Success Factors in Restaurant Crowdfunding

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More and more would-be food entrepreneurs want to enter the restaurant market.

According to the US Department of Agriculture, Americans now spend more on food away from home than at home. Perhaps unsurprisingly, therefore, more and more would-be food entrepreneurs want to enter the restaurant market. Raising finance can be a problem but crowdfunding provides a new route for people to realize their dreams. UCF Rosen College of Hospitality Management's Assistant Professors of Hospitality Services Mehmet Altin and Dipendra Singh, and Ph.D. candidate Gabriela Lelo de Larrea, are among the first to conduct empirical research to discover what determines crowdfunding success in start-up restaurants.

Whether it's fast service or full service, crowdfunding provides a new route for would-be food entrepreneurs to realize their dreams of opening a restaurant. The model allows people to fund a new venture by launching their project on the internet and inviting many people to support it with small financial contributions, in exchange for rewards if the business gets off the ground.

In an industry that generates more than $188 billion a year, it's easy to see the attraction of opening an independent restaurant. But restaurants are also inherently risky, and any small venture can find it hard to raise capital from traditional sources. Crowdfunding is therefore a good fit for small, agile, millennial businesses. So, what determines crowdfunding success?

A new study from Rosen College of Hospitality Management is one of the first pieces of empirical research to look at crowdfunding in the restaurant sector. Assistant Professors of Hospitality Services Drs. Mehmet Altin and Dipendra Singh, and Ph.D. candidate Gabriela Lelo de Larrea, focused their attention on the online, rewards-based crowdfunding platform

Kickstarter. Their research is published in the *International Journal of Hospitality Management* (2019).

Launched in 2009 with a mission "to help bring creative projects to life", Kickstarter has to date attracted 19 million people from across the globe to back new business ventures. More than $5 billion of funding has been pledged to support a wide variety of businesses, and 191,341 projects have been successfully funded.

ESTABLISHING THE ESSENTIALS

Dr. Altin, Dr. Singh, and Ms. Lelo de Larrea began their research with a review of the academic literature to develop the hypotheses they wanted to test.

The literature review revealed that the most important thing that entrepreneurs must communicate to potential investors is the concept of their project. Unlike venture capitalists who carry out due diligence on funding opportunities, crowdfunders have a different decision-making approach and want all the details upfront. This includes such things as the proposed menu, service philosophy, service system, restaurant atmosphere, and pricing. Such information can be presented in words, images, and

videos. The researchers wanted to find out which are most effective.

The literature also covered social identity theory and the restaurant's community orientation. Restaurants are often the hub of local neighborhoods and they can help to support the survival of other businesses. Restaurants seeking crowdfunding have a two-way community focus: not only can they support their locality, they can also be crowdfunded by people who come from that locality. The researchers therefore included a crowdfunding campaign's community orientation as a measure of its potential success.

Effective marketing and customer relationship building is essential to any business start-up, and featured highly in the existing academic research. However, this study particularly wanted to look at communication frequency and how restaurants begin relationships with customers, and keep momentum by staying in touch, for example updating customers on the project's progress and status. The researchers chose to measure this by looking at the number of updates provided by the

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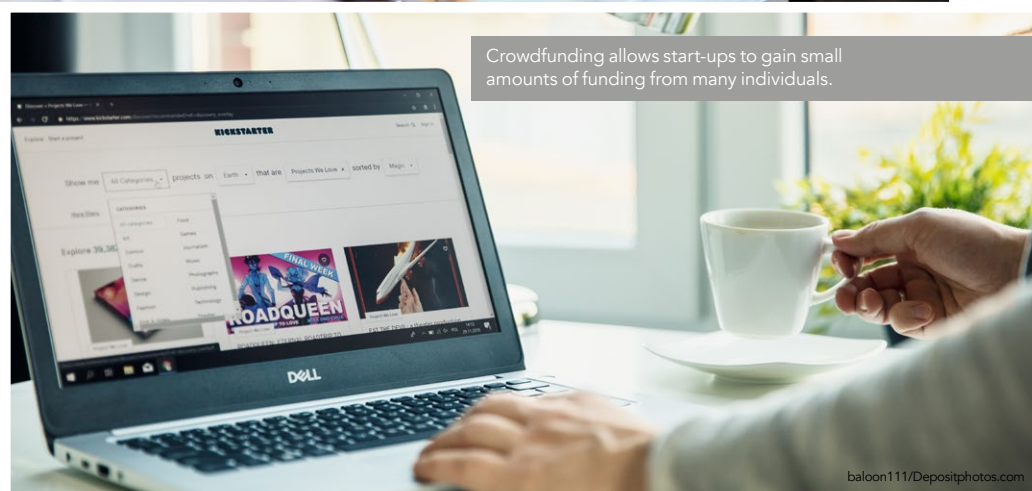
Crowdfunding allows start-ups to gain small amounts of funding from many individuals.

baloon111/Depositphotos.com

RESTAURANTS THAT STRIVE TO IMPROVE THE COMMUNITY WHERE THEY OPERATE IN ADDITION TO THEIR OWN FINANCIAL BENEFIT ARE MORE SUCCESSFUL IN CROWDFUNDING.

entrepreneurs on their funding web pages, as well as the number of comments left by potential funders.

The fourth area identified by the literature as ripe for research looked at the menu of rewards offered to potential investors.

Some crowdfunding campaigns offer a highly structured rewards system, with tiers of rewards – from vouchers to menu items – depending on the amount of money pledged. However, the literature also revealed that choice overload, for example in menu planning, can leave customers feeling

overwhelmed. Rosen's researchers therefore wanted to know whether offering multiple choices within each tier of rewards had a negative impact on crowdfunding success and whether having limited, more exclusive rewards had a positive impact.

RESEARCH METHOD

The study conducted by Dr. Altin, Dr. Singh and Ms. Lelo de Larrea focused on 1,567 US-based restaurant projects listed on the Kickstarter website and concluded between May 2013 and January 2018. The projects included in the research had a status as 'concluded' and were all rewards-based. The restaurants studied sought to raise between $1,000 and $100,000 each from crowdfunding. It was felt that restaurants with a higher financial target were not suited to crowdfunding as a source of finance.

The information about the restaurant projects listed on Kickstarter was gathered with the help of a web-crawler service which browsed all the listings automatically in an identical, methodical manner to provide the research data. The results were then analyzed using hierarchical multiple regression techniques to provide a framework for comparison.

SCALE OF SUCCESS

A key finding of the research was the low success rate of the restaurant projects

Regular updates are vital to crowdfunding success.

studied. From the 1,567 restaurant projects analyzed, just 362 succeeded in achieving 100% or more of the total funding required, while 360 projects received nothing at all. Success and total failure were therefore evenly matched.

The majority of projects achieved some support from potential funders. However, the number of people interested was insufficient

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to make the projects viable under Kickstarter's 'all or nothing' rules. These state that potential investors' money must be returned if the total project goal is not achieved.

Looking at restaurant projects over more than four years allowed the study to look at trends in crowdfunding practice over time. Between the start and end of the period studied, the number of restaurant projects listed fell, but the success rate of campaigns increased, and the average pledge amount changed. The

researchers argue that the findings suggest that, "Kickstarter is moving to fewer but, but more attractive restaurant projects, which entice people to make bigger contributions."

Let's think back to the hypotheses tested by the research. The evidence suggests that in creating crowdfunding campaigns, images rather than videos or text are more influential in presenting restaurant concepts to potential funders. The researchers suggest that still images are more beneficial than moving ones because projects are at the creation stage: videos cannot show the finished product and they therefore concentrate on filming interviews with entrepreneurs, which are less persuasive.

The researchers found that the community orientation of the restaurant is a key factor in crowdfunding success: "Restaurants that strive to improve the community where

they operate, in addition to their own financial benefit are more successful in crowdfunding." Communication frequency was also confirmed as an important indicator of success. The researchers found that updates and comments on their crowdfunding webpages are a form of public relations and that the number of updates posted is vital to crowdfunding success.

Regarding the final area of inquiry – rewards structure – the results suggest that neither having multiple reward choices in each pledge tier nor the scarcity of reward were significant predictors of success.

THE WAY AHEAD
Dr. Altin, Dr. Singh, and Ms. Lelo de Larrea believe that theirs is a "pioneering study" in the academic literature on the growing field of restaurant crowdfunding in the United States. It is also one of the first to provide insights based on a statistically significant sample. In this way, it also offers a guide to help future restaurant crowdfunders maximize their success. Above all it helps them avoid wasting time and money in developing a campaign by highlighting which activities are likely to provide the best value.

The researchers acknowledge that more work needs to be done to assess the value of crowdfunding to the restaurant sector. In addition to seeing if their results hold true for take-away food businesses, they argue that a longitudinal study of crowdfunded restaurants would also be helpful, following up the short-, medium- and long-term effects that the crowdfunding initiative had on restaurant viability. They also hope that their work will encourage other researchers to conduct a qualitative crowdfunding study which is specific to the tourism and hospitality industry.

Meanwhile, their findings about entrepreneurship in the restaurant sector are clear. Dr. Altin, Dr. Singh and Ms. Lelo de Larrea conclude: "Restaurant entrepreneurs who show that their project benefits the community where they operate, communicate their restaurant concept through images, provide constant updates that maintain project interest and are responsive to funders' comments are more likely to succeed in reward-based crowdfunding."

RESEARCHERS
IN FOCUS

RESEARCH OBJECTIVES

The researchers set out to explore the determinants of restaurant crowdfunding success.

REFERENCES

Lelo de Larrea, G., Altin, M., Singh, D. (2019). Determinants of success of restaurant crowdfunding. *International Journal of Hospitality Management*, Volume 78, Pages 150-158.

PERSONAL RESPONSE

Restaurant businesses have been badly affected by the global pandemic, but at the same time more people are losing mainstream jobs and are thinking about starting their own business. Following your research, where do you think opportunities lie?

❞ Crowdfunding welcomes a wide variety of projects giving opportunities to entrepreneurs thinking of opening a food-related business. This is also true for existing businesses. For example, since before the pandemic, off-site consumption has been on the rise with growing interest. Current and would-be entrepreneurs may create a crowdfunding campaign to launch delivery services or to adapt existing spaces. We are also seeing a trend of outdoor dining; some crowdfunding campaigns have raised funds to build structures to support outdoor dining. In addition, crowdfunding may also be used to fund more flexible projects like pop-ups and food-trucks. **❞**

Your research noted that Kickstarter is moving to fewer, but more attractive, restaurant projects, which entice people to make bigger contributions. What was the average donation made to the successful start-up restaurants in your sample, and how many people pledged?

❞ On average, successful projects raised $22,500 and had 169 backers who pledged $133 each. **❞**

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