

# Factors that determine the success of crowdfunding campaigns

December 15 2021, by Maria Fernanda Ziegler



Credit: CC0 Public Domain

Not just the characteristics of a project, but also the city in which it will be implemented and the diversity of the rewards promised to supporters are the key factors that determine the success of a crowdfunding

campaign even before the standard 60-day time limit set by most online entrepreneurial fundraising platforms.

A study by researchers at Getúlio Vargas Foundation (FGV) in Brazil analyzed more than 4,000 crowdfunding campaigns conducted locally, and for the first time identified the key factors that determine whether the fundraising goal is achieved within the said standard deadline.

"Our analysis showed that more than the characteristics of the project, other factors such as inequality, educational attainment and age among the inhabitants of the host city [where the [campaign](#) takes place] can be decisive for the success of a campaign. These were curious conclusions, and we then tried to find the reasons for them," Wesley Mendes-da-Silva, second author of the article on the study published in the *Journal of Business Research*, told Agência FAPESP. Mendes-da-Silva is a professor at FGV's São Paulo School of Business Administration (EAESP).

The study was supported by FAPESP via a scholarship awarded to him for research at the University of Texas at Austin (USA).

Crowdfunding is increasingly used by entrepreneurs to start a new venture. According to Mendes-da-Silva, the main attraction is the chance to finance a project without needing to take out a bank loan, rather than ease of fundraising: fewer than half of such campaigns are successful, according to most estimates.

Brazilian crowdfunding campaigns increasingly adopt the all-or-nothing system, whereby the campaign is canceled if the target is not reached by the deadline set, and the investors receive their funds back or get credits for use in other campaigns on the same platform. Many campaigns also offer rewards (books, shirts, posters, courses, free music downloads, etc.) in return for donations.

Time is of the essence in any campaign, Mendes-da-Silva explained. "The response comes early on. It tends to be L-shaped, with donations rising fast at the start and then slowing down and leveling off as time passes. This is the case for successful campaigns. The failures get only small contributions from the word go," he said, adding that a campaign is highly unlikely to achieve its target unless it "booms" in the first week.

## Key success factors

A curious finding of the study is that the campaigns that succeeded fastest were based mainly in cities with more income inequality. "The reason is that many people invest in crowdfunding because they see it as an opportunity to help reduce inequality," Mendes-da-Silva said.

The researchers also found that high fundraising targets tend to make success less likely. A possible solution would be to try to raise a large amount in two or more campaigns. The number of rewards may also influence the outcome. The greater the variety of "giveaways" offered in exchange for donations, the less time it takes for a successful campaign to achieve the target.

The study used a statistical approach called survival analysis. "The method is typically used in medicine to determine survival time after a patient has a heart attack, for example. This can be calculated on the basis of such variables as age, weight, height, and some genetic factor," Mendes-da-Silva explained.

"In our study, to determine the success of a campaign we used campaign characteristics as the variables in this model. We measured such things as individual investment, the total amount raised, and the variety of rewards offered in exchange for an investment."

As a result of the study, Mendes-da-Silva is now working on another

project in partnership with the Informatics Department at the Federal University of Pernambuco (UFPE), also in Brazil, to develop a campaign design algorithm.

"We're developing a model to predict success using an artificial intelligence methodology," he said. "We expect to offer crowdfunding platforms an algorithm that will help them, even before a campaign begins, to have an estimate of how successful it will be. This is positive for everyone—platforms, entrepreneurs and pledgers."

**More information:** Israel José dos Santos Felipe et al, Reward crowdfunding campaigns: Time-to-success analysis, *Journal of Business Research* (2021). [DOI: 10.1016/j.jbusres.2021.09.004](https://doi.org/10.1016/j.jbusres.2021.09.004)

Provided by FAPESP

Citation: Factors that determine the success of crowdfunding campaigns (2021, December 15) retrieved 16 May 2024 from <https://phys.org/news/2021-12-factors-success-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.