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Martin Angerer
University of Liechtenstein

Alexander Brem
University of Southern Denmark

Sascha Kraus
University of Liechtenstein

Andreas Peter
University of Liechtenstein

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Martin Angerer
University of Liechtenstein

Alexander Brem
University of Southern Denmark

Sascha Kraus
University of Liechtenstein

Andreas Peter
University of Liechtenstein

Abstract

Entrepreneurs often struggle to find sufficient funding for their start-ups. A relatively new way for companies to attract capital is via an internet platform, locating investors who in return receive something in return for their ventures. Equity crowdfunding is one of several types of crowdfunding, and is also known as crowdinvesting in the German-speaking realm. This article predominantly advances the scientific knowledge regarding the success factors of equity crowdfunding for German start-ups. The study conducted nine qualitative interviews with start-ups and crowdinvesting platforms. Its first result is that German start-ups select crowdinvesting because (1) it is a funding opportunity and (2) it has an expected marketing effect. To organize the results of relevant success factors, the Crowdinvesting Success Model was designed by the researchers. This supports German entrepreneurs by presenting 20 important success elements that help to increase the capital collected during a campaign. The key finding is that an attractive business model, an appropriate preparation in the pre-campaign period, ongoing activities during the campaign, and corresponding advertising activities have a positive impact on a German start-up's crowdinvesting campaign's chances of success. The article closes with implications for theory and practice, as well as further research suggestions.

JEL Codes: G21, G24, L26, M13

Keywords: Crowdfunding, equity crowdfunding, success factors, Germany, interviews

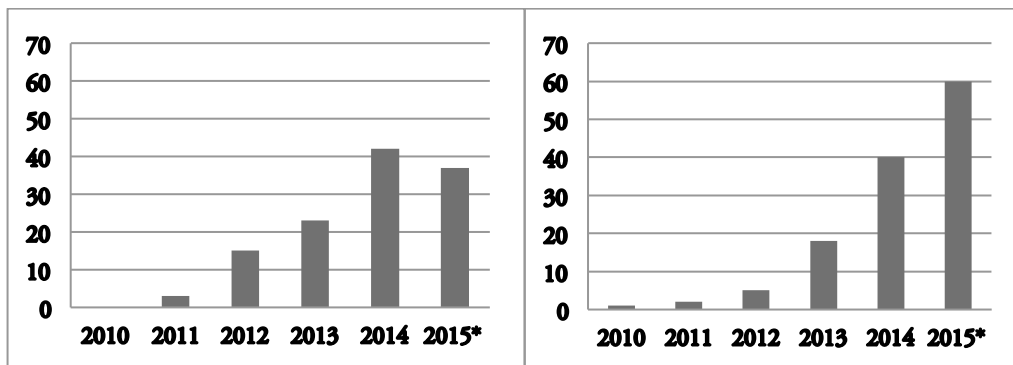
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I. Introduction

Crowdfunding is no longer a fad. It's a real phenomenon changing the way start-ups raise capital. With that being said, established companies are also looking for financing options for new products. So crowdfunding has gone from being an investment opportunity to a vital source of venture capital (Tomczak & Brem, 2013). Developed within this decade, it's a relatively new research field (Hagedorn & Pinkwart, 2013), with the amount of academic literature on the topic increasing notably over the last five years (Moritz & Block, 2014 and Bouncken et al. 2015).

The word “crowdfunding” basically originates from *crowdsourcing*, albeit with a focus on investment rather than getting users involved in product development. Crowdfunding can be defined “as the act of acquiring third-party financing from the general public via an intermediary, generally in the form of a web-based platform” (Tomczak & Brem, 2013, p. 339). This kind of matchmaker platform gives investors direct access to projects that are seeking funding, while the company seeking funds obtains access to truly interested customers (Ordanini et al., 2011). Moreover, there are three different kinds of investment modes: donation, passive, and active investment (Schwienbacher & Larralde, 2012). The research in this article is focused on equity investments, which is commonly categorized under *crowdinvesting* (Brem et al., 2014). Hence, we further consider reward crowdfunding, which is commonly used to support the product development, and crowdlending, which obliges start-ups to pay predetermined interest rates (Hemer, 2011; Hornuf & Schwienbacher, 2015a).

Figure 1 Number of journal articles from 2011 to September 2015* with the term “equity crowdfunding” (4) and “crowdfunding success” (5)



Sources: Own representation based on ProQuest (4) and ScienceDirect (5)

Figure 1 shows the number of journal articles based on the search “equity crowdfunding” on the website ProQuest up to September 2015. Here, the increase in

scientific literature within the last five years becomes clear. While there was no scientific work conducted before 2011, the numbers steadily increased to 42 articles in 2014. Similarly, the search term “crowdfunding success” on ScienceDirect resulted in 126 journal articles up to September 2015.

Starting in North America, this phenomenon has spread to Europe in recent years, creating tremendous changes in the financing landscape. Germany in particular has a vital crowdinvesting market because of its comparatively liberal equity crowdfunding legislation (Klöhn et al., 2015). The relevance of the topic is demonstrated by the fact that 64 out of 264 members of the Federal Association of German Start-ups (*Bundesverband Deutsche Startups*) had used crowdinvesting by the end of 2014 (Blaseg & Koetter, 2015).

A number of studies have begun to analyze the German crowdinvesting market, mostly quantitatively investigating general aspects of equity crowdfunding campaigns. However, none of them specifically focus on success determinants or how the ventures’ motivational factors play a potentially major role. Another aspect is that the studies use all types of campaigns with companies in different levels of development, and do not particularly focus on start-ups (e.g. Biering et al., 2014; Hornuf & Neuenkirch, 2015; Hornuf & Schwienbacher, 2014b; Schramm & Carstens, 2014). This means that a research gap exists regarding equity crowdfunding success factors in Germany. To date, there has been no empirical study conducted examining crowdinvesting success factors for German start-ups, including the knowledge of various equity crowdfunding platforms and start-ups.

We therefore focus on the success factors of crowdinvesting and comparable aspects of the general crowdfunding process and its actors.

The remaining paper is structured as follows: First we outline our methodological approach of the analysis using qualitative interviews. Based on this, the results of our analysis are outlined and discussed in the empirical section before the conclusion in the final pages. Finally, the article outlines limitations as well as implications for further research, introducing a Crowdinvesting Success Model.

II. Methodological Approach

In this article, we focus on the factors of successful crowdinvesting campaigns for German start-ups. The underlying idea of the relevant features of crowdfunding success and the seven-step process of a typical equity crowdfunding process identified by Hagedorn and Pinkwart (2013) are used as a starting point.

Given the novelty of German equity crowdfunding (Brem et al., 2014) and the inductive nature of the research question, a qualitative approach is employed. Here, the question is how entrepreneurs can optimize equity crowdfunding and, indirectly, how investors select their funding campaign. “Why?” questions offer an explanation and deeper understanding of issues. The question of the paper regarding why entrepreneurs select crowdfunding addresses this subject (Hennink et al., 2010). The qualitative approach has different underlying methods for collecting primary data (Eriksson & Kovalainen, 2008), including interviews, group discussions, ethnography, participating observations, and experiments (Steger, 2003). We use semi-structured interviews to gain detailed insights because they allow a structured approach while leaving room for in-depth analysis.

This interview guide is individually designed, and the single questions within the guide differ according to their types. There are open and closed, simple and complex, and direct and indirect questions. The questions were created based on the findings in the theoretical section and with regard to the interviewee type (Eriksson & Kovalainen, 2008). Based on Hennink et al.’s (2010) suggestions, the interview guide structure begins with the collection of background information. Then, questions relating to the motivation of the German start-ups to use equity crowdfunding are asked. The main focus next relies on the relevant crowdfunding success factors, and the interview concludes with the closing questions. The order of the questions was structured in a logical order for the interviewee, although not all of them were necessarily asked in this order during the interviews. Instead, the questions were asked based on how the topics arose throughout the interviews. This guide-like character also does not require the researcher to stick with the planned questions, and the interviewer has the flexibility to adjust the questions and ask additional ad hoc questions during the interview (Eriksson & Kovalainen, 2008).

The selection of the interview partners was undertaken under the premise of selecting cases which are typical for the process, here on the one hand equity crowdfunding platforms and on the other hand start-ups which have collected capital from crowdfunding platforms, with a focus on participants from Germany. Our study covers six successful and two not-successful projects to improve the explanatory power of our findings. The selection of two distinctive groups and successful and not-successful projects facilitates a wider range of different views on the topic.

The German crowdfunding platforms were selected based on the criteria of whether the websites offer start-up funding or not. This was the case with eight out of 15 start-ups (Für-Gründer.de, 2015). One Swiss equity crowdfunding platform was selected that has past experience with the funding of German start-ups. The German

start-ups were selected out of the sample of the general 174 start-up financings successfully achieved to date (Klöhn, et al., 2015). Eight entrepreneurs who funded their venture in 2015 were interviewed. Two start-ups used the platform *Conda*, one *Fundernation*, one *Innovestment*, while four used the platform *Companisto* as intermediaries. Most of the interview partners are in high positions in their start-ups, with the position of CEO or something similar. All interviews, ranging from 20 minutes to one hour, were carried out via phone, Skype, or in a face-to-face meeting. We condense the perspectives of crowdfunding platforms and start-ups to determine success factors of equity crowdfunding. A total of eleven interviews were conducted, eight of them with representatives of German start-ups, and three with crowdfunding platforms. Some of the interview partners, especially those representing not-successful projects, requested anonymity as a condition of their participation. We will therefore refer to them as “Start-up” with their corresponding number (e.g. “Start-up 3”). For the sake of simplicity and easier reading we mark the not-successful start-ups with “NS” (e.g. “NS Start-up 7”).

The qualitative interviews were conducted at the end of 2015 and in late spring of 2016. First, the data was prepared for the analysis, and the interviews, which had been audio recorded, were transcribed (Creswell, 2014). The interviews were held in German. Terminology specific to regional dialects used during the interviews was adapted into the standard High German. Additionally, the direct quotes were translated into English to maintain both a good readability and the scientific standard. Second, the data was examined to develop a general sense of what the participants have in mind. The answers were analyzed by their type and depth to identify their underlying meaning. Third, the data was coded based on Mayring’s (2008) qualitative content analyses. The classification supports the comparison of the different interviews (Flick, 2008).

III. Results

A. Motivation of the Start-ups to Use Equity Crowdfunding

1. Capital Collection

Start-ups typically select equity crowdfunding for three reasons: capital collection, marketing effects, and community effects. Entrepreneurs first of all select crowdfunding because of the lack of other funding sources. The fundraisers collect growth capital from crowd investors because start-ups generally struggle to receive funding from traditional financial sources. Public funding is time-intensive because it

often involves extensive bureaucracy. Venture capital does not support start-ups because these investors generally provide their capital in a later developmental stage and only for a certain type of business model. They also target a certain group of start-ups with very high growth potential. Start-ups that scale on a more regional level and hence supply a local demand are commonly left out of this type of funding. Banks also do not provide start-ups with capital. A major reason for this is that start-ups do not have the securities needed to obtain credit.

It often seems like crowdfunding is applied by start-ups both with and without former external financing experience. With only one exception, all of the start-ups we interviewed were in the B2C (Start-up 6 B2B), some of whom used retail stores as intermediaries. Puzzles Living GmbH said that crowdfunding is especially useful because of its long-term orientation, with the investors having a long holding period, allowing the start-up to use the capital for investments. Another argument raised by Start-up 3 was how he did not want to share full participation rights with new investors. Also, there's the option for the start-up to give friends and fans an opportunity to participate in the success of the enterprise. Altogether, the number of investors related to the start-up is a notable part of the overall investor group. NS Start-up 7 reported that about one-third of the investors in their ongoing campaign are known by the entrepreneurs. Food4Fans furthermore used crowdfunding because the investors have no legal basis to influence the company's policies. They are silent investors, requiring no shareholder meetings. This is particularly appealing to start-ups with existing external investors who then are able to keep their voting rights; the investor group therefore does not require a lot of tending to apart from the monthly report. Crowdfunding was also chosen by entrepreneurs because the due diligence process is relatively easy. It includes the presentation of the start-up, along with the submission of relevant company information as well as a question and answer session via the online platform. One start-up said that this process was quicker compared to negotiations with investment funds or private investors.

There are several different types of interesting crowdfunding sources. Along with crowdfunding, these include reward-based crowdfunding and crowdlending. Companies selected crowdfunding for several reasons. First, the start-ups are in an early company stage, although the product is generally developed and already on the market. This was a major reason for the entrepreneurs such as Puzzles Living GmbH and NS Start-up 8 not to select reward-based crowdfunding. Here, crowd investors foster the development of a product. They then receive the developed product for a discounted price as their reward or payoff. But many ventures already have a product and hence cannot properly use reward-based crowdfunding. Second, the fundraisers specifically choose crowdfunding because it enables start-ups (relative to other

crowdfunding types) to collect large amounts of capital. This is a key factor for entrepreneurs to ensure that they have enough capital to finance their future growth. Start-up 6 mentioned that one motivation to use crowdfundering was that he wanted to motivate cooperating shops that sell their products and customers to invest into the idea themselves.

Food4Fans said that they were against crowdfundering for accounting reasons. Also, Platform 1 points out that interest has to be continuously paid regardless of the business situation. On the other hand, crowdfundering interest is based on accretion and annual surpluses, making crowdfundering interest rates dynamic while crowdfundering interest rates are fixed. Put simply: Lending-based crowdfunding is debt capital while crowdfundering is equity capital. The company wanted to strengthen the appearance of its balance sheet by raising equity capital. Another disadvantage of crowdfundering is its inflexibility. The interest rates are fixed and start-ups have to pay them annually regardless of whether they are able to adapt to the economic situation of the company. Crowdfundering is appealing because it only demands a small ongoing interest rate. Start-ups can develop and the investors mainly profit from the accretion of their stakes at the end of the holding period.

2. Marketing

The second major reason for start-ups to engage in crowdfundering is the marketing effect. The underlying idea here is that a company uses the attention or publicity it receives on the crowdfundering platform to market its products to new customers, strengthening the brand image. Platform 1 states how the marketing effect is the more important reason for certain start-ups to choose crowdfundering rather than the actual funding. The platforms have several thousand investors, and a campaign is accompanied by advertising, making a large amount of potential consumers aware of the product. Moreover, MyCouchbox says that they use the marketing effect to attract new investors. Conda describes a community effect as a possibility for entrepreneurs to bind and involve persons into the start-up. This includes all additional investors who are not part of the actual crowdfundering campaign but might subsequently invest in the company. Start-ups 6 and 8 noted that during the campaign investors became aware of the company and invested in subsequent financing rounds. Start-up 8 also found some future business partners because of the campaign. Overall, entrepreneurs use crowdfundering because it is convenient for long-term growth financing. Their ventures have a product on the market and have reached a size where self-funding is no longer possible. Further, they are not able or willing to raise capital via traditional

financial providers such as banks and venture capitalists. At the same time, they want to benefit from the marketing effects associated with crowdfunding.

The expectations of the entrepreneurs however coincide with crowdfunding reality. Puzzles Living e.g. reported that their capital expectations were fulfilled, although the marketing effect was not as high as expected at the end of the campaign. Start-up 3 and Start-up 6 both said that awareness has increased notably and that the general public has looked into their companies; the marketing effect is achieved, even though the overall funding was not as high as expected for both. Several companies said that they profited from the campaign through the capital as well as the marketing effect. Finally, most start-ups do not use crowdfunding for other reasons than the capital and marketing effect; the majority of start-ups do not want to involve the investors in the business activities in the holding period, raising the issue of whether crowd investors in general are smart money investors or not. They do not contribute with their knowledge to the company development, and are thus seen as mere capital providers. On the other hand, some start-ups do in fact plan to use the support of their investors during the holding period, aiming to profit from their feedback. For instance, Investiere.ch said that their start-ups want to benefit from the smart investors on the platform. These investors contribute more than their capital, as they additionally support the start-up e.g. with their knowledge.

3. Funding Goals of the Entrepreneurs

Before the actual start of a campaign, start-ups plan to reach a specific funding level at the end of it which ranges between a minimum and maximum amount which they determine in advance. This gap generally spans several tens of thousands of euros. In other words, the limitations are based on individual expectations. This should be not be confused with the funding threshold and the funding cap, which are objective, visible limitations for every potential investor. Consequently, it is not the aim of many start-ups to collect as much capital as possible, but instead to reach a certain amount within a pre-defined range. Puzzles Living GmbH explains its pattern with the fact that crowdfunding money is in and of itself not cheap capital. The start-ups have to pay a commission fee to the crowdfunding platform, not to mention their investors. On the other hand, they want to collect a certain amount because crowdfunding is, as NS Start-up 7 describes it, also an investment that requires certain capital spending for e.g. marketing. It is also very time-intensive to organize a crowdfunding campaign, which is why start-ups want to collect enough crowdfunding capital to justify the investment costs and conduct their business for a specific period. NS Start-up 8 indicated that one reason why their campaign failed was the lack of capital and time spent on their

marketing and video activities. With this being the case, and due to high fees, start-ups do not want to limit how much capital they collect. The marketing effect is therefore a side effect of the overall effort to achieve the capital amount required for the campaign.

4. Additional Reasons

Other reasons and motivations for this kind of financing include the speed of the funding process, the favorable company evaluation, the minor impact on the shareholder situation, and the opportunity to find more investors after the campaign. Crowdfunding is convenient for entrepreneurs because it offers the opportunity to present the business model to a large number of investors. This is a very efficient way to search for new investors compared to traditional capital sector investor searches. Furthermore, start-ups can profit from more attractive conditions depending on the individual start-up and platform. The company evaluation can be better for the start-up when the start-ups negotiate with a platform compared to a venture capitalist or business angels. Entrepreneurs traditionally try to achieve a highly positive company evaluation for their start-ups. Platform 1 said that, when it comes to a fair company evaluation, the intermediaries aim to agree with the start-up when it comes to both sides (the start-up and investors).

Crowdfunding is additionally attractive because entrepreneurs do not have to give away a company's shares when campaigns use the mechanism of participation loans. Also, founders do not lose voting rights, and maintain control over their company as a result. And start-ups that already have external investors appreciate crowdfunding because it keeps the ownership and voting situation at acceptable, "status quo" levels.

B. Crowdfunding Success Factors

1. Platform Selection

Start-ups are aware that there are three or four German crowdfunding platforms that the entrepreneurs can potentially use as intermediaries. They pay particular attention to the reputation of the platform and the communication with the website. Some applied to several websites, while others submitted their application to only one platform. German crowdfunding platforms have a huge impact on the potential success of a start-up for three reasons. First, the entrepreneurs can only start a campaign if the platforms accept them. The platform selection process is a necessary step for successful crowdfunding. The start-ups submit the business model and other relevant information, especially financial information, to the website. The initial process is

similar to the application to other types of funding such as venture capital. This information is then reviewed by the crowdfundering platform, with the potential fundraisers then having to answer questions from the crowdfundering platform. The platform selection team has a special interest in the quality of the financial data, and they are constantly on the lookout for the next big business idea. According to Food4Fans, the focus here relies on the growth outlook of the start-up and the market potential of its product. This is used by the platform because the companies are relatively young, and have almost no prior data. Further, the crowdfundering website wants to believe in the team and the product. The platforms expect the fundraisers to properly prepare themselves for the campaign; Start-up 3 said that the entrepreneurs are required to produce a video in which they present their idea and company. Also, NS Start-up 7 mentioned that the platforms require from the outset all entrepreneurs to follow framework conditions which are defined in checklists, such as the use of social media during the campaign. NS Start-up 8 also mentioned that they received extensive checklists to organize the process.

The platforms also support start-ups through their own promotional channels as they advertise on the website, focusing primarily on internal investors as they apply other marketing tools to attract external investors. The marketing efforts on the website include a blog where they present the start-up and investor newsletter. Furthermore, the platforms partly conduct online marketing for the start-up. Food4Fans for instance mainly advertises offline while the platform organizes online marketing.

The selection of a platform also determines how many internal investors are on the website. Internal investors are investors who are already registered on the crowdfundering website, and who can be reached via the platform campaigns, blogs, updates, and newsletters. Some interview partners also described these people as “established” investors who have a high relevance as a target group because they are interested in the topic and have often invested in previous campaigns. The other type includes external investors who are not registered on the website and have to be advertised to via other channels. A large amount of internal investors is beneficial for the campaign success because “if there is already a group of investors there [on the platform], then there is certainly also a higher probability that start-ups attract investors [...] this way” (Puzzles Living GmbH). Almost every campaign has external as well internal investors. For example, Food4Fans reports that many of their investors already appear to have experience with past campaign investments. Puzzles Living GmbH points out how they had a certain amount of Austrian investors that they could not have reached through their advertising because it focused on the German market. These investors presumably came directly from the platform. Many internal investors on a platform therefore lead to a greater amount of collected capital, and they are easier

to identify for campaign advertisements. On the other hand, a start-up has to invest a great deal of energy in attracting external investors if it selects a platform with few internal investors. NS Start-up 8 mentioned that they chose their specific platform because they wanted internal investors who on average invest higher amounts, keeping the total number of investors low as a result. Start-up 6 mentioned that their choice was highly influenced by one platform offering a considerably shorter time frame to start the campaign. Another factor mentioned was the high level of variation in contracting and contract transparency.

2. The Platform Screening Process

Start-ups must be accepted by the platform before they can initiate a campaign. The underlying idea is to only select business models which are attractive for investors and in which these crowd investors would subsequently invest. The platform is here faced with a conflict of interest: On the one hand they want to open the funding to as many start-ups as possible, while on the other hand they have to check whether investors are interested in the first place. This is why they do not allow start-ups to begin a campaign if they believe it is not going to be successful. NS Start-up 8 even reported that the community at FunderNation first conducted a poll before the project was accepted. After all, platforms only receive a reward if the campaign reaches the funding threshold. Platforms are also interested in the financial sustainability of the business, because several start-ups going bankrupt would damage the general start-up image, causing fewer investors to fund start-ups.

Although the screening process is similar to the typical venture capital selection process, due diligence differs notably. The platforms have several selection criteria that partly differ from one platform to another. There are generally formal criteria, e.g. the company must already be founded, i.e. not be in the seed stage; the entrepreneurs must have at least several tens of thousands of euros in their campaign; they must be able to speak German; and must be located in Germany or at least in Europe. Then, the platforms analyze in extensive detail whether the business model is convincing. This includes the financial situation and outlook, and also evaluates the past performance of the company. The platforms screen the attractiveness of the start-up's product and its potential market. The start-up has to be special in some way, and the company story should "grab" their attention. It is also important to have a quality team with all required competencies and skills to realize the business idea and the campaign. It is beneficial if there is already a company community that can be used for the funding. Platform 1 points out that start-ups have an advantage if they are in the B2C sector, while service companies have a lower acceptance rate (this is also true for the actual

campaign funding). Also, the platform checks whether it is possible to conduct the marketing activities together with the start-up. Conda pays particular attention to whether the start-ups have a certain professional corporate appearance. Platform 1 said that companies which follow trends, such as renewable energy, have a higher chance of being selected. All in all, start-ups mainly need a convincing business model with a good product and a potential market that is suitable for a campaign, a professional appearance, solid finances, an exciting company story, and a convincing team. Only about 5 to 10% of all applications are accepted by the platforms. Conda accepts about 10% of the companies, while Platform 1 has an acceptance rate of about 7.5%. A relatively extreme example is Investiere.ch, which receives about 1000 applications per year, with only 10 to 15 companies ultimately initiating a campaign on the website. All of this makes clear that the platforms have a major filtering function. This also means that it can be more challenging for start-ups to become accepted for funding than it is to actually reach the funding threshold. For example, campaigns on Conda are successful in 90% of the cases. This indicates that the pre-selection by the platform is in some cases the more difficult factor for the start-up's success compared to the actual campaign.

3. Business Model

A key success factor is a convincing business model for the investors accompanied by corresponding growth potential. This is the basis for an entire campaign and its advertising, and also has an indirect impact on other success factors such as the return on investment and the so-called "goodies" (see below). The actual business model is set prior to crowdfunding, with entrepreneurs who prepared the funding well ahead of time being generally more successful with their funding. It can be beneficial for the company if the business model is not too complicated. MyCouchbox stated how it has a positive impact on the campaign if the investors can relate to the product. Food4Fans pointed out that it was an advantage for them that they produced a real product that everyone knows, showing how a B2C model is especially attractive for investors. The opposite is reported by Start-up 6, which is in the B2B service sector and argues that it is very difficult to explain their business to potential investors.

It is important for start-ups to develop a campaign strategy in the pre-campaign period, and an appropriate preparation requires a good communication plan. This includes the positioning of the company to motivate investors to pledge capital to the campaign. A good marketing strategy is a key to reaching the targeted investors. An appealing product is therefore beneficial because crowd investors have a tendency to

support it. The start-up needs to build a professional appearance to motivate the investors, and entrepreneurs should plan to commit enough time to the project.

4. Pre-financing

A key success factor is pre-financing, also called pre-feeding, which is the pre-campaign capital collection from family, friends, and fools, as well as other investors from the start-up's network. The pre-feeding capital is collected by the entrepreneurs who personally approach the potential investors by asking them for support for their upcoming campaign. This is a similar process compared to the search for investors of traditional funding sources. MyCouchbox for instance sent hundreds of emails to potential investors. The amount collected beforehand should be at least 10 to 20% of the campaign funding threshold. The underlying idea here is that campaigns which start with low funding capital during the first days of the campaigns have a lower chance of successfully finishing the crowd investment. This is because "all [potential investors] look if someone has already paid. It is very difficult if there is nothing on it" (Start-up 7). The pre-collected capital boosts the first day's funding, triggering a signaling effect. The interested crowd investors on the platform see that a specific project receives strong support from other investors, interpreting this as a sign that many people believe in the potential of the project. So the pre-financing capital has a reinforcing effect on the funding, working as an incentive for additional investors to also fund this start-up, increasing the chances of success.

5. Social Media, Videos, and Other Online Marketing Tools

Part of almost every crowdfunding campaign's marketing, social media is used to attract investors. The preferred advertisement website is Facebook. Some start-ups also used their corporate website and newsletter to promote their campaigns. MyCouchbox said that they have attracted a large amount of investors via social media. Another success factor is the campaign video because it is one of the most important decision criteria for the investors. It is part of the pre-campaign activities because it has to be produced beforehand, and has a high impact on the potential investors' first impression due to its prominent location on the campaign website. The not-successful Start-up 8 mentioned that they failed to spend enough time and effort on the video which in hindsight proved to be a major drawback.

Also, Conda said that the investors' funding decision is made in an early stage and is based on this first impression. Later, the investors, who visit the website an average of four times before they fund, might have a deeper look at the business model

details, even though the basic investment decision has by then already been made on an emotional basis thanks to the impact of the promotional video. There are future online marketing tools that have been used by start-ups in certain cases. Start-up 3 used Google AdWords to promote their campaign, while Start-up 7 used their own newsletter, Twitter, and a YouTube channel to present the features of its product and support their campaign.

6. Communication and Advertisement

According to Investiere.ch, entrepreneurs need a good business plan that explains what their start-up is doing. Here, it's important that the explanation is understandable for the investors. The start-up has to positively communicate with investors too: They have to show their potential investors what they have achieved with their venture to date while outlining their vision for the future. It is important to explain the underlying growth potential of the venture. Investors must be convinced that the future company perspectives are not mere promises but a realistic growth outlook. Conda points out that for them, the main success factor for funding is communication. The start-up should focus all of its activities on the ongoing campaign, meaning that all outside presentations, including the marketing of the start-up, should concentrate on the crowdfundering campaign. This also means that all communication channels must be synchronized to optimize the campaign's promotion. For example, the advertisement should inform about the campaign and where investors can find it. It should directly lead to the campaign's or the company's webpage through the campaign link. Entrepreneurs who believe that the marketing for investors is solely the task of the crowdfundering platform generally experience a less successful funding. Advertising must be adapted to the individual campaign, and should generally include online and offline elements. To convince investors, it is important that the publicity includes professional pictures and other communication materials as well as a professional campaign profile. Another effective way to reach a large number of people is via articles in newspapers, magazines, or TV shows. The divergence loss is relatively high here, even though the high number of readers leads to new investors. Food4Fans for instance invited journalists to visit their start-up. Other start-ups used press releases or events to gain the attention of journalists, opinion leaders, and potential investors as a result. Start-up 6 mentioned that a lot of individual communication was their key success factor. Several start-ups said that they were present at events or fairs to promote their product. NS Start-up 7 for instance used fairs and events related to their business where they used presentations and sales talks to inform potential investors about their campaign. NS Start-up 8 reported that they neglected the influence of opinion leaders

and believe that they lost a lot of momentum during the investment phase because of this missing support.

7. Return on Investment

Investors have three rationales to invest in start-ups via crowdfunding. First, they invest because of the potential return. The focus here is on the start-up's potential and entrepreneur's goals. Also, the return is based on the evaluation of the start-up and has to be within investors' expectations in terms of returns on crowd investments. Second, some investors base their funding on emotional, intrinsic factors, because they want to e.g. support the team or idea. Puzzles Living GmbH and MyCouchbox argue that some investors have a social motivation, which means that they want to be part of the project. This is often the case because they know the entrepreneurs personally, and want to support them. Conda said that they discovered in their survey that certain investors fund the campaign because they hope to do business with the start-up in the future. Here, the venture is either producing a product the investors are interested in or they hope that the start-up will utilize their service in the future. Still, financial returns remain the major reason for investors to fund a campaign. Investiere.ch said that the investors are interested in the details of the business model and how precisely the start-up plans to generate revenues. NS Start-up 7 said (although they struggled to do just this) that it is vital for ventures to outline the business idea and the underlying principal(s) regarding how the start-up will generate revenue. According to Start-up 3, investors see it as a positive indicator whether the start-up has been able to present strong growth within its short firm history. Also, they want to understand the unique selling point of the venture. Investors appreciate it when they see qualified entrepreneurs who handle their start-up responsibly. Thus, the specifications of company evaluation and the growth potential can positively influence the campaign. Precise estimations of future cash flows and expected returns by start-ups teams are additional investor motivations.

8. Goodies

Many start-ups use "goodies" to increase capital collection. Goodies are rewards for investors who have contributed a certain amount of capital to a campaign. On some platforms, they are referred to as "premium." These goodies are typically related to the start-up's business and are either actual start-up products, or discounts offered by the start-ups for their products or services. Goodies have different levels depending on which amount the investor contributes; they aim to encourage investors to invest larger

amounts of capital. While many entrepreneurs use this option, it was initially unclear whether goodies really were an incentive to contribute more capital, or if they attract new customers because most start-ups use them during the entire campaign. The start-up Food4Fans notably did not use goodies in the first half of their campaign. Here, management decided to offer investors a goodie for investments of more than €50. In this case, it was a box of sweets with the colors and logo of German *Bundesliga* soccer clubs. Management here initially thought that their goodie “is not interesting, but we have assessed that somewhat wrong [...] but it proved nevertheless very popular [because of the goodies]” (Food4Fans). Hence, the campaign experienced notably more funding after the entrepreneurs had implemented their goodie. An additional side effect was that the goodies generated online publicity for the campaign. The investors who had received a goodie left positive feedback about the product on the campaign website. Platform 1 argued that goodies are a motivation, and investors appreciate them because they know that it is a risky investment and the chance to get a direct, even small, return in the form of a goodie is appealing. In sum, goodies have a direct influence on the investors by offering a supplementary incentive to invest, and an indirect effect because investors who have received a goodie write (positively) about the product, creating additional advertising for the start-up.

9. Updates

Updates are an important part of the communication, showing certain patterns within the campaign regarding the amount of collected capital. There is an initial period with greater financial support. Following this, funding decreases with start-ups having to use effective communication to motivate investors. Investors react positively to these updates, and they are therefore an effective tool for boosting funding during the campaign. Every update is generally followed by a wave of increased funding, with increased funding seen in end stages. Puzzles Living GmbH for example published an update describing how the company had been voted the best exhibitor at a trade fair. Another use of updates is seen when a major customer shows interest or the start-up is able to finalize a deal. Start-up 7 updates its campaign if an opinion leader provides a positive statement about the product. These are all examples of how successful start-ups continuously communicate with their potential investors. It is important to show what is happening during the campaign period and present it to the general audience using convincing messages. Investors expect start-ups to show results, for example when they are able to attract new cooperation partners or customers during the funding. Here, an update on the campaign website will increase the chance of success. Finally, it is important to understand that “the people do not simply give the money but rather they

give money in case they believe in the people behind it and that just happens if the company is very innovative and does something. It is as simple as that” (Conda).

10. Investor Questions and Communication

Two start-ups, Puzzles Living GmbH and Start-up 6, received almost no questions. Questions however are a communication tool between the start-up and investors, and can indicate an interest in the campaign. This is one of the reasons these start-ups considered encouraging friends to ask questions about the start-up. Although they ultimately decided against this, it indicates that start-ups regard questions as an important element for communicating with investors and convincing them about their business. MyCouchbox pointed out that a quick response time to questions is important. Food4Fans answered questions in great detail, hoping to reach a large amount of investors who were reading them. This follows the logic that a quick and detailed response to investor questions indicates to potential investors that the start-up is managed by qualified persons and that the start-up cares about their investors. Questions are often received over different channels like the platform, Facebook, the website, etc., which can be time consuming.

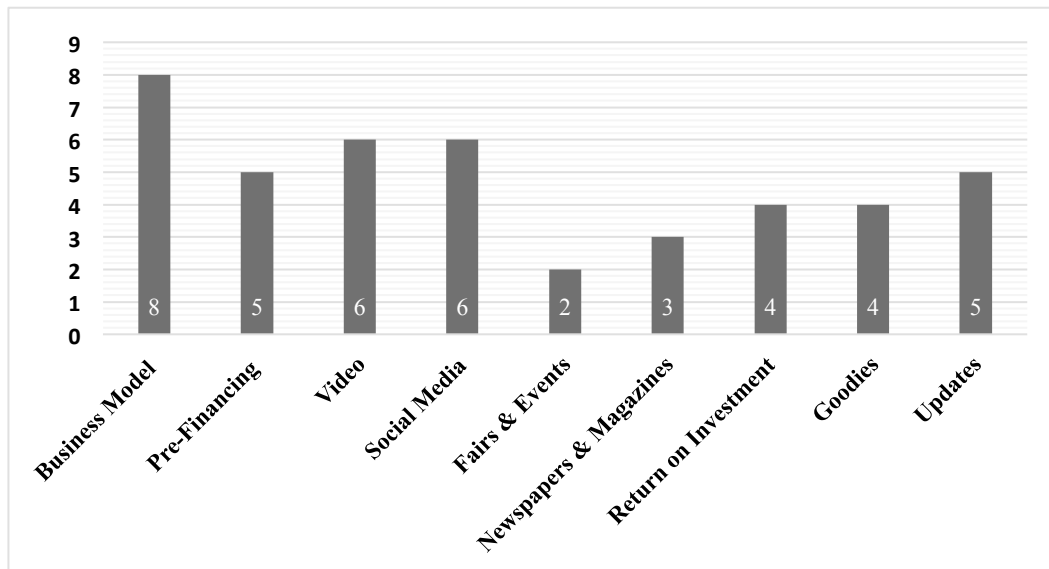
11. Successful Campaign Start and Other Patterns

The amount of capital support during the campaign can be described as following distinctive patterns. All of the campaigns experienced a large amount of funding during the first days of the campaign period. The large amount of capital can partly be explained by the pre-financing of the start-ups. Another similarity is that the start-ups receive more capital in the first days than they collected in their pre-financing phases. Following the extensive funding at the beginning, funding behavior develops differently from campaign to campaign. Puzzles Living GmbH reports that they experienced a linear support lasting until the end of the campaign period. MyCouchbox and NS Start-up 7 experienced waves of increased funding during their campaigns. The funding amount drops again a couple of days after the update until the next update is posted. NS Start-up 7 said that this is because investors react positively to updates and increase their funding as a result. In their experience it is important to periodically kick off waves, which at a certain point they were no longer able to achieve. Food4Fans said they had a notable funding increase in the middle of the campaign because they started to offer goodies to their investors. At the end of the campaign, there was in general no visibly increased support. Some start-ups reported small increases, while others like Puzzles Living GmbH received almost no funding at the

end of their campaign. So there is generally no notable increase in the funding support during a campaign's final days, while there are large amounts of funding in the first days of successful crowdinvesting campaigns. To underline this, NS Start-up 8 said that they weren't successful because they couldn't achieve high amounts of investment in the first days, and therefore never established momentum in their campaign. In their view, a reason for this might have been the pre-vote of the community which deflated most of the initial interest in the project before investors could even invest.

Figure 2: Selected factors which were used or mentioned by the six interviewed start-ups to increase crowdinvesting campaign success

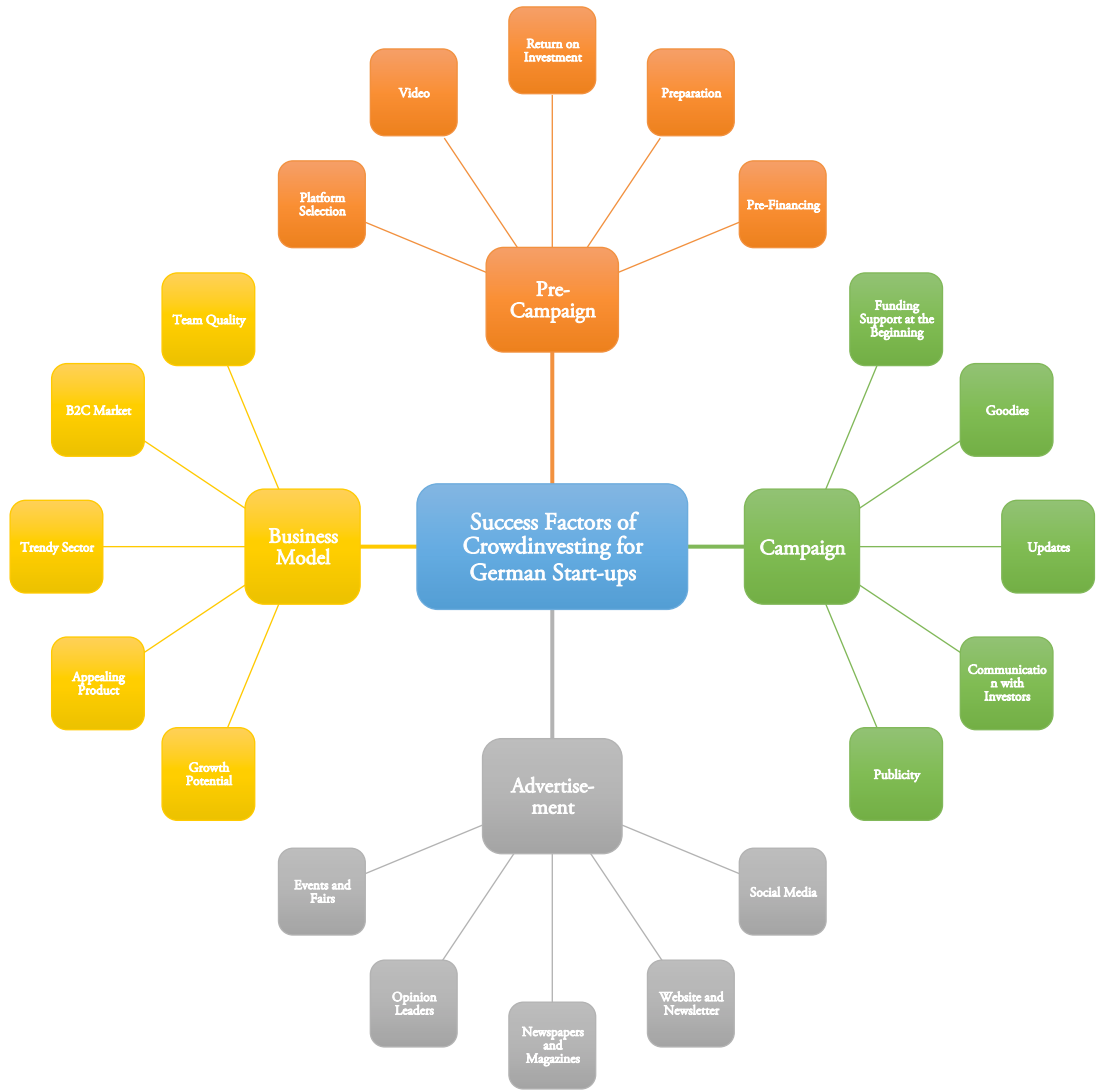
Source: Own illustration based on the results



C. Synthesis – The Crowdfunding Success Model

The following model (see fig. 3) summarizes the findings of the empirical section by combining the results obtained from the interviews with six start-ups and three crowdfunding platforms into one model.

Figure 3: Crowdfunding Success Model



Source: Own illustration based on the results

The *Crowdfunding Success Model* (CSM) is a support for German start-ups that plan to engage in crowdfunding and want to increase their funding potential. It provides an overview of over 20 important factors that have an influence on the campaign outcome, enabling entrepreneurs to successfully fund their ventures. Moreover, it makes a contribution to successful equity crowdfunding for German start-ups, a topic that has so far not been covered by scholarly research.

IV. Conclusion

We have focused on the identification of relevant attributes for successful crowdfunding in German start-ups. The interviews with six start-ups with crowdfunding experience and three crowdfunding platforms found that German entrepreneurs choose crowdfunding for two main reasons: capital collection and marketing effects. The first reason is the opportunity to collect capital for the start-up. This is in line with Belleflamme et al. (2013) who stated that entrepreneurs select crowdfunding primarily because of the financial benefit. Belleflamme et al. (2014) explained this behavior via the lower costs of capital for crowdfunding. The practical findings indicate that crowdfunding is actually in some cases the only adequate option for early stage ventures because the traditional capital sources do not provide adequate (or any) funding. Banks demand securities, and venture capital funds invest in a later company development stage. There is also an option for entrepreneurs to select between different types of crowdfunding. Reward crowdfunding, which is commonly used to support the product development, and crowdlending, which obliges start-ups to pay predetermined interest rates, can be particularly interesting options for start-ups (Hemer, 2011; Hornuf & Schwiabacher, 2015a). The empirical findings show that both alternatives to crowdfunding nevertheless have distinct disadvantages. Reward-based crowdfunding is not attractive for many start-ups because their product has already been developed or is not suitable as a reward. Crowdlending requires a fixed and relatively high payment of interest rates which is less suitable for a new or emerging company because it has to face various, partly challenging economic situations during the first years of its existence.

The interviews with the start-ups revealed that the sole additional reason for entrepreneurs to use crowdfunding is the marketing effect. All other factors mentioned by scholars and platforms, although solid arguments for crowdfunding, do not represent fundamental motivations for entrepreneurs to select it. Young companies want to raise awareness and gain new customers for their product through their advertising that accompanies a campaign as well as the attention they receive on the platform, typically with tens of thousands of members. This is a new finding in the

field of crowdfunding, and simultaneously confirms Belleflamme et al.'s (2013) finding based on all crowdfunding types, which indicates a high significance of the publicity effect. At the same time, it does not prove another outcome of the study. Crowdfunding entrepreneurs tend to have no interest in a larger feedback scale for a product or an enterprise. To summarize, start-ups use crowdfunding because they want to transform individuals into investors and customers.

The empirical findings can be separated into three aspects. First, there are several factors which show that the theoretical results for donation and reward-based crowdfunding are also valid for the success of German start-up crowdfunding. Colombo et al. (2015) discovered that large funding support at the beginning of the campaign is an indicator of a successful campaign. Also, B2C companies with an easily explainable, unique product or service can have a positive impact on the campaign (Agrawal et al., 2013). Colombo et al. (2015) further pointed out that the communication between investors and a start-up has a positive effect on the campaign. The three scientific results are confirmed by our qualitative interviews with the platforms and start-ups.

Second, results show that the existing findings on successful crowdfunding are also valid for German start-ups. The interviews with the crowdfunding platforms revealed that only about 5 to 10% of the applications are successful. Another finding is that the campaign video is an important element for motivating the investors to pledge capital to a campaign. This is in line with Crosetto and Regner (2014) and is opposed to the findings of other scholars who state that a promotional video has no positive impact on a campaign (Cordova et al., 2015; Frydrych et al., 2014). Moreover, platforms and investors consider team quality, which partly proves Ahlers et al.'s (2015) standpoint stating how entrepreneurs with a higher educational background have a greater chance of success. These results also confirm the results by Brem and Wassong (2014), who highlight the importance of the product itself as well as the personal relationship to the start-up.

Third, there are success factors that have so far been less frequently mentioned by the literature and consequently represent new findings. Entrepreneurs can increase their collected capital if they have an appealing business model with corresponding growth potential. This effect increases if the start-ups operate within an up-and-coming investment sector. Also, a promising growth potential impacts the return rate for the investors, which is a main incentive for them to fund a start-up (as already mentioned by Cholakova and Clarysse (2015)). A key element here is campaign preparation. Entrepreneurs should design a marketing strategy and develop a roadmap for the upcoming campaign period. Another new finding is the relevance of pre-financing.

Entrepreneurs are encouraged to activate their network, including family, friends, and fools, before the actual campaign begins. These persons act as pioneer investors; start-ups need them in order to collect a large amount of capital at the beginning of the campaign. The underlying reason for this is that a large amount of support at the start of the campaign has a signaling effect that additional investors will interpret as an incentive to invest if a large number of investors have demonstrated their faith in the campaign by investing prior to them. Finally, the qualitative research identified goodies as a success element. These are rewards to entrepreneurs who provide a certain amount of capital to the campaign. Start-ups can set different goodie levels with an increasing benefit to motivate investors to fund or increase their capital contribution. This idea is thereby related to reward-based crowdfunding. Kraus et al. (2016) identified three success types for this kind of reward-based crowdfunding: *communicator*, *networker*, and *self-runner*. The communicator focuses on the marketing aspects, while the networker mobilizes his personal and professional network. Finally, the self-runner relies on the value of the product and its fans backing it up. The rationale behind this classification is that not every start-up is excellent in all three areas, and hence has to find out where the team's focus should lie.

Many aspects of crowdfunding remain to be addressed by research. Future studies have the opportunity to build on the findings of this study in several ways. First, new research could test the qualitative findings quantitatively. More precisely, the developed theory of motivation and success factors can be confirmed or dismissed with additional research, which can be also adapted or even perfected when applying it. Different parameters can be varied such as company age, investor type, and geographic location. This study focused on German start-ups engaging in crowdfunding. Qualitative research could identify the motivations of mature German companies to participate in crowdfunding. Further, it is unclear whether the underlying reasons of start-ups and other companies to engage in crowdfunding are fulfilled by this. This study discovered reasons why entrepreneurs select crowdfunding. An interesting question is why some start-ups decide not to choose crowdfunding and select other funding sources instead. A study with German start-ups which have specifically decided not to use crowdfunding could help answer this question.

Researchers should focus on the reasons why start-ups select a certain crowdfunding type and the motivation behind this decision. Also, a structured comparison of different success factors is recommended. Our research has taken a first step in this direction by separating equity and non-equity crowdfunding success factors. However, many questions remain, particularly regarding what these differences are and what they are influenced by. Finally, the general knowledge on crowdfunding success factors for German start-ups can be enhanced, and this study has identified relevant

factors to achieve this. Still, it is unclear how strong the individual factors influencing success truly are. This would be important to know, because then entrepreneurs would be able to weigh the costs and benefits of applying a specific success factor. At the same time, analyzing the potential drawbacks of using a success factor should also be analyzed in future studies.

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APPENDIX A

Description of the interviewed companies and platforms:

Table 1: Start-up interview partners

Company	Interview partner	Position	Year of foundation	Platform	Collected capital	Campaign end date and success
Puzzles Living GmbH	Thomas Poddey	Chief Executive Officer	2013	Conda	€67,100	November 1 st , 2015
Pablo & Paul	Christoph Buchmann	Chief Executive Officer	2013	Companisto	€166,925	May 18 th , 2015
Start-up 3	Anonymous	Chief Executive Officer	Between 2012-2015	Companisto	More than €100,000	2015
MyCouchbox	Clemens Walter	Chief Operating Officer	2013	Companisto	€300,000	November 17 th , 2015
Food4Fans	Dr. Matthias Greaper	Chief Financial Officer	2012	Companisto	€315,640	July 17 th , 2015
Start-up 6	Anonymous	Co-Founder	2014	Innovestment	€135,000	2015
NS Start-up 7	Anonymous	Business Development Manager	2009	Conda		2015 Funding goal of €100,000 not reached
NS Start-up 8	Anonymous	Co-Founder	2013	FunderNation		2015 Funding goal of €100,000 not reached

Source: Own illustration based on the research

Table 2: Platform interview partners

Platform	Interview partner	Position	Foundation year	Overall collected capital	Successful campaigns	Unsuccessful campaigns
Platform 1	Anonymous	Head of Operations				
Investiere.ch	David Sidler	Head of Communications	2010	13 million euros	34	3-4
Conda	Paul Pöltner	Chief Executive Officer	2013	5 million euros	35	4-5

Source: Own illustration based on the research

Puzzles Living GmbH

Founded in 2013 during the entrepreneurs' university years, this company was established for actual operations two years later in 2015. The founders came up with the idea to produce flexible furniture which requires no tools for setup. This is achieved by a self-developed and patented magnet system integrated into the furniture. The company has two full-time and four part-time employees. Puzzles Living GmbH raised €67,100 on the German crowdfunding platform Conda in November 2015.

Pablo & Paul

This art trade start-up has been offering affordable art to customers online since 2013, supplemented by art sales in their store. The entrepreneurs operate as intermediaries between the artists and their customers. Pablo and Paul received €166,925 in funding from investors in March 2015 on Companisto, another German crowdfunding platform.

Start-up 3

This start-up requested that its data be used anonymously.

MyCouchbox

The entrepreneurs founded this start-up in 2014 with the idea of delivering surprise boxes full of snacks to customers. It has developed since then from a venture operating out of one of the founder's living rooms to a prosperous start-up. In

November 2015, MyCouchbox collected €300,000 from investors in its Companisto campaign.

Food4Fans

This company develops a variety of snack products which are branded with the logo and colours of German *Bundesliga* soccer clubs. The underlying idea is to target the fans of these clubs with specially designed bags of crisps, chocolate beans, salt sticks, and similar products sold by the food retail market. The soccer clubs profit from licencing agreements. The company additionally sells its products to other target groups such as fans of the band Rammstein, who can buy specially designed products created by Food4Fans. This 2012 founded start-up collected €315,640 from investors on Companisto in July 2015.

Start-ups 6, 7 and 8

These start-ups requested that their data be used anonymously.

Platform 1

This platform requested anonymity. It is one of the largest German crowdfundering platforms.

Investiere.ch

This is the largest crowdfundering platform in Switzerland which enables mainly Swiss companies to receive funding from its investors. German start-ups have even used this platform to collect capital. Founded in 2010, the platform has as part of 34 successful campaigns generated about 13 million euros in funding. Investiere.ch describes itself as an online business angle club because the minimum investment is 10,000 CHF, about €9,000 per investor. With this being the case, it does not target the general crowd, but wealthy crowd investors instead. Another special feature of this crowdfundering platform is how it always organizes the funding with a co-investor who contributes a part of the funding capital. This partner can be for example a business angle club or a venture capitalist. Overall, the website has some special characteristics which limit its generalizability, which is why its results are presented in a separate chapter.

Conda

This platform is Germany's third largest equity crowdfunding intermediate. It was established in 2013 and has collected over five million euros for start-ups and other enterprises in 35 successful campaigns. With its equity crowdfunding and crowdlending service, Conda is active in several European markets, including the German speaking realms of Germany, Austria, Switzerland, and Liechtenstein. Additionally, start-ups in Poland, Slovakia, and Slovenia can use Conda for their crowdfunding campaigns.