

*A Work Project, presented as part of the requirements for the award of a
Master of Science Degree in International Management from*

NOVA SCHOOL OF BUSINESS AND ECONOMICS



“CROWDFUNDING
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**AN ANALYSIS OF CROWDFUNDING AS A VIABLE FORM
OF FINANCING FOR START-UPS IN PORTUGAL”**

Submitted: 22nd of May 2016

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Abstract

Crowdfunding evolved as part of the world's progress towards a global and digital society. Over the past years, leveraging the 'power of the crowd' has become an increasingly popular way to obtain financing. This research is an effort to analyse the extend to which Crowdfunding is used as a form and source of financing for start-ups in Portugal. As such, this dissertation is an empirical work encompassing an extensive literature review on the concept of Crowdfunding, its origin, development and current state and offers an analysis for the case of Portugal. Through elite interviews with operators of existing platforms in Portugal, Portuguese start-ups and finance experts familiar with the market, the research question receives a thorough examination concluding that Crowdfunding has the potential to become a viable form of financing for start-ups in Portugal.

Key-words:

Crowdfunding, Financing, Start-Up, Innovation

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List of Abbreviations

BAs	Business Angels
CAPS	Crowdfunding Association for Platform Standards
CCF	Credit-based Crowdfunding
CF	Crowdfunding
CS	Crowdsourcing
DCF	Donation-based Crowdfunding
ECF	Equity-based Crowdfunding
ECN	European Crowdfunding Network
FI(s)	Financial Institution(s)
NGO	Non-Governmental Organizations
RCF	Reward-based Crowdfunding
SMEs	Small and medium sized enterprises
VC(s)	Venture Capital(ists)

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1 Introduction

Portugal's economy is shaped by a strong share of SMEs which account for 67% of total economic value added (EU: 58%) and an increasing growth of entrepreneurship resulting in a diverse set of start-up companies (European Commission 2015). By the nature of the venture, these companies have a strong need for investment and start-up capital to be able to develop new projects or take the business to the next step. While large and long-established firms might have relatively easy access to capital, there exist higher barriers for start-ups and SMEs to raise funds for their starting and/or expanding activities. A lack of past record and credit scoring, missing collateral, insufficient cash-flows and unstructured business plans are among the factors restraining companies from accessing debt financing (Mills 2014). For equity financing a lack of market trust, the equity gap (finding an investor who is willing to fund a small company if there are more attractive opportunities from bigger firms) and a lack of exit route (inability of a small firm to offer an exit for any investor who wants to sell his stock) are the most common reasons for objection (Weike 2009). These factors, along with the repercussions of the financial crisis which can still be felt in the country, hamper the access to capital for SMEs, start-ups and entrepreneurs through traditional forms of financing.

Apart from these obstacles, there is a shift in the social and business environment towards an involved community in which customers are getting more actively engaged with the products they purchase and the services they use. The customers' needs, desires and wishes are openly communicated to the companies who in return try to incorporate them into the creation process (Perkins & Fenech 2014). In the light of the two discussed developments, Crowdfunding (CF) represents a form of financing which merges the increasing importance of the customer with the provision of capital for those who cannot find it elsewhere. The concept is expanded in chapter 2.

1.1 Goal of the work

The goal of this work is to provide an insight into this recent form of financing and its current status in the Portuguese market. The idea of “people pooling their resources in order to realise a common goal, sharing tasks and responsibilities” (Brüntje & Gajda 2016) has been around for several years - yet there is a noticeable lack of scientific research about it.

In Portugal, CF is placed in a business landscape which is quite different from North America and other countries in Europe. Therefore, this work is an effort by a forward-looking business student to add value to the body of knowledge in order to better understand the growing phenomenon of CF, its triggers, motivations as well as its potential future position in the market. With this goal in mind, the key research question is: “Is CF a viable funding option for Portuguese SMEs and start-ups?”

1.2 Structure of the work

The work at hand is divided into five chapters which are directly related and thematically built upon each other. The first part serves as an introduction to explain the emergence of CF, to underline the goal of the paper and to outline its structure. The second part gives an introduction to the concept of CF in which the terms necessary for a holistic understanding are defined, its development is pictured and lastly the stakeholders and their interests in terms of rewards are presented. The third chapter explains the underlying research methodology which was used to conduct the explorative study. In the fourth part, the results of the study are being discussed and a founded statement about the current situation, existing challenges and the future development of CF is made through experienced experts in the field of CF. Finally, the fifth chapter provides a summary of the results, limitations to the study and an outlook to the future of CF.

2 Critical literature review

In this chapter relevant existing literature about CF is reviewed critically and different viewpoints are contrasted to obtain a common basis of the topic.

2.1 Crowdsourcing

In order to classify CF, it is inevitable to briefly explain its parent concept: Crowdsourcing (CS). As one of the first, Howe in 2006 described the term CS as “the act of taking a job traditionally performed by employees and outsourcing it to an undefined, generally large group of people in the form of an open call”. Following Howe, there have been several attempts to define CS according to different parameters. Some focus on its problem-solving use (Brabham 2008; Vuković 2009; Doan et al. 2011), others see it as a way to outsource tasks (Alonso & Lease 2011; Daniel & Facca 2010), yet others regard it as a form of peer production (Horton & Chilton 2010). Despite the different approaches, there are two elements all authors agree initiatives must have: ‘the crowd’ and an ‘open call’.

CS takes place via online platforms allowing users worldwide to connect, share information and solve problems collaboratively - an act of cooperation supported by new technologies and social networks (García & Estellés-Arolas 2015). In practice, it unifies a highly varied group of concepts all sharing contribution from the crowd which can be categorized as follows:

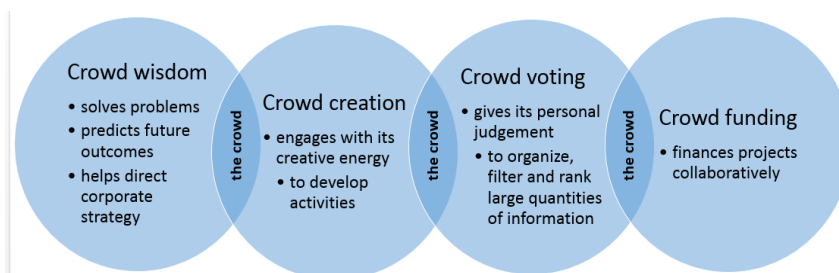


Figure 1: The four forms of Crowdsourcing

It remains arguable whether these categories cover the whole range of existing CS activities and borders can be drawn sharply as projects often use a combination of types. Yet, for the purpose of the present paper, this model is used to classify CF as one of the four forms of CS.

2.2 Origin and development of crowdfunding

CF is referred to as an innovative method of funding, but its underlying idea is not a new phenomenon. Pooling resources in order to fund a common goal is anchored in the roots of humans and plays a key role in civil society, arts and culture (Brüntje & Gajda 2016). A well-known example of early CF is the pedestal of the Statue of Liberty that was financed by the readers of New York's newspaper 'World' in 1885, who in return for a financial contribution got their name printed in the newspaper. The campaign reached US\$102,000 with 80% of the grand total donating less than one US\$ (Harris 1986).

There are various views on when and where modern-day CF started. The most prevalent opinion is that its origin lies in the music industry where it was used to finance the production of new albums (Freedman & Nutting 2014). In 2000, musician and computer programmer Brian Camelio, was the first to launch a dedicated CF platform 'ArtistShare' which connected artists with fans in order to share the creative process and fund new works (ArtistShare 2016). Shortly after, more CF platforms emerged in the US, the most known being Indiegogo and Kickstarter. Apart from arts, these sites also host funding campaigns for social causes, entrepreneurs and small businesses (Freedman & Nutting 2014). In 2010, CF reached Europe, where it mainly spread in the UK, Germany and the Netherlands. By 2013, CF received worldwide recognition and captured the interest of the established financial industry, economists, politicians and some of the largest corporations as well as top universities (Brüntje & Gajda 2016). According to Massolution's CF report, the global CF industry grew from US\$ 6,1 billion in 2013 to US\$ 34,4 billion in 2015.

2.3 Concept of crowdfunding

The ECN defines CF as “a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or organizations” (2016). In this system of cooperation, a project initiator raises capital from many contributors via an online platform, showing that it was only able to arise with the emergence of the Internet and its ability to, far beyond respective borders, reach the growing willingness of interested parties to - for whatever reasons - give money to a third party. By the nature of this concept, there are three stakeholders involved: project initiators, capital givers and platforms (Brüntje & Gajda 2016).

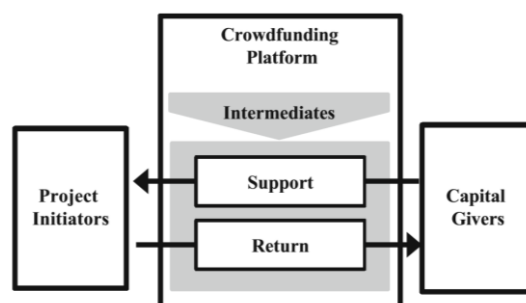


Figure 2: The concept of Crowdfunding

2.3.1 The project initiators

Project initiators are the ones seeking funding to start and/or expand a project. They can be professionals or amateurs and are either private persons or organisational initiators, like start-ups or NGOs (Brüntje & Gajda 2016). To create a project, the initiator chooses a platform and applies with its project through a formal process. If the project is accepted to be published, the initiator has to describe its idea with texts, pictures and videos, to set an amount of financing and a timescale until when the goal is to be accomplished. He also determines the rewards investors will receive in exchange for the financial contribution (Tyclispo.net & Startnext.de 2012). The initiator then communicates the project among his or her network, family, friends, fans, readers and listeners (Blohm et al. 2013). The main motive for project initiators to involve in CF is to raise capital using an alternative method of financing. Further reasons are to gather feedback from the community and to enlarge the network (Blohm et al. 2013).

2.3.2 The capital givers

Capital givers are the ones willing to financially support the projects. They are commonly known as ‘the crowd’ (García & Estellés-Arolas 2015), ‘backers’ (Brüntje & Gajda 2016) or ‘investors’ (Blohm et al. 2013) which are most likely to be private persons but can also be of organisational nature (Brüntje & Gajda 2016). Investors select projects to fund according to their own preferences and with or without profit seeking objectives. Apart from (monetary) rewards, contributors also participate in CF to support family or friends, take over responsibility, build up recognition and foster creativity, entertainment and/or curiosity.

2.3.3 The platforms

CF platforms are the intermediate between project initiators and investors. They serve a similar purpose as financial markets, acting as a direct mechanism to efficiently channel micro-investments and redistribute resources under the principle of cooperation. However, with the right technological design, platforms “exceed their traditional purpose of facilitating access to financing and allow initiators to benefit from the creation of a community to strengthen the innovation cycle, loyalty and decision making” (García & Estellés-Arolas 2015). Among the tasks of the platform operators are the selection of promising and well-planned projects with the goal of, on one side receiving a high return through the commission fee (Ø3%-10%), and on the other side, establishing a sustainable trust basis among its users. Platforms can be categorized according to their funding mechanism (pledge levels, minimum pledge amounts, ‘all-or-nothing’/‘keep-it-all’ principle), their specialization area (e.g. arts, technology), their country of operation and the form of return (discussed below).

2.4 Types of crowdfunding

Having looked at the stakeholders involved in the CF process, it is now of interest to distinguish between different approaches within the concept and see how the interests of the stakeholders change accordingly. In theory, there are various ways to categorize CF according

to different parameters, most of which are based on the return type offered for the investors' support (Brüntje & Gajda 2016). Bradford (2012) identifies the five types 'no compensation, reward, pre-ordered product, interests, profit shares' while Hemer (2011) differentiates the seven types of 'donation, sponsoring, pre-ordering, membership fees, crediting, lending, and profit-sharing'. Belleflamme et al. (2010) focus on the two poles 'pre-ordering and profit-sharing'. An alternative approach is given by Gumpelmaier (2014) who classifies according to technological support, differentiating among 'non-platform-supported' versions (donation buttons integrated on websites) and 'platform-supported' versions (specially designed platforms support technical infrastructure, transaction of processes & project guidance). Haas et al. (2014) propose an alternative by giving priority to the pursued value proposition of the initiators, leading to the three forms of 'hedonism, altruistic and for-profit'.

Beyond the mentioned approaches, there is a wide range of additional possibilities to cluster CF, but with regards to the desired practicality of this paper, the most widely spread classification by Massolution (2012) is selected as the most appropriate model. It differentiates the following four types: Donation-based CF (DCF) which involves contributors who do not expect any financial or non-financial returns for supporting charitable, research, creative and personal projects. Beneficiaries have no obligations towards their backers so the reward is more of an emotional nature. In reward-based CF (RCF), funders, in exchange for their support, receive non-monetary rewards related to the outcome of the project (e.g. pre-ordering of the funded product). Credit-based CF (CCF) functions like peer-to-peer lending. Individual creditors contribute funds which are disbursed to requestors as personal loans. These loans may involve financial RoI with a pre-agreed interest rate or simply returning the money lent without an interest rate charged. In equity-based CF (ECF) investors acquire stock in firms for an amount of money and in return receive a claim over the company's future cashflow. This form is mainly used to finance corporate growth and innovation (Kuti & Madarász 2014).

2.5 Distinction to other financing methods

Having an in-depth understanding of the CF concept, it is now accurate to define its position among other means of financing. The most relevant decision criteria hereby is the stage of development a firm is situated in when seeking funding. The early stage consists of the (pre)seed and start-up phase, followed by expansion stage with emerging growth and bridge phase and later stage with a potential exit (Hahn 2014). Within these stages there exist various forms of accessing capital, the most relevant ones of which are (Bussgang 2014):

Source of funds	Type of investor	Capital	Stage of investment
Personal efforts	Business owner puts personal funds	Equity	Early stage: pre-seed, seed phase
Family, Friends & Fools	Individuals from private sphere deploy own funds	Equity/ Debt	Early stage: seed phase
LIQUIDITY GAP			
Business Angels	Experienced individuals provide capital and strategic support in form of network and mentoring	Equity + smart capital	Early / expansion stage: after owner shows initiative by placing own capital at risk
Venture Capital	Professional firms or funds invest capital and knowledge in high risk ventures	Equity + smart capital	Mostly expansion stage
Private Equity	Professional investors deploy capital	Equity	All stages, mostly emerging growth, turnaround and buyout
Banks	Financial institutions offering loans	Debt	All stages, but restricted access in early stage (as discussed)
Governmental initiatives	Funding campaigns available from the government	Equity	All stages, but limited access due to competition

Figure 3: An overview of financing methods

As it can be seen above, there is a gap for firms to obtain liquidity. Access to bank loans is limited because of strict acceptance criteria and collateral requirements while VC and BAs usually finance larger amounts and expect proof of significant multiplication of investment. Alternatively, family and friends can be approached for financial support. Still, many business opportunities fail to obtain the necessary funds because they cannot show enough value to the investors. In this scenario, CF has a strong potential to positively disrupt the setting and grow to a position of significant relevance in society (Pereira 2012).

3 Research methodology

This chapter presents the selected research methodology which is influenced by the purpose of this study and based on an assessment of the optimal strategy for responding to the research question. As such, the chapter reviews the research background and question, discusses the research approach and presents the choice of experts as interviewees.

3.1 Research background and question

In the past chapters CF, as a form of raising capital, has been carved out. It has become obvious that the concept is based on a solid theoretical model which has gained immense growth in both, use and attention over the past years. At this point, the research question to be answered is whether CF is a sustainable form of financing for start-ups in Portugal.

3.2 Qualitative research

The empirical social research distinguishes between two styles of research. The quantitative approach utilizes standardised survey instruments in combination with a high sample size in order to deduce statistical analyses from the generation of specific data. On the contrary, qualitative social research employs open survey instruments through which, with the help of a selective choice of a small sample by means of texts, interpretive analysis methods are established (Weischer 2007). “Qualitative research is rapidly expanding, constantly changing and becoming increasingly accepted in areas where, until very recently, it was derided” (Richards & Morse 2013). Finance, the field to which CF belongs is, due to its nature, one of these areas where a quantitative approach appears to be more suitable. However, the openness and flexibility of qualitative methods allow for a high degree of content validity and a deep information content of the results (Weischer 2007). Against this background, in the study at hand qualitative research has been chosen.

3.3 Expert interviews

Among the available qualitative research methods expert interviews were selected and individual interviews were conducted as guided conversations, that is open, semi-standardised surveys. The term ‘open’ relates to the possibility of the interviewee to state his opinion freely while prioritizing the content individually. ‘Semi-standardised’ relates to the process of the conversation, in which a form is used to guide through the dialogue and ensure all relevant aspects are addressed in the course of the interview (Fisher 2010). Regarding the evaluation, rather than providing an accurate and detailed interpretation of each interview, the aim is to identify problem areas which can be assigned to the pre-defined questions (Mayer 2013).

3.4 Choice of experts as interviewees

To achieve a convincing and significant result the selection of experts is of great importance. Literature does not set an optimal amount of conversationalists. Under the given theme a theoretical saturation is likely to occur at a certain point, meaning that calling in another person does not achieve an additional acquisition of knowledge (Winter 2000). With regard to the expertise and experience of the persons interviewed, the sample size of nine is assumed to be suitable. To analyse the topic in a differentiated manner and investigate the research question from various angles, experts with different backgrounds have been approached: Founders of start-ups who have or have not used CF, platform operators and finance experts.

Interviewee	Initials	Activity
Cláudia de Sousa	CS	Person responsible for Novo Banco CF platform
Frederico Canto e Castro	FC	Founder & CEO of Sonder People Management
Filipe Portela	FP	Head of Business Development Portugal & Spain at Seedrs
Gonçalo Araújo Fernandes	GF	Managing partner at Smart Equity
Marco Barbosa	MB	Co-founder of Esolidar
Mario Mouraz	MM	Co-founder & CEO of Climber Hotel
Pedro Domingos	PD	Co-founder of PPL Portugal
Pedro Oliveira	PO	Co-founder of Landing Jobs
Paulo Silva Pereira	PP	Co-founder of PPL Portugal

Figure 4: Elite interviewees

4 Analysis of results

In this chapter the results of the qualitative interviews will be analysed. After introducing the Portuguese CF market, the results of the study will be presented under five subject areas.



4.1 Introduction to the market

In Portugal, as in most other CF-involved countries, the existing platforms are divided based on the types of reward as the logics, targets and operating models vary accordingly. CF was introduced in Portugal in 2011 when the two reward-based platforms ‘PPL Portugal’ and ‘Massimov’ launched their sides. Massimov is no longer actively operating, similar to other platforms that attempted to facilitate RCF, showing the difficulty of running a profitable side (CrowdfundingHub 2016). The only RCF platform currently operating in Portugal is PPL which was launched in 2011 by Lisbon MBA students. PPL uses the ‘all-or-nothing’ principle, which means that if the funding goal is reached or surpassed within the deadline (both set by the initiator), the project owner receives the funds and PPL charges a 5% success fee. If the goal cannot be reached, the funds are returned to the backers. PPL currently has 61.068 users, raised €1,6 mio. through 508 funded projects with an average contribution of €34 per investor (PPL 2016). The only DCF platform in Portugal is ‘Novo Banco Crowdfunding’ which was launched in 2012 by Banco Espírito Santo, now Novo Banco (NB) Corporate Sustainability Department. The purpose was to create a space for fundraising projects which could not be entirely supported by the bank. NB pledges the first 10% of the aimed value to show investors their believe and trust in the project (CS) and if the project successfully raises the remaining 90%, NB actually provides the 10% - otherwise not. In total, NB’s platform has 187.003 visits, raised more than €240.000 on 71 financed projects with 6.545 donators and an average amount funded of €35 (CS). As a CCF platform there exists

Raize which started its activities as a P2P business lending platform in 2014. The platform has raised loans of €1,5 mio. through 4.232 investors with an average return of 6,3% (Raize 2016). There is no equity-based CF platform in Portugal (yet) since legislation is still vague. In August 2015 the ‘Lei n.º 102/2015’, which defines the legal framework for CF has been published in the ‘Diário da República’ but there is no regulation of ECF so far (Diário da República 2015). Seedrs, equity-based CF platform from London has recently based a tech team in Portugal and until now funded six Portuguese start-ups (FP). Furthermore, there are international platforms present in the market (mostly Kickstarter and Indiegogo) in which a number of Portuguese projects are announced.

4.2 Discussion of results

Having gained an understanding of the Portuguese CF market, in the following section, the results that have been obtained through the interviews will be presented. The initials of the interviewees, itemized in figure 4, are used to declare the citation.

4.2.1 [1] Success factors – key factors for successful campaigns

The first aspect to consider when evaluating the current viability of CF is the success rate of projects and factors determining it. There have been around 600 successfully funded projects in Portugal and the platforms have an average success rate of 49%. Taking into consideration this quote and the variety of projects the question is which factors influence the success. The experts identify five key factors:

1) All experts agree that the most crucial factor is **communication** (PD, FP, CS). The main part of it happens through the platform so initiators have to create a structured page in which they tell an interesting and inspiring story. Although not obligatory, it is highly advisable to have a short pitch video presenting the concept in a clear yet entertaining manner (PD). For donation-based projects it is important to understand that the projects are not touchable and unlike a tangible product unable to be seen, felt or tried out by its potential investors.

Therefore, it is important to communicate the project as something real, to make its benefits and potential visible and to show how the financial effort can improve the life of others (CS). In equity-based campaigns it is also relevant to communicate the actual state of the company, where it plans to be in the future and how it aims to get there, which is what the investment is needed for. Thus, throughout the campaign recent developments (awards, news in the press, etc.) have to be communicated to keep the project alive and assure interaction with the crowd. Furthermore, the community generally also asks a huge amount of questions which is why it is advisable to have one person fully responsible to manage the appearance on the platform and respond to questions on a daily basis (FP).

2) Among ECF, but also all other forms, another critical factor is the **personal network** and effort the initiator puts into sharing the project among friends, family and peers, especially in the beginning. Without the initial 3 F's: family, friends and fools it is unlikely that the crowd will support a project of such recency (FP). Seedrs, as an ECF platform, offers a two week 'private launch' for project owners in which they exclusively address their own network (FP).

3) Another key success factor is setting a **feasible financing target** which expresses the actual value needed for the project. Within DCF and RCF experience shows that smaller values (~€1.000-€3.000) are more successfully funded which is why initiators should ensure to only ask the sum required to realize their project (PD, CS). In ECF, it occurs that firms get fully funded within the private launch so they need to decide whether they want to overfund depending on the degree of equity they are willing to give away (FP).

4) Lastly, for DCF and RCF **appealing and creative rewards** provide an incentive for investors to support the project and thus increase the success of a campaign. In order to facilitate the choice for the investor, the initiator should offer different rewards in a staggered amount in return for the degree of financial support (PD). For ECF and CCF, the amount of equity and interest rate are the relevant adjusting screws.

4.2.2 [2] Advantages – benefits obtained from crowdfunding

Having looked at how projects can be run in the most successful way, it will be evaluated why initiators would rather obtain funding through the crowd than opting for traditional financing.

The seven most mentioned advantages are:

- 1) In the first place CF enables start-ups to **access capital in an early stage** in which it is difficult to obtain it elsewhere (GF, PO, PP). In all methods it is possible to observe a democratization of financing through the non-appearance of a FI that would either charge a high price or not concede a loan unless it dealt with an exceptionally qualified candidate (PP). The start-ups support this opinion stating that CF allows to raise a first round of funding that is very challenging to raise without having a fully-developed product and proven traction in the market (MB, MM, PO). A successfully funded project can also help to convince later stage investors of the model's potential and prove that it is worth more investment to get to the next level (GF, MB, MM). Especially in Portugal, where investors are particularly conservative, having recognition from a reputable platform (potentially from abroad) aids to be recognized in Portugal (MB, MM). If the projects *do* obtain traditional funding, CF is likely to be the less risky alternative, especially compared to bank loans, as it does not require the deposit of warranties which might be lost if the project turns out to be unsuccessful (MM).
- 2) Furthermore, several advantages lie in the **process of obtaining funding**. CF is agile rendering it possible to start a campaign relatively quickly and receive funding faster than when going through other processes (PD, PO). Furthermore, compared to other methods of financing the access to money is cheaper. Because of the all-or-nothing mechanic employed by most platforms, there are - apart from the time spent - no costs associated if the project does not get funded (MB, PD). It is thus "a cheap way to fail often and fail early" (PP). If the project does get funded, the success fees account for 3-10% of the funding which is still cheaper than fundraising offline considering all costs e.g. lawyers revising term-sheets (MM).

3) Another main advantage stated by the platform operators is the **access to a larger community** and the possibility to leverage on the own network (PD, FP, CS). This is beneficial, because firstly, there is the ‘effect of the crowd’ meaning that one Euro of one person has an inconsiderable influence, but one Euro from many people taken together can have a substantial impact (CS). Secondly, the community makes capital raised ‘smart capital’ as there likely will be someone who can help with a concern be it through a connection, a partnership or similar (PD, FP). The start-ups agree by stating that platforms facilitate finding like-minded people or people that believe in the project, believe in the team and take the decision of investing based just on that (FC, MM, PO). On the one hand, within the community exist investors that can help the business to expand through local contacts, market knowledge, etc. On the other hand, it is a way to attract potential employees that become aware of the company through the campaign (MB, MM). Doubts of the extend to which the community serves as networking capability are raised by experts stating that if several hundred unknown people invest, it will be difficult to contact them, to know what they are doing and for them to know anything about the business (GF).

4) Another advantage stated by almost all experts is the ability to “test new products” (PD), “receive **market validation**” (GF)“ and “prove the concept” (PP). On an advanced platform with strong visibility, potential buyers of the product / idea can give feedback and thus, make it possible for the firm to infer what to expect from the market (GF, MB). Through comments and the decision to invest itself, potential buyers validate if the product is promising and value adding, if the pricing is adequate and if essential features are available (PD). Thus, instead of committing relevant funds upfront and risking them on a new business without testing the market, CF reverses order by first addressing the crowd and receiving its reaction (FC, MM). Ultimately, “financial and operational risk associated with a new business can be reduced, allowing for more confident entrepreneurs and a higher success rate of new businesses” (PP).

5) Related to the previous point, firms also increasingly use CF for **marketing and PR** purposes. The addressed visibility drags along a high reach not only on the platform, but also beyond (e.g. media coverage) enabling the firm to reduce marketing expenses (FP, PO).

6) Furthermore, the CF mechanism, through pledging funds prior to project launch, is a proven method of executing **pre-sales and pre-ordering** with a guaranteed commitment from the investor. Consumers gain “direct input into the invention and design of the products and potentially benefit from the pre-order economy because their preferences are met more accurately” (FC, PP). Finally, companies again benefit from a reduction in the risk of doing business, since they have the guarantee that their products will be sold (PP).

7) One major concern all start-ups raised was their fear and unwillingness of losing control over their company by giving up equity (FC, MM, PO). By going through CF the start-ups state they **gave away less equity** for the same funding than if they had gone elsewhere. Also, the founder’s ownership usually faces dilution when others invest in the firm. Entrepreneurs often do not realise the extent of this implication and its financial, physical and emotional consequences to their returns on personal investment (PP). CF helps to prevent dilution as the platform acts as the lead investor and is the only representative on the cap table (MM).

4.2.3 [3] Relevance – current position of crowdfunding in Portugal

The next step is to examine the current relevance for SMEs and start-ups of using CF. The interviews reveal that the platforms are willing and motivated to support SMEs, start-ups and entrepreneurs, but the actual percentage of projects coming from this category proves to be very low (PD, CS). PPL states that their initial motivation was to offer CF for entrepreneurs and start-ups, however, the market reveals that there is more demand for social projects and personal campaigns, so most of the campaigns in consequence involve music and culture (PD). NBCF also launched a platform for businesses, where people could pitch their business idea and the bank provided the first 5% of funding. But since founders did not raise enough

money and it turned out to be unsuccessful operations were stopped (CS). The experts state various and to a certain degree contradictory reasons to explain this phenomenon. As a great part of start-ups in Portugal is tech-based, some experts believe that starting an - especially technological - business does not require a high degree of initial capital, implicating that there is no need for start-ups to obtain external funding in an early stage. It might be interesting at a later, more capital intensive stage, but likely firms then take advantage of other means (PD). This concordes to a certain degree with the start-ups' statements that they did not require financing at the point of launching because they relied on personal efforts (FC, PO). Others believe that start-ups have a high quality of products so they get funds through other means like entrepreneurship contests (PD). While the start-ups confirm that they are aware of and intend to use such methods, they state that often times they do not receive such funds (MM). Finally, a main reason why CF is not widely spread in Portugal yet, is because for start-ups ECF would be the most suitable option, but that is just being legislated now (PP).

4.2.4 [4] Challenges – main obstacles of crowdfunding in Portugal

At this point it is of interest to discover the challenges that restrain the CF activity in the Portuguese market, despite the possibility of success and advantages it offers.

From the investor's side the experts identify culture as one of the main challenges (CS, PD). Portuguese people are very solidary and in general willing to support others, but their priority is to back social projects (e.g. someone in need of medical surgery) rather than start-ups or SMEs. Investors also prefer to give money to people, projects or organizations they are familiar with (CS, FP). By putting 10% of the value upfront, NB expresses its believe in the selected projects and manages to make investors follow, but still faces problems in convincing people that are sceptical to invest money in something unknown (CS). Secondly, the limited use of online payment poses a challenge. People still perceive online payments as an insecure method so, even though they would like to support the project, they would rather do it

‘offline’ (e.g. giving cash) than via the platform. Moreover, regarding the payment issues, in the US, CF mostly works via credit cards where investors are pre-charged and only if the campaign closes the funds are actually taken out. Since the Portuguese people do not rely that much on credit cards, it is necessary to resort to debit cards where investors are charged if they make a pledge and are being refunded if the project fails (PD).

From the initiators side, there is not a high awareness of CF as an option of financing. There are only few actively operating platforms in the country and few start-ups are using them (MB). Other experts also believe that Portugal is at a very innovative stage right now, but it still needs some time to have more start-ups ready to make use of CF.

For both initiators and investors legislation also represents a challenge. While DCF and RCF have reached a solid level of operating practice, CCF and ECF still lack regulative details. The rules are not fixed yet so it is a barrier to the use of ECF (CS, PP).

Summarizing, the challenges to address are a lack of awareness of CF as an option for fund raising, a lack of education of both potential initiators and investors, as well as incomplete and underdeveloped legislation for equity-based CF.

4.2.5 [5] Approach – overcoming current challenges

In the following, elite interviewees suggested how to approach the current challenges.

To create more awareness, some interviewees believe there should be an increase in the amount of platforms offering CF services in Portugal (PD, PP). Currently, the number of platforms is regressing with nameable platforms shutting down operations. This relates to the problem of restricted liquidity in the market wherefore platforms are unable to make high profits (as their margin depends on the success rate) (PD). On the contrary, others believe that, with regard to the international market, there should be a concentration from the supply side. Following the natural trend of innovation, there has been an explosion of platforms, so it requires mergers and acquisitions to have a few major operators and beyond that niche

players. Platforms are likely to merge within one area, a type of return, but also across the value chain resulting in platforms set up for VC, in partnerships or belonging to banks, etc. For PPL to create more awareness a conceivable option would be to expand to other Portuguese speaking countries as one of the platforms' biggest asset is its language (PD, PP). Apart from more awareness, there is an urgent need for clear regulation. Right now, legislation differentiates between 'retail' and 'professional' investors. Retail investors can invest up to €3.000 per project and a total of €10.000 per year, while professional investors (individuals with an annual income > €100.000) have no limit on the amount they can invest. Experts evaluate the limits placed on funding as putting Portugal at a disadvantage to other countries and "restraining the true democratization of investment". This way CF only addresses high income persons which is not in line with the principle of the power of the crowd (FP). Lastly, increased investment education is needed, both from an investment and a technological perspective. Potential investors (= everyone) need to understand how they can participate and to be informed about the risks and benefits of being an investor (PP). The start-ups state that currently they have to provide this information themselves which is very time consuming (MM). To incentivise start-ups to use CF, past success stories of best practices should be shared as they have a strongly motivating impact (MM).

4.2.6 Future position of crowdfunding

All experts, some more enthusiastically than others, agree that CF will continue to grow as a financing tool, gradually becoming a relevant and very likely mainstream option like other existing ones. Regarding the position in the investment chain, most experts believe that CF finds its place after personal efforts and the 3 F's (family, friends and fools) and before or alongside BAs and VC (GF, FP). Regarding its use, most experts agree that CF can and will be complemented with different options of funding (PP). The challenge for CF in the future will be to become a standard method of gaining access to funds.

5 Summary of the present study

This final chapter will summarize the study, reveal its limitations and give a final outlook.

5.1 Discussions of results and findings

The underlying empirical research, through the realization of elite interviews with selected experts, contributes to the body of knowledge of CF. The main results obtained can be summarized as follows:

- Five factors influence the success of a CF campaign: communication, interaction with the crowd, involvement of the personal network, determination of a feasible target and offer of appealing rewards
- The seven main advantages of CF are: access to capital, more agile process, access to larger community, market validation, marketing & PR, pre-sales and decreased dilution
- Currently, in Portugal CF is focussed on social projects rather than for start-ups' financing
- The main challenges restricting the use of CF from a start-ups' view are: a lack of awareness and education of potential initiators and investors and incomplete legislation for ECF, which need to be adressed in order to increase its use in Portugal
- Crowdfunding will continue to exist and complement traditional financing tools

5.2 Limitations

Despite the valuable results, there are some limitations to the study that need to be addressed.

The choices were made consciously with regard to the research question and scope of the paper. Firstly, concerning the research method chosen, the statements of the interviewees underlie a certain degree of subjectivity which has to be considered when evaluating the validity of the results. Secondly, contentwise, the entire study was extensively investigated from a start-up's perspective, while the investor's view remained understudied. For further research it would be advisable to investigate if CF is an interesting investment option with regard to investor protection, default rate, risk and risk management options. Furthermore,

fields of action for the revealed challenges have been defined, but concrete measures in form of an action plan for implementation are missing. This study also did not explore deeper on possible disadvantages for start-ups due to intellectual property rights. Summarizing, it becomes clear, that further and continuous research is necessary to obtain a full picture as well as to monitor the developments of CF in Portugal, as this tool becomes better known from an investors side and in the market.

5.3 Future outlook

The work at hand has shown that CF can be used successfully as an alternative source of financing in almost all socially and entrepreneurially relevant areas. CF provides an opportunity for organizations to support and push projects which could not be realized otherwise. Future trends and forecasts indicate that CF will consolidate its place in the long term and not just as a temporary phenomenon. In what form and to what extent remains to be seen.

In the USA and parts of the EU (especially UK, Germany, and Netherlands), CF is already developing well. In the specific case of Portugal, where the economy is characterized by SME's and an increasing start-up culture, CF can play a crucial role in the future as well. Accordingly, forecasts predict that for equity-based CF a yearly transaction volume of €6,5 mio. will be reached by 2020, which corresponds to an annual growth of 18,72% (CAGR 2016-2020) (Statista 2015). Beside the positive future outlook in Portugal, it is desirable to make CF more popular and accessible in the country in order to continue to harness it as a concept of innovation and quality management or to use it as a market research tool.

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