EXECUTING CROWDFUNDING CAMPAIGNS

5 Massive Impacts of Crowdfunding

APEN DESIGNS

5 Massive Impacts of Crowdfunding is published by APEN Designs, Inc.

This eBook is available for free download on apen-designs.com.

About this eBook.

Scope and Audience

5 Massive Impacts of Crowdfunding is a primer to assist you before you create a *reward-based* crowdfunding campaign. It gives you an overview of five major areas where crowdfunding will affect your business when you launch a campaign. It provides recommendations to help you better understand the points of analysis before and after the campaign. Data for this eBook is provided by the campaign discovery and optimization platform Krowdster.

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APEN Designs

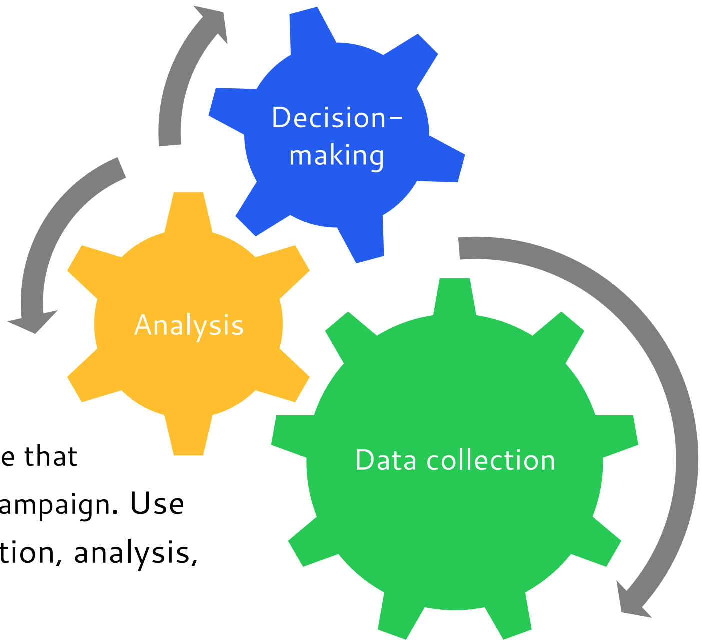
APEN Designs, Inc. builds a fully integrated communications platform for startups and SMEs. This solution will enable our users to create, manage, analyze, track and improve their stakeholder communication.

Summary.

In which areas will CROWDFUNDING affect my company?

Crowdfunding is not all about the FUNDS you can raise. Understand how crowdfunding can affect:

- FUNDING
- PRODUCT VALIDATION
- MARKET VALIDATION
- BRANDING
- SOCIAL CAPITAL



How do I assess the impacts of crowdfunding?

Crowdfunding's impact for your company can be understood via a simple impact assessment. We provide a template that you can work from, before you launch a campaign. Use this template in support of data collection, analysis, and decision-making.

Should I read on?

Running a successful campaign requires skills, effort, and risk taking. Launching a campaign requires overview and understanding of what can happen when you push LAUNCH! This eBook gives you that overview and pointers on what crowdfunding can bring to your company.

5 MASSIVE IMPACTS OF CROWDFUNDING

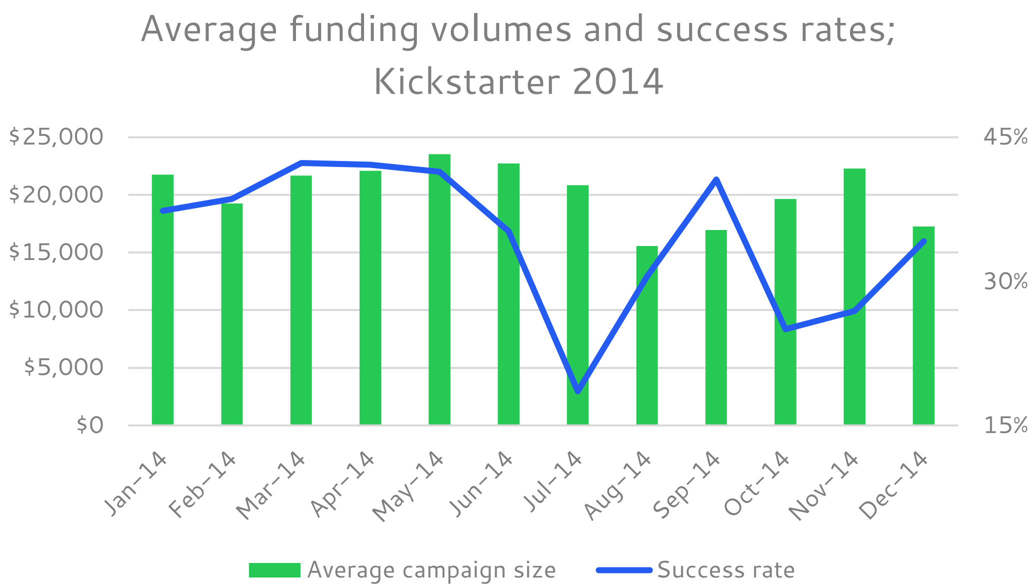
Funding.

Companies – big and small – are drawn to crowdfunding, for several reasons. One overarching motivation is FUNDING! When it works, it works fast and has an instant revenue impact. It limits the hassle of raising external finance from business angels, VCs, etc. before or during your product development phase.

If price points and funding goals are set properly, the successful company will be well on its way into product development without the usual funding pains to disturb the process. Naturally, this changes the "startup scenario" tremendously, and for this reason, millions of companies use crowdfunding.

On Kickstarter, which is one of the oldest and largest platforms in the market, the average number of new campaigns per month is around 4,500; and the numbers have been increasing over the last year. If you look at the chart on the next page, you can see the average funding volume per successful campaign (green bars) and the success rate (blue line) throughout 2014.

The drop in success rates coincides with the platform's "Launch Now" option. Up until June 2014, campaign creators had to go through a very thorough process with Kickstarter's community managers.



This process served several purposes; one of which was to test whether the campaign was ready to launch.

Today, with "Launch Now," campaign creators are free to opt out of this step, and simply launch whenever the feel they are ready. Naturally, this led to a jump in campaign volumes and subsequently a drop in success rates.

The strength of this strategy is that the platform opens up to a variety of new campaign types. The weakness is that it unfortunately also opens up the platform to campaigns that do not resonate with the community, and hence the individual crowdfunder has to filter through more "noise" in order to find a relevant campaign to support. The graph leverages a combination of data sourced from Krowdster and Kickstarter.

Product validation.

Besides filling up the order book and securing a development budget, crowdfunding gives you a unique PRODUCT VALIDATION. Platforms like Kickstarter, Indiegogo, and GoFundMe are built on social software technologies and one of the key drivers of success on these sites is the communication flow between the campaign creator (you) and potential supporters (your crowdfunders).

Besides the generic thumbs-up/down styled feedback, your campaign page will also get very specific questions about the product you offer and the way you plan to create it. Furthermore, you will get immediate response on whether your idea is of any use at all. Think of this as a massive focus group. Stressful perhaps, but extremely powerful nonetheless.

When you share *how* you plan to create your product, you face a tricky challenge: How much information is enough, and how much sharing will expose your company later on? On the one hand, sharing information is important in the pitch because it convinces crowdfunders that you can actually deliver what you promise.

On the other hand, since your campaign is public, you might expose insights, technologies, procedures, etc. that you should have kept as proprietary. It is extremely important that you understand exactly what you should share and what you should not. If your project requires that you share sensitive information that could expose you, then crowdfunding might not be your best option.

A second challenge arises when you want to understand the degree of product validation. It does not matter if your campaign was successful or not, the product alone does not necessarily explain funding commitments.

Obviously, the higher the volume, the more likely it is that your idea is validated, but you have to dig into the sentiments and feedback on the campaign site to get the full picture.

Finally, you should make sure that your idea fits with the platform you consider to use. The table below should give you a good starting point if you consider either Kickstarter or Indiegogo.

The "Category volume/total volume" hints what is most popular on each platform, and "Average funding volume" should give you an idea of whether ideas similar to your own raise funds comparable to your needs.

Kickstarter			Indiegogo		
Category	Category volume/ total volume	Average funding volume	Category	Category volume/ total volume	Average funding volume
Games	23.5%	$58,641	Technology	30.4%	$104,413
Design	17.3%	$53,691	Film & Video	17.1%	$9,413
Technology	16.9%	$90,380	Community	9.0%	$6,688
Film & Video	14.4%	$14,917	Music	6.8%	$5,700
Music	7.9%	$7,077	Education	6.4%	$8,462
Publishing	3.9%	$8,343	Health	5.2%	$7,929
Food	3.9%	$15,404	Design	3.4%	$35,320
Fashion	3.4%	$18,343	Theater	2.7%	$6,722
Art	2.7%	$6,028	Business	2.4%	$9,899
Comics	2.4%	$13,348	Games	2.3%	$14,012
Other	3.8%		Other	14.4%	

Market validation.

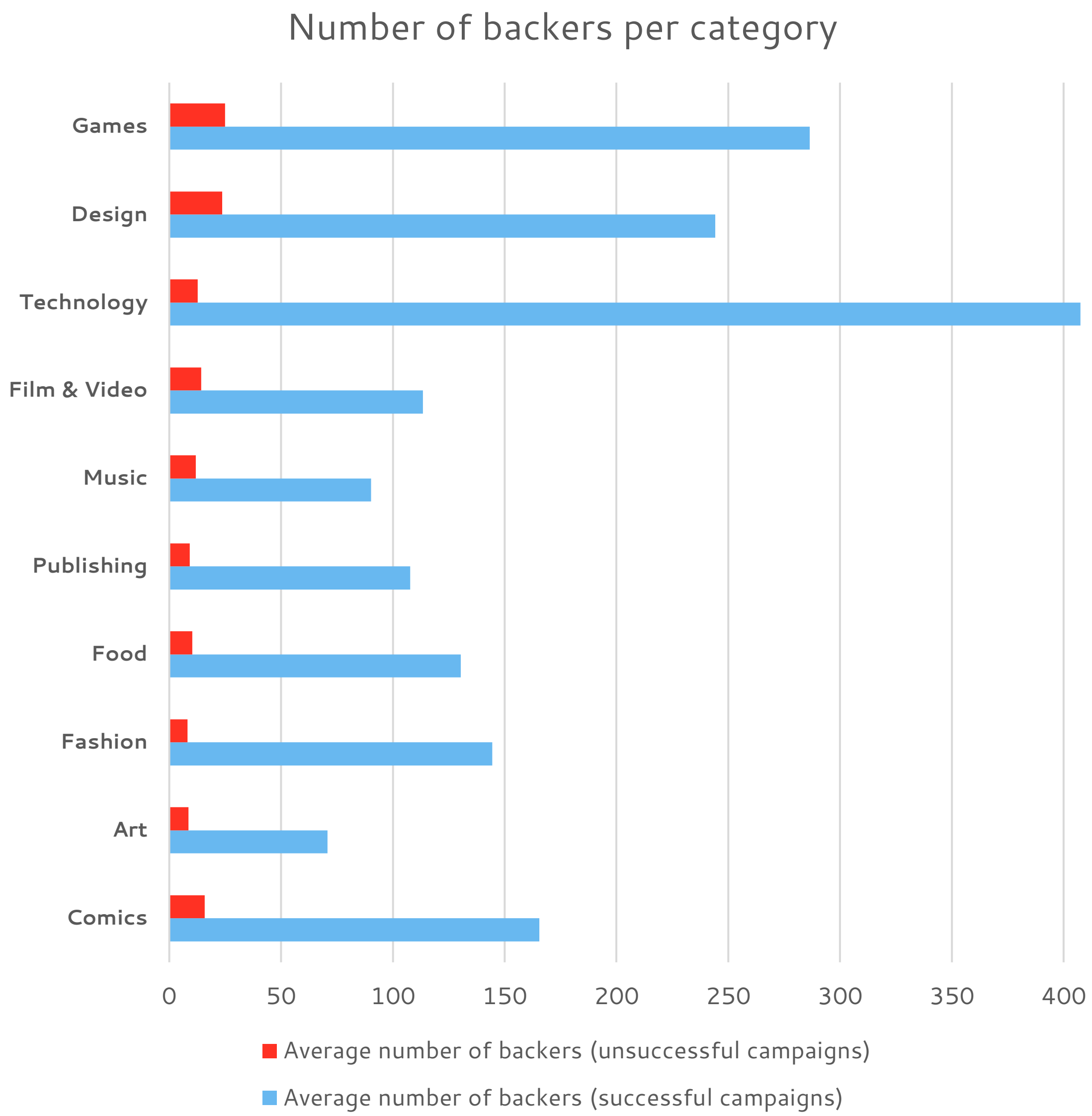
Equally important to getting feedback on your idea is the MARKET VALIDATION that crowdfunding provides. You test your idea, but you are also testing price points. Although you can choose a different spot price for your product later on, while delivering at campaign price to your crowdfunders, you should be careful with this. If you undercut the campaign price, your initial supporters might feel that you have taken advantage of them; if you raise the price too much afterwards, the regular customer will likely perceive the price excessive, because you have already delivered at a lower price.

Disregarding all of this, a crowdfunding campaign gives you an opportunity to analyze conversion, social media traction, and engagement. These are vital signals of how potential customers perceive your product, how it will perform in the "real" market, and how close you are to the right price point.

So what are the cons? Clearly, there is a risk that your "market testing experiment" goes viral, and you end up carving out a substantial portion of your market at the wrong price point. To this end, most platforms will allow you to stop the campaign before the announced end date.

However, in order to do this optimally, you have to plan for the contingency beforehand. You do not want to ask yourself how much funding is enough, while the support is pouring in! Determine a trigger funding volume before you launch and (perhaps) be transparent about this volume on your campaign when it becomes relevant.

For a low-volume campaign, there is a risk that you simply do not learn enough. A campaign gets traction due to a substantial social outreach, a marketing effort, a good product fit, and proper price points.



If you have little traction, it is very hard to back out exactly what went wrong, and it will be difficult to make a sound price point analysis to assess to what degree there is a market for your product.

The bar chart above should give you an idea of how many crowdfunders you need to attract to your campaign. The chart shows the average number of people who support campaigns in the 10 most important Kickstarter categories (from the table in the product validation section). The red bars indicate averages for campaigns that do not reach their goal, and the blue bars indicate averages from successful campaigns.

Understanding exactly how many supporters you need to attract in order to reach your goal is a crucial part of preparing for a campaign. If it turns out that you need far more – or your price tag is higher – than what is normal for the particular category you are in, then you need to address this and adjust your pre-campaigning accordingly.

As you can see in the bar chart, limited traction very often means that you are "dead-in-the-water" so for market validation purposes, you have to take into account the success criteria before jumping to conclusions... maybe your campaign simply didn't fit the norm!

Branding.

When it comes to BRANDING, you have to be careful. Established companies will typically have *rooted brand identities*, which means that their brands have matured gradually with the outside world's perception of the company, its values, its products/services, and its role in society in general. If you are running a startup and think you have a *rooted brand identity*, you are wrong!

What you do have, however, is the flexibility to build your brand via the communication channels that are available to you... such as the communication channels you will use before, during, and after a crowdfunding campaign.

When we talk about impacts of crowdfunding in context of branding, what we really mean is that you have an opportunity to *create* a brand in the process. However, whatever you build will inevitably tie to the outcome of your campaign.

Branding differs from the other factors we have discussed, in the sense that no matter who you are and what the outcome of your campaign is; there will be both (branding) pros and (branding) cons of crowdfunding.

If you get a lot of traction, you tie to a success story, but in the process, you are very likely to lose control of the brand as a mere consequence of the communication flow and buzz around your campaign.

Similarly, for a low-volume campaign, your brand might be associated with a failure, but unless this failure is caused by inappropriate communication, you have now created a platform to grow from. Especially for small companies, early resistance is a part of the game. The way we deal with this resistance defines who we become as companies, as teams, and as brands.

Social capital.

The hidden gem and the one aspect of crowdfunding that researchers, practitioners, and media tend to forget is the SOCIAL CAPITAL that a campaign creates. In order to reach your goal, you need to create awareness, and social media is key in this effort. You can think of your crowdfunding campaign as a filter where only the most engaged crowd passes through.

What you then need to understand is why people engage. Is it because of your product, your team, your company, the buzz, or something else? Your crowd is an extremely important asset for your company, and although you are probably not in a position to implement sophisticated stakeholder communications procedures, you can do yourself a great favor by investing a little bit of time in understanding who is in the crowd anyway. This is *a peer group analysis*.

One simple approach is to consider three peer group descriptors: *Passives*, *loyal customers*, and *brand advocates*. Then you assume that everyone are *passive*, just waiting on the product and will not engage further. Then you let them prove you wrong! The second group, *loyal customer* captures members of the crowd who are likely to engage with you again, and the third group, *brand advocates* are members of your crowd who you can count on in social media campaigns and similar outreaches.

Understanding this is integral to subsequent campaigns, marketing, and other activities. If you use crowdfunding, you can capture all the information you need to get started.

For high-volume campaigns however, there is a challenge in that the time and money you have to commit to stakeholder communication cannot follow the size of your crowd; e.g., you cannot rely on individual assessments to form your peer groups. The amount of people in each group is simply too large.

One way of resolving this issue is *self-sorting*, where you give people the opportunity to opt-in or opt-out of specific categories of communication streams, and thereby forming peer groups based on their own decisions.

After you have created the relevant peer groups, you still face the challenge of communicating efficiently with each group. This challenge is not unique for crowdfunding, and there are several guidelines available on how you efficiently can shape your voice and message.

What is unique to crowdfunding, however, is the risk of disappointing existing stakeholders after a failed campaign. Before you go live, you will have built up some social media traction and started communicating what you want to achieve. In this process, you have set expectations based on very little external validation, and it is safe to assume that your pre-launch stakeholders have very high expectations in your ability to run a campaign. This group is in itself a part of your social asset, and in your communication, you have to strike that balance between enthusiasm, transparency, and urgency.

Creating an Impact Assessment

Understand the impacts.

Every company is unique, and has very specific needs, assets, and opportunities. For that reason, do not see the outline above as a cookie-cutter solution to give you a complete impact assessment... it is not!

In order to create this assessment, a very good starting point is to understand how important each of the five factors: funding, product validation, market validation, branding, and social assets are for your company.

For instance, if your product has competition, and you know how much your competitors can sell at given price points, the market validation aspect should not be that important to you. If you already have a working prototype and received sufficient feedback on its features, functionalities, usability, etc., then the product validation aspect is less important. Moreover, your team may raise concerns that are specific to your case. Capture these in the same framework and assess how a crowdfunding campaign will affect each of these.

Finally, do not plan for success or failure! Plan for success *and* failure! A very informative approach to the impact assessment is to consider each factor in pre-defined scenarios.

For crowdfunding, there is a straightforward way you can do this. Simply define ranges of Funding-to-Goal ratios ("FtG"); that is, the percentage of funding raised out of your funding goal. In the following section, we use four ranges: FtG below 10%, FtG between 10% and 100%; FtG between 100% and 110%; and FtG above 110%.

Scenarios.

You have to prepare for four different scenarios (Data source: Krowdster):

- FAILURE! (FtG below 10%)
  48.2% of campaigns do not get early traction and hence never take off.
- SOME INTEREST, BUT NO! (FtG above 10%, but below 100%)
  18.4% of campaign do take off, but lose momentum before reaching the final goal.
- BARELY MADE IT! (FtG above 100%, but below 110%)
  14%, which is almost half of successful campaigns just barely reaching their funding goals.
- SUCCESS! (FtG above 110%)
  While campaigns in this range get boatloads of media attention, they only count 19.4% of campaigns, which is 58.1% of successful campaigns.

The purpose of pre-defining these scenarios is that it gives you an overview of what can happen once you launch a campaign, and more importantly, it provides you with the schematics of how you should respond in each case at the relevant time.

Analyze.

You can create an overview of the impact assessment in a table with scenarios in the left-hand side column and the factors in the top row. For each combination, i.e. in each cell, you make your assessment of pros, cons, and any other point of analysis you find helpful. The table below should give you an idea of what an impact assessment will look like. It is a high-level version, so you should add more detail where you need it.

It could look something like this (an example).

	Funding	Product Validation	Market Validation	Branding	Social Asset
SUCCESS!	Pros: We have more than we asked for. Cons: None!	Pros: Strong signal of interest. Cons: None!	Pros: There definitely is a market for our product. Cons: There is a risk that our product is priced too low.	Pros: We have a success to build on. Cons: Major campaign buzz. Risk of loss of brand control.	Pros: We have got a strong and engaged stakeholder base. Cons: Lack skills to understand stakeholders.
BARELY MADE IT!	Pros: We got funded. Cons: None!	Pros: The idea resonates with our customers. Cons: Inspired to make changes, but must deliver what the crowd expects.	Pros: We have sufficient data to test new price points. Cons: The sample is relatively small.	Pros: We have a success to build on. Cons: How do we raise the bar and create a high-demand brand?	Pros: Empowered stakeholders. Cons: Uncertainty about stakeholder management.
SOME INTEREST, BUT NO!	Pros: None! Cons: Cannot get the funds although people are willing to pay.	Pros: We have received some feedback on the idea. Cons: Idea needs major tweaks before launch.	Pros: Understanding of price points. Cons: Poor understanding of why some visitors were not interested.	Pros: Can build "fighter" brand identity. Cons: Risk that we have jeopardized our brand.	Pros: We built up a social asset. Cons: Initial stakeholders are disappointed.
FAILURE!	Pros: None! Cons: We lost valuable time.	Pros: We are better informed. Cons: Root-cause uncertainty.	Pros: We are better informed. Cons: There is a reason to believe that our price points are wrong.	Pros: We can grow from an underdog position. Cons: We are associated with a failed campaign.	Pros: None! Cons: We have put our existing social asset at risk.

Strategize.

The table above is an example of an impact assessment, and you should create your own. Work with your team and advisors to get a better understanding of how the different scenarios affects your company afterwards.

Some of these outcomes might turn out unacceptable, in which case you must make specific battle-plans up front. Once you understand all of this, you have to weigh pros against cons, and decide if crowdfunding is right for you. Planning only for success is a grave mistake, but opting out because of fear of failure can be even worse!

You might identify additional impacts that are relevant for your specific company (or industry). Add these to the chart and follow the same procedure. If you need a more granular impact assessment, you can add additional brackets in the scenario column. However, be mindful of *analysis-paralysis* in this case; use the probabilities and impacts for each scenario as a guideline for how much time you should spend planning for them.

DISCLAIMER:

The information presented in this eBook is believed to be factual and up-to-date, but we do not guarantee its accuracy and it should not be regarded as a complete analysis of the subject matter. Opinions contained herein reflect the judgement of the author as of the data of publication.

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