

Creating buzz with potential end-users helps entrepreneurs with crowdfunding campaigns

April 30 2020



Credit: CC0 Public Domain

Entrepreneurs launching a crowdfunding campaign to fund new product development benefit by reaching out early to engage with potential end-users, say business researchers from three universities.

Emerging companies that did so, tweaking their [prototypes](#) in an active and open exchange, reached their fundraising goals and drew media coverage more easily than those that didn't, said Alex Murray of the University of Oregon and lead author of a study published online ahead of print in *Organization Science*.

Most studies have explored how companies seek initial financial support with established professionals such as venture capitalists and angel investors. Studies of online fundraising, which is growing in use to attract broader support, Murray noted, have looked mostly at certain characteristics—how many times a person smiles during a pitch, language used and geographic location.

"We all know creating a buzz matters, but how do you successfully do it?" said Murray, an assistant professor of management who teaches entrepreneurship in the UO's Lundquist College of Business. "We wanted to understand the processes, such as who you get involved and when, that help make it happen."

Murray and co-authors Suresh Kotha of the University of Washington and Greg Fisher of Indiana University compared the strategies of eight companies that used Kickstarter, the world's largest non-equity crowdfunding platform, between 2012 and 2014. To date, Murray said, Kickstarter has generated \$4.8 billion in non-equity financing for more than 178,000 campaigns.

In the study, the eight unnamed early-stage companies were paired for comparison based on four prototype categories: household gadgets, board games, smartphone camera lenses and 3-D printers.

Three key steps to success emerged: community building to establish psychological bonds with individuals who are knowledgeable about a product; engagement that fosters social identification among those

individuals; and spanning that engagement to leverage proof points with others.

One successful company reached out to a National Geographic photographer for input about the prototype its new smartphone camera lens. After early interaction, the photographer took the prototype on a field trip and talked about the new lens with other photographers. That led to helpful feedback and photos that the company then used for its subsequent [crowdfunding campaign](#).

Another company, the researchers noted, reached out to potential end-users, relying heavily on descriptions of its prototype's potential and responding privately to some emails. However, the company did not encourage and make use of the feedback. Its subsequent campaign was not as successful.

Companies that did poorly with their crowdfunding campaigns had innovative and creative products, but they depended on their own descriptions to generate interest rather than interacting with people in their domain, Murray said.

Companies that successfully established relationships with key stakeholders and incorporated their feedback into their prototypes, not only met their crowdfunding goals, but were also best equipped to attract news [media coverage](#) about their new products, another key step in the process, Murray said.

"Generating interest in the domain of an early prototype is critical," he said. "We found that when companies generate feedback and excitement early on, the people with whom they engage will, in turn, evangelize about the product in their networks and that will grow interest in it."

Sharing a prototype of a new product with others outside of a [company](#),

however, may be risky, requiring a high level of trust and sufficient protection of intellectual property, Murray said. In a follow-up study now under review for publication, he explores that issue.

More information: Alex Murray et al, Community-Based Resource Mobilization: How Entrepreneurs Acquire Resources from Distributed Non-Professionals via Crowdfunding, *Organization Science* (2020). [DOI: 10.1287/orsc.2019.1339](https://doi.org/10.1287/orsc.2019.1339)

Provided by University of Oregon

Citation: Creating buzz with potential end-users helps entrepreneurs with crowdfunding campaigns (2020, April 30) retrieved 25 April 2024 from <https://phys.org/news/2020-04-potential-end-users-entrepreneurs-crowdfunding-campaigns.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.