

# Crowdfunding of Entrepreneurial Projects in Sport

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## Abstract

Crowdfunding, as a specific e-business activity, changes the way in which entrepreneurs collect money for financing their business projects in various business activities starting from social entrepreneurship and software development towards entertainment industry. No business activity is an exception to this trend. Due to its potential to influence and change traditional financial flows and to change traditional principles of financial intermediations, crowdfunding has drawn attention of scientists and practitioners who are trying to explain what could be consequences, risks, development phases and future trends in this field. In this paper, we give a theoretical insight into definitions, development and types of crowdfunding activity in general in the context of entrepreneurial self-financing. Then, on the basis of the case study analysis method, we outline several good practices of self-financing sports projects in developed markets in for each type of crowdfunding.

**Keywords:** crowdfunding, e-business, self-financing, entrepreneurship, sport management, sport

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## Introduction

As a new form of investment, in last few years, crowdfunding interested an increasing number of initiatives and firms. Basically, in crowdfunding people pool their money together, in order to invest in and support efforts initiated by other people or organizations. The basic idea of crowdfunding phenomenon is to raise money through relatively small contributions from a large number of people (Bradford, 2012). Crowdfunding is the system to finance a project or a firm by a wide group of people instead of professional parties like banks or venture capitalists Rossi (2014). In contrast to traditional financing, crowdfunding don't require financial intermediary, but it relies on intensive use of Internet tools and services starting from a specialized crowdfunding platform towards social networks and social media.

In the last few years, crowdfunding is growing very fast. Actually, it is a phenomenon all over the world, but North America and Europe dominated this industry: they raise 59% and 35% of worldwide capital. In 2012 €1.23 billion of funding raised, came from North America and €727 million was raised in Europe. The share of the European market in terms of volume of money raised is dominated by the United Kingdom (63%), followed by Germany, Poland, France, Italy and Spain. Actually, there are about 500 crowdfunding platforms with some differences in the services provided. The leader of this sector is Kickstarter. Throughout this crowdfunding platform, since April 2009, over \$500 million has been assured by more than 3 million people, funding more than 35.000 creative projects. (Rossi, 2014).

However, being a new business and financial phenomenon, crowdfunding and its consequences for company and customers are not yet completely understood (Ordanini et al, 2009).

Therefore, in this paper, we will give a theoretical insight into crowdfunding phenomenon, and, then, we are going to outline some successful examples of crowdfunding of sport activities and projects. The aim of this paper is to bring attention to potential of crowdfunding as a possible source of sport financing.

## Theoretical insight into crowdfunding as a type of self-financing

Schwienbacher and Larralde (2012) define crowdfunding as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes."

Crowdfunding can be defined as a collective effort of many individuals who network and pool their resources online to support efforts initiated by other people or organizations (De Buysere et al., 2012). Individual projects and businesses are financed with small contributions from a large number of individuals, allowing innovators, entrepreneurs and business owners to utilise their social networks to raise capital.

According to Mollick (2014) crowdfunding refers to the efforts by entrepreneurial individuals and groups (cultural, social, and for-profit) to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the Internet, without standard financial intermediaries.

Also, it is alternative way of finance and exchange where those seeking funding and those looking to invest or donate can be matched. It is an alternative because crowdfunding enables the bypassing of intermediaries of traditional supply chain, while making funding processes more transparent and democratic (Ramos, 2014).

According to Kappel (2009), the principal industry interested to crowdfunding is the entertainment industry, but it is suitable for financing all types of business activities (book publishing, gaming, music, journalism, sports or agriculture).

Crowdfunding typically involves three participating stakeholders: (1) the project initiators who seek funding for their projects, (2) the backers who are willing to back a specific project, and (3) the matchmaking crowdfunding platforms acting as intermediaries. Assessing the intermediary crowdfunding platform, several distinctive characteristics can be found. They refer to the funding mechanism, the fundamental specialization of crowdfunding platform and the type support and/or return (Haas et al., 2014). In contrast to traditional financial intermediaries, crowdfunding platforms do not borrow nor pool nor lend money on their own account. They focus on the matching of project initiators and backers by providing information about the

projects and functionalities, e.g. for reducing the risks of the investment. Therefore, crowdfunding intermediaries provide particular **funding mechanisms**, such as pledge levels, minimum pledge amounts and the all-or nothing or keep-it-all principle (Mitra & Gilbert, 2014; Mollick, 2014; Walsh, 2014).

**Support and return type** are the most important and most obvious characteristic of crowdfunding platforms. The type of return is provided by the project initiator. In crowdfunding, project initiators offer a bandwidth of possible returns, reaching from altruistic returns to financial compensation (Gierczak et al., 2016). Serving the highly heterogeneous needs and requirements of project initiators and backers, crowdfunding platforms focus on specific niches and serve a particular segment of the crowdfunding market, therefore we can observe so-called hyperspecialization of crowdfunding platforms (Malone et al., 2011).

There are different business models or types of crowdfunding. Firstly, crowdfunding can be classified **considering the type of rewards offered to the participating crowd** (Crowdsourcing.org, 2013; De Buysere et al., 2012; Wardrop and Ziegler, 2016) as: (1) reward-based, (2) lending-based, (3) simple donations and (4) equity-based crowdfunding.

Secondly, according to Haas et al. (2014), based **on motivation of donors i.e. crowdfunding backers** there are three basic motivators or drivers of crowdfunding and crowdfunding campaigns differ according hedonistic, altruistic and "for profit" motives.

Finally, **according to project development phase**, Rossi (2014) divide crowdfunding into four types: (1) classic crowdfunding, when a project has no funds at disposal and it is yet to be born and developed, (2) partial crowdfunding, when a project has available part of funds, but it requires more money, (3) presale crowdfunding for projects that are near to be launched and that seek funds for market entrance support, (4) distribution crowdfunding for ongoing project in quest of new funds to be used for enlarging market reach.

In **a reward-based crowdfunding** funders receive a certain reward for backing an entrepreneurial project. For instance, reward can include being credited in a movie or book, having creative input into a product under development, or being given an opportunity to meet the creators of a project (De Buysere et al., 2012; Wardrop and Ziegler, 2016; Crowdsourcing organisation, 2013). Alternately, reward-based crowdfunding can treat funders as early customers, allowing them access to the products produced by funded projects at an earlier date, better price, or with some other special benefit. This is the case in entrepreneurial ventures such as projects producing novel software, hardware, or consumer products. But not necessarily limited to.

The **lending model of crowdfunding**, is one in which funds are offered as a loan, with the expectation of some rate of return on capital invested. In the case of micro financed loans, the lender may be more interested in the social good promoted by the venture than any return generated by the loan (De Buysere et al., 2012; Wardrop and Ziegler, 2016).

The **donations model of crowdfunding** is based on philanthropic values. Funders support project without any expectations for direct return for their donations (Wardrop and Ziegler, 2016; Crowdsourcing organisation, 2013). Actually, they voluntary support projects that serve to a common good or projects with high correlation with their set of moral values. Humanitarian projects and charity activities usually follow this model of crowdfunding. There are a bunch of artistic and sport activities which apply this model as well.

The equity-based crowdfunding offers an additional route to raise money for any firm. It is also called, the investment crowdfunding or crowdfunding because its purpose is to source money for a certain company by asking a large number of backers to invest a relatively small amount with it. In return, backers become part-owners of the company and receive a financial return on their investment as a share of the profits. In other words, the entrepreneur decides how much money he or she would like to raise in exchange for a percentage of equity and each crowdfunder receives a pro-rata share (usually ordinary shares) of the company depending on the fraction of the target amount they decide to commit. For example, if a start-up is trying to raise €50,000 in exchange for 20 percent of its equity and each crowdfunder provides €500 (1 percent of €50,000), the crowdfunder will receive 0.20 percent (1 percent of 20 percent) of the company's equity (Wilson & Testoni, 2014). This type of crowdfunding became a promising instrument to overcome a start-up's liquidity problems, known as the early-stage equity gap (Veugelers, 2011). In this case there is a high entrepreneurial risk involved (Leela, 2015). This risk is associated to information asymmetries and lack of publicly data. However, with the publication of all necessary project details, some of these risks can be mitigated (Rossi, 2014). Lambert and Schwenbacher (2012), in their empirical research, finds that more of one fifth of their sample of crowdfunding initiatives relies on donations. If we discuss the market structure of crowdfunding activities further we can observe that, 44% percent is done according to the reward based model, 27% are simple donations, 15% are lending-based and 14% are equity-based (Crowdsourcing.org, 2013).

Very different crowdfunding types are listed by Haas et al. (2014) who outline crowdfunding models by motivation of funders which can be: (1) Hedonism, (2) Altruism and (3) Profit. These types are further explained by Gierczak et al (2016).

Crowdfunding driven by **hedonistic value proposal** means that backer will finance innovative and creative projects and products (such as expensive, branded watches; designer bag creation or expensive movie production). In return, backers expect to receive a non-monetary return in form of preordered products or rewards. Funding mechanisms are quite rigid, in order to reduce the risk of underfinancing and in order to motivate backers to spend larger amounts of money (Gierczak et al., 2016). Crowdfunding platforms that are proposing hedonistic values, mostly apply the all-or-nothing principle and set minimum pledge amounts and pledge levels. Examples of crowdfunding platforms of this type are Kickstarter, Indiegogo, RocketHub, FundRazr and GoGetFunding.

For example, "Kickstarter is the largest rewards-based crowdfunding platform. According to the Kickstarter site, by the end of 2013: Donors had pledged \$928 million to projects on Kickstarter, 54,233 projects have been funded successfully, 5,4 million people have backed projects; 1,58 million people have backed more than 1 project and 12,8 million total pledges have been made" (Miller, 2017).

Crowdfunding driven by **altruistic values** focuses on charitable projects and donations are the basic form of support (Haas et al., 2014; Gierczak et al., 2016). Backers support projects of this kind for the „greater good“ or altruistic reasons and do not search for any kind of monetary value in return nor for any kind of benefit in form of products and services. Usually, crowdfunding platforms that support such projects by a keep-it-all principle and do not set minimum pledge amounts or pledge levels. Examples of platforms that function on altruistic driven model are Crowdrise, Kiva and DonorsChoose.

A crowdfunding type with **profit oriented value proposition** often focuses on the funding of start-ups, but also on the granting consumer credits (Haas et al., 2014). Therefore, backers are offered monetary returns, like interests or profit shares. The

value proposition aims at the profit orientation of backers. Crowdfunding platforms that support “for profit” orientation apply pledge levels as well as minimum pledge amounts and use the keep-it-all and all-or-nothing principle alternatively. Actually, this model represents peer-to-peer online landing model. Representative platform of this type are Prosper, Fundable, CircleUp and MicroVentures.

## Crowdfunding platforms and successful campaigns in sport

As outlined in the previous chapter, the various types of funding financed by crowdfunding have been profiled. Even though that previously are mentioned some typical web sites for such type of crowdfunding like Kickstarter, Indiegogo, RocketHub, FundRazr and GoGetFunding, during the time some specialized web sites have been developed. There are crowdfunding platforms focused exclusively on sport, such as crowdfunding sites for Athletes – Rallyme, DreamFuel, Pursu.it, SportFunder, MakeaChamp, Athlete.com. (Miller, 2016)

These sites through crowdfunding overcome many financial difficulties and many dreams had come true in variety of sports activities. For instance, Lacrosse Team USA seek funds through web site Rallyme to support training, travel and team responsibilities to compete in the Federation of International Lacrosse Women's World Cup and the International Olympic Committee regulated 2017 World Games, where lacrosse will be represented for the first time. Funds go through 'US Lacrosse', a U.S. nonprofit foundation (according to the web site: Rallyme. 2017).

In a **reward-based crowdfunding** funders receive a certain, no-monetary, reward for backing an entrepreneurial project. Backers expect in return a form of preordered products or services or some other kind of rewards. One of the successful crowdfunding campaigns in sport can be the Sochi example. „The Sochi 2014 Olympics put sports crowdfunding on the map. It was the first time in history that a significant number of athletes and even entire teams turned to crowdfunding to help fund their dreams. In return for backing sports endeavors, backers have the potential to receive a variety of rewards and the feeling that they've helped athletes along the path to success.“... „In return for a donation to an individual athlete or team, boosters (donors) typically receive some type of reward: from a mention on Twitter to a full-fledged sponsorship“ (Miller, 2016).

The **lending model of crowdfunding**, is one in which funds are offered as a loan, with the expectation of some rate of return on capital invested. This is a crowdfunding type with profit oriented value proposition. One numerous successful examples within this group is a project described as follows: “According to a recent report in the Financial Times, an investment crowdfunding offer by the Jockey Club in 2013 helped to finance a portion of the Cheltenham racecourse. *Turning fans into investors was a natural vehicle* to raise funds. Alternatively the Jockey Club launched a mini bond offer and raised £25 million – surpassing its target by about £10 million. The security offered a 4.75% interest rate but it also came with some perks. Investors benefited by a further 3% in “loyalty points” that could be used for discounts on food and tickets at the club's course”(Alois, 2015).

The **donations model of crowdfunding** is based on philanthropic values. This kind of crowdfunding is driven by **altruistic values**, so many sports clubs, athletes and sport associations take advantage of this fact. Seeking for money through “donations model of crowdfunding” for them is maybe the easiest way to collect necessary funds. Project “Kit it Out” is one of many examples. The project is aimed at collecting financial resources for building a necessary sports and social infrastructure,



to provide community social activities not only for FC Manchester United fans but for the whole community. New facility and function room at FC United of Manchester's new football ground becomes not just a place where FC United play games but also a place where, on open ground, wider community can seek to increase participation in sports, for education courses, for meetings or to organize volunteering and other activities. The project was overfunded - on May 2014 project was successfully raised £51,320 of £26,000 target with 679 supporters in 56 days (according to the web site: Kit-it-out, 2017).

## Conclusions

Traditional sources and destinations of sport financing are changing accordingly and more opportunities are available to sport managers and sport entrepreneurs throughout crowdfunding platforms. As a modern way of financing, crowdfunding proliferates as a significant finance source over past few years. All types of crowdfunding are used for financial sourcing in sports in developed markets. This paper outlined several examples of successful crowdfunding of sport activities. Based on given examples we can conclude that there is a bunch of examples of sport activities, events and infrastructure projects which are successfully supported through crowdfunding campaigns. Therefore, future research in this field should focus on several things: (1) development and efficiency of specialized crowdfunding platforms in sport, (2) monitoring and mapping of institutional framework of general crowdfunding, (3) investigation of potential of crowdfunding in specific markets and regions such as Central and Eastern Europe, (4) research on success factors of crowdfunding campaigns in sports and (5) correlation between success of the crowdfunding campaign and social media marketing.

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