

CROWD FUNDING AS A STRATEGY OF INVESTMENT IN INNOVATION

Tegin, Vladilen A. – Ph.D. (Tech), associate professor of Kolomna Institute of Moscow State University of Mechanical Engineering (MAMI), Kolomna, Russia.

Usmanov, Boris F. – D. Sc. (Soc.Sc.), professor of Moscow University for the Humanities, Moscow, Russia.

ABSTRACT

Becoming one of the ways of voluntary financing of innovative projects through Internet networks, crowd funding gradually attracts Russian backers- people who invest private money to create new products, which are in demand by business and society. An investment pool has been formed, which is flexible in its interests and choice of creative ideas, which serves market demands and is capable of promoting the implementation of crowd funding campaigns in any sphere of life, including transport. Examples of such inclusiveness of target networking platforms, cited by the authors, and an overall assessment of established practice emphasize economic sense and undoubted business benefits of crowd funding. The investment strategy of corporations, as well as of representatives of small and medium business in Russia should make full use of new financial resources.

ENGLISH SUMMARY

Background. In recent years the popularity of a new method of projects financing – crowd funding grows. This is a relatively new process in business: developers attract «folk» investments to implement their ideas. They talk about them, show drawings or prototypes, and people who liked the proposed, send to the authors money, the amount of which they determine independently.

Objective. The objective of the authors is to investigate different aspects of crowd funding.

Methods. The authors use mainly descriptive method and analysis.

Results.

Voluntary alternative

Crowd funding is a collective cooperation of people who voluntarily share their resources, usually via the Internet, to support the efforts of other people or organizations. Financing with crowd funding scheme can serve different purposes, including assistance in launching research, initiatives of startup companies and small businesses. A fundraising should have a clear goal and understandable price to achieve it. Calculation of costs and progress of fundraising cannot remain closed for the public.

People, who pay, supporting the initiative, are called backers, less often – benefactors. This is a person who invests money in a not yet existing project and hopes to get later some kind of symbolic bonus: copy of a product for free or at a substantial discount, a copy of a product with a prize or exclusive material available only for backers. Such voluntary investors are co-founders of companies, they do not get stock. Due to the large amount of backers, even with small investments (from \$ 1 to \$ 100, and the most popular payments are \$20–25), companies collect funds for development and manufacturing of an innovative product. It may be different – game, book, movie, new or modified form of vehicle, tools or even opening of a public gym.

In crowd funding format there are following stages:

- Advertising and promotion.
- Market research.
- Contacts and partners.
- Pre-order and liabilities.

Successful advertising campaign leaves the authors of the project «face to face» with dozens or hundreds of

customers who have paid for the purchase and are eagerly waiting for a treasured parcel or release. (A strong motive – to bring the work to the end, no matter what it takes!) Going through a crowd funding technology, an inceptive entrepreneur acquires not only money, but also invaluable experience in production, promotion, sale and support of his goods (services). PR-agency or production centers help more effectively go through these stages. In English-speaking countries 10 useful tips of crowd funding are known.

1. To make a plan. It is necessary to start with a clear plan, including campaign objectives, its implementation strategy, budget and resources.

2. To form a working group. A team should include experts from outside (they will do the job before, during and after the campaign), and the founders, who will seek to develop their business.

3. To develop multimedia content for the popular channels. There are many ways to get people's attention: to take advantage of SEO-strategies, to use marketing e-mail campaigns, to publish posts on blogs, to upload videos.

4. To inspire customers. To tell them about the campaign, its objectives, to present all in a favorable light. People are interested in the new.

5. To prove to people that they can trust you. Crowd funding is a collective cooperation. To prove with your attitude to the job and with your actions, that you are worthy of trust. People, investing money, have a right to know what their money will be spent on.

6. Do not be afraid to experiment. It is necessary to use new techniques, to pay attention to the approbation of your creativity in social networks, to develop something unexpected (a new mode of transport!).

7. Do not be afraid of changes. Crowd funding is unpredictable. Even if a clear plan of action has been developed, it is impossible to predict how events will unfold, so it is necessary to prepare corrections, changes in the process of project's implementation.

8. To involve people who care about your work. Marketing techniques can help – actions in social networks, e-mail, public relations, public speaking.

9. To calculate budget. Funds should be sufficient to pay planned (and partly unplanned) actions during the campaign.

10. To be passionate about your work. Crowd funding campaign is usually short, but your reputation will stay with you forever.

Kind of a project, which is based on crowd funding, is an initiative of Rada Baburian (an expert in the field of aesthetic medicine, a pioneer in the field of health coaching) to support young people who need medical care. The process launched by him is without period of limitations and restrictions. Very many aspects depend on individual factors, it is a more emotional project pursuing humanitarian objectives, and more punctual (as opposed to state support), transparent and controllable. Publicity and public resonance to address such an initiative is the key to its implementation in each individual case within budget of charitable funds, personal loyalty and participation.

Another quite traditional project, where immediately volumes, amounts, program, participants were determined, was a photo project «200 Moments of the Battle of Borodino», which was based on

unambiguous criteria SMART (specific, measurable, assignable, realistic, time-bound) – quite clearly defined specification, measurability of success and implementation, meaningful and measurable indicators, realistic goals and certainty in the execution time.

Crowd funding platforms raised nearly \$ 1.5 billion in 2011, funding more than a million of projects. With existing trends this growing market doubled in 2012 and continues to evolve.

The market is divided into four types of crowd funding platforms:

- share: Donors receive a share in the projects or part of proceeds;
- loan: Donors receive income from their assets and expect their return;
- bonus: Donors receive nonfinancial benefits, projects often use campaigns for pre-sales;
- gratuitous: Donors do not expect anything in return, and have philanthropic motives.

To the surprise of bonus crowd funding supporters only 11% of the total were collected in these projects and 49% of the funds came gratis (despite the fact that 47% of platforms operate on a bonus basis and only 27% on a gratuitous basis).

It was found that in April 2012 there were 452 crowd funding platforms in the world. It was expected that their number would rise to the end of the year to 536. Most platforms are based in North America – 208 (191 – in the U.S.). In Europe, there were 139 platforms (44 – in the UK). At the same time 95% of funds raised in Europe, and 73% of funds raised in North America, were collected on the five most «widely promoted» platforms. Although the market is expanding rapidly (in terms of assets and number of platforms), the relation of paid funds to the promised funds reduces: in 2009 89% of the promised funds were paid, and in 2011 79%.

Five intangible benefits

Customers investing in crowd funding campaigns get an opportunity to feel their involvement in the implementation of an important project and to share the joy of manufacturers when their new products enter the market. There are five undeniable intangible benefits of such a crowd funding model.

1. Assessing the level of demand and reducing risks.

There is an idea to create a new product, but will it be in demand? And how much money will people be willing to spend to acquire it? After publication of a project on a crowd funding platform, it is possible to get answers to these questions from potential customers.

2. Checking marketing materials and preparation of an advertising campaign.

Crowd funding campaign is simultaneously an advertising campaign. Manufacturers can place on platforms in unlimited amounts information about their projects, including commercial clips, press reviews, etc. In the course of the campaign it can be determined what promotional materials work better and develop ways to promote products.

3. Trust and additional promotion.

Publication on a crowd funding platform inspires to the Internet users a particular confidence in the project, while providing an additional advertisement for startups. Many crowd funding resources offer an advertising support for their best projects (publication in social networks, newsletters, blogs, etc.).

4. Obtaining contact information, creating customer base.

Crowd funding provides an opportunity to communicate with the consumer audience, receiving priceless on the relevance and sincerity reviews about their products. In addition, after the advertising

campaign it is possible to get a list of e-mail addresses of investors that will enable to continue discussion of their products with consumers after receiving financing.

5. Strategic openness to new possibilities

Posting information about the project on the platform, a developer can secure the future of his business. Transparency of crowd funding forms a prerequisite to further development: investors appear who are ready to finance the company outside the project, as well as new business partners, press may be interested in the proposed idea.

The best strategies

The authors enumerate the simplest methods which have been tested in a number of countries that will make a memorable presentation of the project.

Tell a good story. Alex Budak, co-founder of the portal Startsomegood, said: «The main thing which should be done to raise funds through crowd sourcing – is an ability to tell stories. You should describe convincingly and enthusiastically what your company does and why its activity is so important in order that others want to become part of your business». You must make it clear to potential investors that your project has an important goal. A modern entrepreneur must be willing to spend a bit of time, to provide his story with videos.

Win confidence. Believability and confidence are the cornerstones on which crowd funding rests. One way to ensure your own peace of mind becomes investing in local projects. The closer an investment object is located, the more confident feels an investor, as he always has an opportunity to visit a company and to communicate with management. The same principle works in crowd funding. You should be open and transparent. Investors need to see that you know what you strive for and that you have nothing to hide.

Rewards. Success of crowd funding depends also on the system of rewards, which is developed by an entrepreneur. The matter is not so much in the size of the incentive, but in its unusualness and attractiveness. Potential investors should be offered a unique reward that they cannot purchase any other way. Producers of short films, collecting funds for shooting through crowd sourcing portals, for example, propose the users to give a name to one of the characters in the movie, if they have invested more than \$ 100. For a larger contribution it is possible to get even a title of executive co-producer.

Social networks. With their help, entrepreneurs are able to communicate with people interested in support for their business, and get the key to the PR. It is necessary to constantly update information about the project, to expand the number of subscribers, to add video. Applications with video attract 125% more money than projects without them. Let people know that you are not going around in a circle, the project is developing – and they will want to support you.

The most interesting foreign resources

1) Kickstarter.com – the most visited website in this category. With the use of this platform over one million people has made at least one transaction; the site is on about the thousandth place in traffic ranking in the world – a very decent rate! Resource creators claim that they have recently entered the turnover of \$ 100 million a year; the number of users and projects continues to grow exponentially. The principle, which works here «All or nothing», if the project does not collect the required amount, money is returned to donors. Another principle: «Collect money for projects, not for companies», i. e. for implementation of ideas, after which a product or a service should appear. Focus of the resource – creative projects, including in the field of transport, which should capture and make people feel positive emotions.



2) *indiegogo.com* – American resource that has started even before *kickstarter.com*, has already conducted campaigns for 70,000 projects. The range of projects is not limited, the principle «All or nothing» is not used: how many gathered – and win as much. If you did not collect the intended amount, the web service will keep 9%, if you collected a full amount – 4%. For payments of donors PayPal is used (it takes 3%). Web service is suitable for fundraising also for non-US projects: its geography includes nearly 200 countries, including Russia. One of advantages of the resource is the ability to use its own algorithm that automatically calculates the rating of the project depending on the activity of the authors and donors, the number of updates that inform on the implementation (at the most competing resources moderation of the projects is carried out «manually»).

3) *Resource causes.com* focuses mainly on social projects. This website is not only and not so much for funding, but for the interaction between people and their inclusion in social processes. But startups with a social focus can try luck here. There are 170 million registered users, who have donated all together more than \$40 million for 500 thousand «good causes».

4) Service *chipin.com* makes it possible to place a widget on your own website. Anybody who wants will send money.

5) There are platforms aimed at crowd funding of scientific research. For example, resource *iamscientist.com*, which is a social network for scientists (user base – 16 million). In April 2012, the resource launched the first crowd funding campaign.

Similar resources can be mentioned: *petridish.org*, *fundageek.com*, *opengeni.us.org*, *scifundchallenge.org* and *microryza.com*. Scientific crowd funding has its own features: projects are presented by authors, who, with few exceptions, in principle are unable to sell anything. Therefore, most of the projects attract only several hundred dollars. Although there are exceptions. Thus, the research project of new ant species in Madagascar gathered through resource *petridish.org* more than 10 000 \$; a good video presentation helped. «Motivator»

was used: it was promised to name a previously unknown species of ant after a backer, immediately donated 5000\$.

By the way, the founder of the resource *iamscientist.com* is our countryman Boris Shakhno, who moved to the United States twenty years ago. For scientists, in his opinion, it is not so important to «raise» \$ 5–10 thousand for a research, but to get fellows in the scientific world. This is a valuable asset: some of them may in the future write a review for a grant or other will assist in a different way.

Conclusions. In Russia crowd funding of commercial projects using web services is still in a phase of experimentation, which usually finish with collecting relatively small amounts. Platforms *shareholder.ru* and *capitaller.ru* should be mentioned, which have been founded by payment system WebMoney, as well as platforms *investbear.ru* and *B-generator.ru*. Using these platforms, entrepreneurs sometimes manage to gather hundreds of thousands of dollars as investment – in exchange for a share in the company. At the same time it is necessary to meet stringent reporting requirements: the promises of a company to «share» do not suit here.

Nevertheless crowd funding platforms begin to appear in RuNet. Platform for the implementation of ideas and projects *startwithme.ru* can be mentioned, which was launched in test mode in February 2012. The first introduction of an idea has attracted more than two hundred supporters and has gathered more than 64 thousand rubles for two weeks. (at the designated target of 30 thousand rubles.). This platform is designed for four types of projects: «Creativity», «Make the world better», «Startups' and «Entertainment». Now some offers are present on this resource, and organizers say that there are next ten offers waiting for the right moment to be published.

Another crowd funding website in RuNet is *together.ru* – «created by people who like to do good deeds». It is both community of volunteers and crowd funding platform. Sometimes it is possible to gather several hundred thousand rubles for a project. But there are significant limitations: this website works only with organizations, including transport, rather than individuals.

Keywords: investment, innovation projects, Internet networks, voluntary funding, crowd funding, business.

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Координаты авторов (contact information): Тегин В.А. (Tegin, V.A.) – vladilent@mail.ru. ; Усманов Б.Ф. (Usmanov, B.F.) – +7(495) 374-5061.

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