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Seeking funding in order to sell: Crowdfunding as a marketing tool

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Abstract Websites such as Indiegogo and Kickstarter have attracted much attention for their ability to enable organizations and individuals to raise funds from ordinary people who contribute for a number of reasons. This phenomenon is called crowdfunding. Crowdfunding permits organizations and individuals to obtain investments they otherwise might not receive from more traditional sources such as banks, angel investors, and stock markets. A number of now well-known startups had their origins in crowdfunding. More recently, established organizations have begun to use crowdfunding websites not only as a source of finance, but also as marketing platforms. In this way, they have been able to ensure a ready market for their new offerings, with full sales pipelines, and to use the platforms as vehicles to boost brand image and gain support for brand-related causes. This adaptation of crowdfunding for marketing purposes is not without its problems, however, and organizations would be well advised to consider not only the opportunities these platforms provide, but also their limitations and risks.

1. Crowdfunding: From creative projects to a commercial launch platform

Eric Migicovsky created the Pebble smartwatch, which perpetually remained on because it was made of e-paper and had a battery life of up to 10 days. While he was able to raise some funds for its development through a business incubator, he failed to raise sufficient venture capital. Migicovsky then turned his hopes to the crowdfunding website Kickstarter (Netburn, 2012). The Pebble campaign launched in April 2012 with an initial fundraising target of $100,000. Backers could pay $115 to preorder a Pebble watch, which would later retail for $150. Pebble reached its funding goal within 2 hours and went on to raise $10.3 million with almost 70,000 individual pledges (Newman, 2012). From a venture capital finance perspective, the Pebble's

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appeal to funders on Kickstarter made it one of the most successful crowdfunding campaigns ever. Pebble was also a massive marketing triumph as it went on to become a major consumer brand and sold over a million smartwatches by the end of 2014 (Seifert, 2015).

The Pebble Kickstarter campaign often is used to illustrate the power of crowdfunding as a source of financing for entrepreneurs who do not have access to other sources. Crowdfunding allows founders to seek financing by attracting relatively small contributions from a large number of individuals using the internet (Mollick, 2014). There are many crowdfunding websites, ranging from large sites such as Kickstarter, Indiegogo, and Gofundme to niche websites such as Teespring (t-shirt crowdfunding), DonorChoose.org (charity fundraising), and Patreon (fundraising for online content creators). In 2015, an industry report by Massolution predicted that the annual amount of crowdfunding would soon reach $34 billion, surpassing venture capital (Barnett, 2015). The crowdfunding phenomenon also started a wave of academic research on various phenomena, including its dynamics and economics (Agrawal, Catalini, & Goldfarb, 2014; Mollick, 2014), key success factors for entrepreneurs (Belleflamme, Lambert, & Schweinbacher, 2014; Etter, Grossglauser, & Thiran, 2013), and the motivations of project backers (Gerber & Hui, 2013).

If the original Pebble campaign showcased the potential of crowdfunding, it was success of the second campaign that indicated how crowdfunding might develop in the future. In February 2015, Pebble launched an initiative for its new model, the Pebble Time. This second campaign reached its fundraising goal of $500,000 in only 17 minutes. By the end of the campaign, Pebble had raised $20.3 million from more than 75,000 backers (Lapowsky, 2015). Although Pebble CEO Migicovsky averred that the company's return to Kickstarter was driven by the desire to "work directly with you, the community that got us here" (Lapowsky, 2015), whether the firm really needed crowdfunding the second time around is questionable. By the end of 2014, Pebble had sold over a million smartwatches (Seifert, 2015), which were then readily available at major retailers such as Best Buy and Amazon. The company and its brand had been well established. Even if Pebble Technology Corporation lacked readily available capital to develop a new smartwatch model, it is unlikely that it would have had problems obtaining funding elsewhere. Venture capital and public stock issues would likely have been attracted to the fact that Pebble was now a leading brand in the smartwatch space, with a successful offering and a large fan base.

Wired Magazine suggested that Pebble's second campaign was about marketing: Kickstarter gave Pebble access to its community to promote and distribute its product and guarantee a sales pipeline (Lapowsky, 2015). *Advertising Age* claimed that Pebble's primary purpose entailed distinguishing itself from main smartwatch competitors Apple and Samsung by selling its watches through a different channel, and that Kickstarter played the same role Direct Response Television (DRTV) had in the past. In other words, Kickstarter was changing from a place to fund creative projects into a commercial launch platform for established firms (Knox, 2015).

The success of this second crowdfunding campaign raised the question: Was Pebble uniquely positioned to launch its new smartphone through Kickstarter because of its history and standing within the community, or can other firms also use crowdfunding websites as a marketing channel? The crowdfunding sites themselves seem to believe so; in reaction to the success of the Pebble Time, Kickstarter's CEO stated that "the real power and utility is not in money; it is in community and distribution" (Lapowsky, 2015). Kickstarter's competitor, Indiegogo, has also begun courting large organizations and has started a new activity called enterprise crowdfunding (Kastrekas, 2016). However, given that the crowdfunding industry is coming of age and has become more competitive, it is not surprising that crowdfunding websites welcome this new revenue stream (Lang, 2016).

In this article, we examine the extent to which crowdfunding websites are accessible to organizations as a marketing channel and, if so, what role they can play. We do this by (1) considering a number of campaigns that have already been carried out by established firms, (2) determining what motivated these firms to engage with a crowdfunding community, and (3) how they structured their campaigns. Based on these examples, we evaluate the objectives firms may have when starting a campaign and the constraints they may encounter limiting their choice of approach. To make our findings applicable to marketing managers, we present a decision tree to help them make the right choices when working with a crowdfunding website. Finally, we discuss risks associated with creating a crowdfunding campaign and look at how the involvement of larger organizations may affect the crowdfunding industry over time.

2. Crowdfunding as a form of marketing

Gerber and Hui (2013) identified a number of reasons why company founders might launch a project on a crowdfunding website. Naturally, the most significant motivation is fundraising. Crowdfunding gives entrée to financial support for people and organizations that do not have easy access to banks, angel investors, and venture capitalists. The process of founding and launching a crowdfunding campaign is also less time intensive than other options, as no legal applications or approval procedures are involved. However, Gerber and Hui identified a number of founders who considered the marketing aspect of crowdsourcing just as important as—and in some cases, more important than—raising funds. Starting a crowdfunding project introduces the product or cause to a high number of people and allows founders to form relationships with their backers that could be used to obtain feedback or to generate returning customers. Other motivations that were identified include the need to maintain control (e.g., by self-publishing a book) and the desire to learn fundraising skills.

Moisseyev (2013) suggested that for small firms, crowdfunding can be considered a marketing tool and that it can be used in three ways. First, a project can be used as a research tool to assess the quality of creative ideas. By tracking the number of backers and the feedback from social media, organizations can compare their product ideas with those of competitors. Second, crowdfunding can be used to promote a new product, not only reaching people who back the project but also the entire crowdfunding community. Finally, 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.

A well-known example of a successful crowdfunding project run by an established company is that of FirstBuild, a subsidiary of General Electric. In July 2015, FirstBuild launched a campaign on Indiegogo for a countertop nugget ice maker, the Opal. The project was very successful. While FirstBuild's funding goal was only $150,000, within a month the firm had raised nearly $2.8 million from over 6,000 backers (Cowley, 2016). In an interview, FirstBuild Director Naturajan Venkatakrishnan highlighted the importance of the crowdfunding effort: "The benefits of launching a new product like Opal using the Indiegogo crowdfunding platform allows us immediate feedback on market acceptance" (Freeman, 2015). Following its success on Indiegogo, FirstBuild soon made the Opal available for purchase in regular stores (Cowley, 2016). In other words, General Electric used its Indiegogo crowdfunding project as a test market to evaluate the potential demand for its product before committing to wide-scale distribution.

In contrast, a different approach was taken by toy and game manufacturer Hasbro. Hasbro worked with Indiegogo to organize a contest wherein the crowdfunding community was asked to submit game ideas. The competition received 500 submissions and the game Irresponsibility was selected as the winner. Hasbro then started a crowdfunding campaign to sell the game, which raised $10,487 from 249 backers (Kastrekas, 2016). Although this exceeded the fundraising goal of $3,500 by 300%, it is possible that the low number of backers is the reason why the game does not yet appear to be available through regular retail channels at the time of this writing. Essentially, Hasbro used Indiegogo as a form of crowdsourcing (Afuah & Tucci, 2012, 2013; Prpić, Shukla, Kietzmann, & McCarthy, 2015) rather than crowdfunding. The company's objectives were to generate ideas from a crowd of enthusiasts and then to use that crowd as a means of judging product viability.

A variant of regular (i.e., donation-based or reward-based) crowdfunding is called *equity crowdfunding*, in which project backers are compensated with financial returns such as equity, equity-like shares, or dividends (Bretschneider, Knaub, & Wieck, 2014). One of many examples is Camden Town Brewery, a London-based beer company that raised over £2.75 million through the equity crowdfunding website Crowdcube, allowing the business to expand its production capacity and to export its Camden Lager beer outside of the U.K. (Lang, 2016). In December 2015, global drinks manufacturer Anheuser-Busch InBev purchased Camden Town Brewery. Although Anheuser-Busch InBev did not disclose how much it paid for Camden, it was estimated that shareholders received a return on investment of about 70% (Davies, 2015).

A final example showcasing another approach involves the beer brand Shock Top, owned by Anheuser-Busch InBev. Shock Top ran a contest named Shock the Drought on Indiegogo, in which it asked the crowdfunding community to come up with innovative ideas to address the drought in California in the summer of 2015. From the ideas submitted, Anheuser-Busch InBev selected three projects: Drop-a-Brick 2.0, a brick that can be placed into toilet tanks to reduce water consumption; EvaDrop, a shower head with a sensor and timer to ensure no water is wasted; and the Droppler Water Monitor, a visual and interactive water gauge. Each of these projects was supported financially and raised awareness (Kastrekas, 2016). Since the Indiegogo project by Shock Top was not linked to the launch of a new product, the campaign can be considered a form of branding, as it associated the brand with an important cause.

3. Match company objective with crowdfunding approach

It is evident from the aforementioned examples that crowdfunding websites can serve as valuable marketing channels, and that there are various approaches firms can take to engage with them. The starting point for selecting the right approach entails determining what the company wishes to achieve. Table 1 presents the primary objectives of each of the crowdfunding projects that were discussed in the previous section. However, it should be clear that although these firms may have had certain objectives, they may have gained other benefits as well. The table therefore shows both the primary objective (marked with X) and the additional benefits (marked with +).

The objective of the first Pebble campaign was to raise capital after its founder was unable to attract funding elsewhere. This led to some additional, unexpected benefits in the form of product promotion and direct sales. Since the product had already been fully designed, the company was not looking for feedback or ideas. In contrast, the second Pebble campaign deliberately entailed the purposes of marketing, registering direct sales, and promoting the new smartwatch.

As stated by Naturajan Venkatakrishnan of FirstBuild, the primary objective of the Opal ice machine campaign was to obtain feedback from the market before mass production. As the project appeared to be successful, it also helped to promote the product and generate sales.

Hasbro's initiative was entirely different than FirstBuild's, in that Hasbro did not have a product when it started engaging with the community of Indiegogo. The project essentially consisted of two parts: the company first organized a crowdsourcing contest to generate game ideas (Afuah & Tucci, 2012, 2013) and then crowdfunded the winning game to evaluate its market potential.

Although the Shock Top beer brand also created a contest, it was not related to the company product, but rather to a cause: finding solutions to the California drought. It is quite common for brands to build their identities around a certain cause or value. For example, Unilever's Dove brand was reinvigorated in the early 2000s through its Campaign for Real Beauty, which challenged media-driven definitions of beauty as seen on runways in favor of individuals' confidence and well-being as measures of 'real beauty' (Deighton, 2007). The way that Shock Top set up its contest with Indiegogo illustrates how crowdfunding websites can be used to strengthen a brand's identity. Finally, Camden Town Brewery created an equity-based crowdfunding campaign motivated by the sole purpose of raising capital, which it then used to expand its production facilities.

4. Select a crowdfunding approach based on objectives and constraints

While firms have a range of options regarding how to engage with crowdfunding websites, the examined campaigns show that not all of these options are available to all firms. The selected approach therefore depends not only on the objective of the crowdfunding campaign, but also on certain constraints. First, if the firm wants to organize a reward-based crowdfunding campaign, it needs to offer a physical product that is a good investment opportunity and for which potential backers are willing to prepay. Certain product categories such as consumer technology and design do well on crowdfunding sites, which is why both Pebble watches and the FirstBuild Opal ice maker were successful.

In contrast, both Camden Town Brewery and Shock Top sell beer, and neither company was looking for capital to develop a new product; therefore, reward-based campaigns were not a possibility for these firms. Since the objective of Camden Town was to attract funding to increase its production capacity, the company's only option was to offer equity in exchange for funding. The objective of

Table 1. Firm objectives of crowdfunding campaigns

Campaign	Raise capital	Promote product	Get market feedback	Direct sales	Crowdsourcing ideas	Branding
Pebble 1	x	+		+		
Pebble 2	+	+		x		
FirstBuild Opal		+	x	+		
Hasbro			+		x	
Shock Top						x
Camden Town	x					

x = primary objective; + = additional benefits

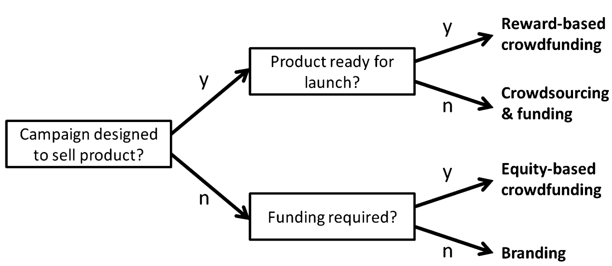
Shock Top was to promote its brand and associate it with solutions to the California drought; therefore, the company chose to back projects that would help reduce water consumption.

Besides the availability of an attractive physical product, another constraint relates to readiness of the product. Both Pebble and FirstBuild had finished designs and did not look for input from the crowdfunding community. In fact, FirstBuild director Venkatakrishnan was surprised to learn that backers of the Opal crowdfunding campaign not only wanted to receive regular updates about the delivery date, but also wanted to be involved in the ice maker's design (Cowley, 2016). Conversely, Hasbro did not have a finished product and was simply looking for ideas. Therefore, Hasbro first organized a contest and then created a campaign to find backers for the winning game.

Figure 1 shows a decision tree that summarizes the discussion in this section and the approaches firms can take to engage with crowdfunding websites as based on their objectives and constraints. If the company has a physical product that is fully developed, it can create a reward-based crowdfunding campaign, offering the product as a reward to backers once it is ready. This is the approach that was chosen by Pebble (both campaigns) and FirstBuild. It should be noted that although these campaigns may have had different objectives (raise funds vs. generate direct sales vs. obtain market feedback), the objectives were satisfied with similar approaches. If the company offers a physical product that is appealing to the crowdfunding community but does not yet have its product ready, the company can undertake a two-step crowdsourcing and funding approach; here, the firm first engages with the community to generate ideas and then uses the interest generated to attract financial backers and to sell products. This combo approach was selected by Hasbro when it organized a contest to come up with game ideas.

If the company does not have a physical product but wants to raise capital through a crowdfunding website, it may organize an equity-based crowdfunding campaign; this was the approach chosen by Camden Town Brewery. Finally, if a company does not have a physical product but wants to engage with the crowdfunding community to promote its brand, that company may opt for a branding approach by associating itself with other crowdfunding projects (e.g., to support a certain cause or value).

Figure 1. Decision tree for crowdfunding approaches



5. Consider crowdfunding strategically and realistically

As this article demonstrates, crowdfunding websites can be used as marketing tools not just by companies with a history of crowdfunding (e.g., Pebble) but also other established firms. Campaigns can be organized to cover a range of different objectives, including raising funds, registering direct sales, and generating product ideas.

However, it is clear that not all possible approaches are available to all firms. Two constraints, as discussed in the previous section, play a role. First, some firms do not have a product for which consumers are willing to prepay before delivery; these firms have fewer options, but can still generate capital via equity-based fundraising. The Shock Top campaign illustrates another approach that such firms can take: by associating the brand with other crowdfunding campaigns to support a particular cause. The second identified constraint relates to firms that do not have a fully developed product available. These firms can first use the crowdfunding community to create product ideas and then develop a campaign to generate financing and presales for the community's best ideas.

Firms that plan to interact with crowdfunding platforms must be willing to dedicate a lot of effort, not just toward creating a project that appeals to potential backers but also to providing these backers with product fundraising and development updates. In addition, there are reputational risks related to crowdfunding. For example, a project could fail to reach its crowdfunding goals, or the final product could be delayed and/or not meet backers' expectations. The latter occurred with the video game Modus, which was delivered two years late and lacked many of its promised features. This led to serious reputational damage for its creator, game designer Peter Molyneux, and widespread criticism of Kickstarter for allowing firms to get away with this sans financial or legal repercussions (Orland, 2015).

Established firms' increasing interest in using crowdfunding websites may have a profound impact on the crowdfunding industry. While this development is beneficial for crowdfunding websites in that it provides them with an additional source of revenue and possible media publicity, it may pose a problem for the many individuals and small organizations that rely on them. Crowdfunding might be the only way these constituents are able to raise sufficient funds to start or grow their activities. Part of the problem is that crowdfunding websites do not exactly offer level playing fields. Past research has shown that attracting a large number of backers in the first hours of a crowdfunding project is vital for its success (Etter et al., 2013). This means that large organizations could use their advertising budgets to attract early backers and gain momentum, thereby overshadowing smaller project creators. Large organizations may also be able to build up experience through multiple crowdfunding projects, which will increase their effectiveness over time. This option might not be available to others.

This begs the question: How does the increasing involvement of established organizations in crowdfunding affect potential investors? Although some individuals who invest in crowdfunding projects do so merely to collect rewards, others participate because they want to support a small business owner or an individual with an interesting product idea (Gerber & Hui, 2013). It is questionable whether this latter group will be eager to support large organizations in the same way. This could explain why Anheuser-Busch InBev chose the relatively small brand Shock Top rather than a larger brand like Budweiser to work with Indiegogo, and why the General Electric subsidiary that produced the Opal ice maker was named FirstBuild rather than a more recognizable affiliate title like GE Home Cooling. These examples support the notion that potential backers are not as eager to support a large organization, even if they show an interest in the offered product.

Nevertheless, it is likely that the pressure on crowdfunding websites to find new revenue sources and the eagerness of firms to enter this new channel will change the crowdfunding industry over time. It is vital that marketing managers be aware crowdfunding still largely consists of early adopters of technology and design, activists who support causes and local projects, and enthusiasts who are willing to help budding artists. These are not the kind of consumers who will buy anything that is offered to them; they will support the projects and offerings they like, irrespective of the firm and crowdfunding website that offers them.

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