предприемачески инициативи

Ас. Ивайло Петров
Факултет „Мениджмънт и маркетинг”
Стопанска академия „Димитър А. Ценов“ – Свищов
E-mail: ipetrov@uni-svishtov.bg

Abstract: New technologies allow global access to customers and markets not only to large enterprises, but also to anyone who has a good idea and manages to find the right approach for its implementation. The main problem in starting a new business venture is the provision of financial resources. In the second decade of the XXI century, a new form of financing gradually gained widespread response – the crowdfunding.

Key words: crowdfunding, entrepreneurship, innovations, start-ups

Резюме: Новите технологии позволяват глобален достъп до клиенти и пазари както на големите предприятия, така и на всеки, който има добра идея и правилен подход за нейната реализация. Основният проблем пред стартиране на ново бизнес начинание е осигуряването на финансовите средства. През второто десетилетие на XXI век една нова форма на финансиране постепенно придобива широко разпространение и отзвук – т. нар. групово финансиране.

Ключови думи: краудфъндинг, предприемачество, иновации, начинаещ бизнес

JEL Classification: G21, G24, L26, L31, M13

I. Introduction

The development of Web 2.0 technologies in recent years allow people with fresh ideas to seek new ways to achieve them. One of the most serious obstacles to starting a new business venture is to find proper sources of funding. The object of this paper is the crowdfunding phenomenon which has gained popularity in the last decade. The main subject of the paper are the opportunities that the crowdfunding platforms provide to entrepreneurs to implement their ideas.

The main objective of the report is to highlight the features that make this model of fundraising so popular nowadays, in order
to outline the benefits for the different stakeholders from their participation as entrepreneurs or investors in the crowd-funding platforms.

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The development of new products and services is a process that covers the time from the generation of an idea for new products to its successful implementation and marketing. Large-sized companies undoubtedly have the advantage of having more new products through their research centers, by participating in strategic partnerships and alliances with other companies or through the acquisition of innovative competitive companies along with their patents and development departments. According to the European Patent Office, which now has 38 member-states, in 2014 large enterprises filed nearly two thirds of all claims for patents in the European Union (see Fig. 1); the first companies in the rankings Samsung, Phillips and Siemens had over 2,000 applications, and the same year the Office issued a total of 64,613 patents.

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Разработването на нови продукти и услуги е процес, който обхваща времето от генерирането на идея за нов продукт до неговото успешно създаване и пласиране на пазара. Големите по размер компании несъмнено имат предимството да притежават повече нови продукти чрез своите изследователски центрове, чрез участие в стратегически партньорства и алианси с други компании, или чрез придобиването на конкурентни иновативни компании с техните патенти и развойни отдели. По данни на Европейската патентна служба, в която членуват 38 държави, за 2014 г. големите компании са подали близо две трети от исканията за патент в Европа (виж Фиг. 1), като първите в класацията компании Samsung, Phillips и Siemens имат над 2000 заявления, а общо за същата година са издадени 64 613 патента.

![Figure 1. Shares in patent applications in Europe by category](image)

Фигура 1. Дял на подадените формуляри за патент в Европа по категория

But in today’s dynamic world, characterized by the intensive race in the development of information and communication technologies and the dominance of Web 2.0 based services such as social networks, blogs, wikis, cloud services, etc., on one hand, and the fresh memories of the global financial and economic crisis and the slow recovery of the world economy, even the largest companies cannot be sure about their market position and good

популярен, за да се очертаят предимствата за заинтересовани страни от участието им в платформите за групово финансиране като предприемачи или инвеститори.

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Но в днесния динамичен свят, характеризиращ се от една страна с устремената надпревара в развитието на информационните и комуникационните технологии и доминацията на Web 2.0 базирани услуги като социални мрежи, блогове, уики, облачни услуги и др., а от друга страна с пресните спомени от глобалната финансова и икономическа криза и бавното възстановяване на световната икономика, дори и големите компании не могат да бъдат сигурни за своите позиции на пазара и добритите си финансови
financial prospects. According to popular data, the average life expectancy of a multinational corporation of the Fortune 500 is between 40 and 50 years. One third of the companies included in the Fortune list of 1970 disappeared through 1983 as a result of acquisitions, mergers or restructuring. A Study of the John M. Olin (School of Business at Washington University) predicts that 40 percent of today’s Fortune 500 companies will no longer exist in 10 years, one of the main reasons being the reluctance to adapt to changes in the environment.

New technologies allow global access to customers and markets not only to large and medium-sized enterprises, but also to anyone who has a good idea and manages to find the right approach for its implementation. Here the main problem is the provision of financial resources. The aforementioned financial and economic crisis and frequent political instability in various regions of the world force many of the traditional conservative investors to look for new business ventures. Banking systems in the US and the European Union have been seriously weakened in recent years and the matter of repayment of loans from Greece and the debt of other southern EU countries is now still standing. China’s economy also slowed its growth pace and continues to face many internal challenges, and the Gulf countries have to balance between the unstable political situation in the region and the losses suffered by the low oil prices.

As stated by G. Marinov (2013): ‘The presence of private initiative is crucial for the economy, and it largely depends on the degree of protection for property rights.’ The amount of investment and innovation is directly related to the confidence of economic actors in the protection of their rights on both physical and intellectual property. Dr. Iliev § D. Ilieva (2014) highlighted the role of culture as a basic mechanism for integration of societies, and one of its most important functions is to create a trust through which ‘...it facili-
tates the interaction between individuals, their voluntary cooperation in the pursuit of some common goals, i. e. it creates the so-called social capital'.

The preconditions described prompted both investors and innovators to seek new ways to finance projects in recent years. The analysis of the popularity of selected terms in Google Trends shows that over the last decade searches in criteria ‘angel investor’, ‘microfinance’ and ‘business incubator’ have had a relatively constant rate, and the interest in ‘business loan’ reached its peak with the beginning of the global economic and financial crisis of 2007 and then returned to its previous levels.

But one of the new forms of financing gradually gained a broad circulation and significance during the last five years – the crowdfunding (see Fig. 2).

Crowdfunding (group financing, collective financing, financing of the crowd) can be defined as: ‘... a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or organizations. This is usually done via or with the help of the Internet. Individual projects and businesses are financed with small contributions from a large number of individuals, allowing innovators, entrepreneurs and business owners to utilize their social networks to raise доброволното им коопериране в пред- следването на някакви общи цели, т. е. създава т. нар. социален капитал”.

Изброените предпоставки подтикнаха както инвеститорите, така и иноваторите да потърсят през последните години нови начини за финансиране на проекти. Анализът на популярността на избрани термини в Google Trends показва, че през последното десетилетие търсенията по критерии „ангел инвеститор”, „микрофинансиране” и „бизнес инкубатор” са с относително постоянен размер, а търсенето на „бизнес заем” е достигнало пика с началото на световната икономическа и финансова криза от 2007 г., а след това се връща към предходните си нива. Но една от новите форми на финансиране постепенно придобива широко разпространение и отзвук през последните 5 години – т. нар. груповото финансиране (виж Фиг. 2).

Crowdfunding (группово финансирание, колективно финансирание, финансирание от тълпата) може да се дефинира като: "...колективните усилия на много хора, които си взаимодействат и обединяват своите ресурси, за да подкрепят усилията, предприети от други хора или организации. Това обикновено се прави чрез или с помощта на Интернет. Индивидуални проекти и фирми са финансирани с малки вноски от по-голяма брой лица, което позволява на иноватори, предприемачи и собственици на бизнес

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**Figure 2.** Interest in selected terms according to Google Trends for the period January 2007 - April 2015

**Фигура 2.** Интерес към избрани термини според Google Trends за периода януари 2007 - април 2015 г.
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The idea of funding through the crowd gained popularity in the USA in 2003, when Brian Camelio, a musician and computer programmer from Boston, started ArtistShare. This is a web service through which musicians can solicit donations from fans to create digital recordings, and over time it has become a platform for fundraising for musical projects, films, video and photography.

The first successful crowdfunding project by ArtistShare was a jazz album. The author offered a system of several levels of rewards. A donation of $9.95 gave people the opportunity to be among the first to have access to download the completed album (released in 2004); fans with a donation of $250 were listed by name in the booklet that accompanied the album as the people who made this recording possible. A donation of a fan worth $10,000 made him the “executive producer” of the album.

Thanks to the success of ArtistShare more platforms gradually emerged through recent years based on this type of financing, and currently some of the most popular are Indiegogo (established in 2008), GiveForward (2008), FundRazr (2009), Kickstarter (2009) GoFundMe (2010), Microventures (2010), YouCaring (2011), SeedInvest (2011), Fundageek (2011). The ideas seeking support are within an extremely broad thematic framework:

- Entrepreneurs and small businesses - food, sports, games, publishing, technology, real estate, energy projects, etc.;
- Ideas - art, cinema, literature, music, theater, education, etc.
- Social projects - education, health, environment, human rights, etc.
- Creative projects - movies, music, video, photography, writing, etc.
- Real estate projects - housing, real estate development, etc.
- Environmental projects - conservation, recycling, renewable energy, etc.
- Education projects - schools, libraries, educational programs, etc.
- Health projects - hospitals, medical research, etc.
- Human rights projects - advocacy, support for refugees, etc.
- Creative projects - art, music, literature, etc.
- Social projects - support for vulnerable populations, etc.
- Environmental projects - conservation, recycling, etc.
- Educational projects - scholarships, educational programs, etc.
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- Educational projects - scholarships, educational programs, etc.
- Health projects - hospitals, medical research, etc.
- Human rights projects - advocacy, support for refugees, etc.
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- Arts - fine art, comics, dance, design, fashion, film, music, photography, creative writing, theater;
- Campaigns to finance social causes - animal communities, education, environment, health, politics, religion.

The amount of funds provided by these platforms has grown in each of the last five years. In 2010, they raised $89 million, in 2011 - $1.47 billion, and in 2012 - $2.66 billion - an increase of about 80% per year. For 2013, the amount is $6.1 billion, and during the past 2014 the amount reported almost tripled to $16.2 bn. The main projects funded are in the field of business and entrepreneurship, social causes, films and performances, and real estate (see. Fig. 3).

Figure 3. Distribution of crowdfunding projects by category for 2013 and 2014

Фигура 3. Разпределение на краудфъндинг проекти по категории за 2013 и 2014 г.

Basically, crowdfunding platforms perform three specific tasks:
- provide a standardized environment for entrepreneurs through which they are capable to present their project;
- allow for small financial transactions-on the one hand, to stimulate mass participation, and on the other to limit or reduce the fear of possible fraud or loss of funds;
- provide information to potential investors and tools for collaboration and communication between them.

Куство, комикси, танци, дизайн, мода, филми, музика, фотография, творческо писане, театър;
- Кампании за финансиране на социални каузи - животни, общности, образование, околна среда, здраве, политика, религия.

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Ordanini et al. (2009, in Danmayr, 2014) identified three main types of participants in this form of financing:

- The people with ideas - they propose projects for funding. Raising financial support from interested supporters is the main purpose of these participants.
- The crowd - people who decide to support financially a risky initiative in return for an expected reward. The public selects some promising interesting proposal and participates in its implementation both financially, and with advice and opinions in the phases of implementation of the idea.
- The crowdfunding platform - it acts as an intermediary between those who want to present new initiatives using this form of financing and potential backers or investors (see Fig. 4).

The literature identifies the following business models of crowdfunding according to the type of investor's participation:

- Passive investments - this is the most widespread type of projects that offer some form of rewards to attract investors. They do not automatically enable investors to participate in the project actively. Entrepreneurs who choose this type of financing, focus only on the raising of capital but do not want to use any other kind of support from the crowd.
- Active investments - here investors are offered to become active par-

Figure 4. Participants in the process of crowdfunding

Фигура 4. Участниците в процеса на групово финансиране
Participants in the project. Benefits for the developer include not only the funds raised but also the received customer feedback.

- Donations - while maximizing profits often goes hand in hand with standardized products with low quality, non-profit organizations are more likely to produce high quality products. The latter fulfill the needs of sponsors, and thus can explain the success of this type of projects even when they do not offer physical or financial rewards.

According to the European Crowdfunding Network in May 2014 in Europe there are over 230 crowdfunding platforms, and most of them offer a hybrid investment; debt, equity, and rewards (reward-based are only 19% of the platforms). Over two thirds (68%) of national platforms operate without restrictions; the average level of reward financing is €12,500, and through equity is € 113,000. The largest number of successful campaigns have been in Germany - 27%, followed by Spain - 17% and France - 16%.

The spread of platforms caused public institutions and regulators to also assess their impact, especially as a tool for facilitating access to finance. In 2012 in the USA the Jumpstart Our Business Startups Act (JOBS) was passed, with the goal to help finance small businesses. Section 2 of the act allows for raising funds through equity crowdfunding. This act has caused an anticipated excitement among entrepreneurs because it offers the prospect of raising $ 1 million online from equity sale - something that is not allowed to the lead reward-based platforms such as Kickstarter or Indiegogo. Three years later, this law has never actually been enacted because the Securities and Exchange Commission of the United States has not published the rules through which the law will be implemented yet.

Adopted in 2008, the Small Business Act of the European Union was revised in 2011 to ease the regulatory burden on business. The Entrepreneurship 2020 Action Plan by vestitorите се предлага да ста- нат активни участници в проекта. Ползите за предприемача са не само от събранныте средства, но също така и от осъществената об- ратна връзка с клиентите.

- Дарения – докато максимизира- нето на печалбата често върви ръка за ръка със стандартизирания продукти с по-ниско качество, организациятите с нестопанска цел са по-склонни да произвеждат продукти с високо качество. По- следните отговарят на желанията на спонсорите, като по този причин може да се обясни успеха на този вид проекти при положение, че не се предлагат физически или фи- нансови награди.

Според Европейската мрежа за групово финансиране към м. май 2014 г. в Европа има над 230 платформи, като по-голяма- та част от тях предлагат хибридни инвес- тиции; дългови, капиталови, и награди (на последните са базирани само 19% от платформите). Над две трети (68%) от платформите оперират без национални ограничения; средното ниво на финанси- ране при получаване на награда е 12 500 евро, а чрез придобиване на собственост е 113 000 евро. Най-голям брой успешни кампании има в Германия – 27%, следва- на от Испания – 17%, и Франция – 16%.

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the European Commission (2012) states that all EU member states are invited to: ‘Assess the need of amending current national financial legislation with the aim of facilitating new, alternative forms of financing for start-ups and SMEs in general, in particular as regards platforms for crowd funding...’ A report by The Start-up Europe Crowdfunding Network (2014) specifies actions that could help to promote this type of funding in the EU. They include:

- publication of data showing that this type of fundraising is a viable alternative source of financing;
- dissemination of information about this type of financing among developers and investors, promoting best practices;
- establishment of some kind of a ‘quality label’ for safe and reliable crowdfunding platforms.

V. Conclusions
Crowdfunding is a relatively new method of support to entrepreneurial initiatives, which has seen a steady growth over the past five years. Having a wide range of platforms, funding models for fundraising, opportunities for feedback between entrepreneurs and investors make that form more attractive in comparison with the traditional sources of funding. With the development of an environment that is characterized by trust, transparency and standardized practices, it can be expected that potential investors and entrepreneurs will consider investment opportunities and access to resources through crowdfunding as a durable solution to their needs.

V. Заключение
Груповото финансиране е сравнително нов метод за подпомагане на предприемачески инициативи, който бе устойчив ръст през последните пет години. Наличието на голем избор от платформи за финансиране, модели за набиране на средства възможности за обратна връзка между предприемачи и инвеститори правят тази форма по-приятелска в сравнение с традиционните източници на средства. С развитието на средата, която се характеризира с доверие, прозрачност и стандартизирани практиki, може да се очаква, че потенциалните инвеститори и предприемачи ще гледат на възможностите за вложения и достъп до средства чрез груповото финансиране като трайно решение на техните нужди.
Reference/Литература


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