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MASTER'S THESIS

**SLOVENIAN KICKSTARTER PROJECTS: AN ANALYSIS OF KEY  
SUCCESS FACTORS**

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## **LIST OF ABBREVIATIONS**

sl. – Slovene

**EBAN** – (sl. Evropsko združenje poslovnih angelov); European Business Angels Network

**OECD** – (sl. Organizacija za ekonomsko sodelovanje in razvoj); Organization for Economic Co-operation and Development

**JOBS** – (sl. akt o financiranju start-upov); the Jumpstart Our Business Startups Act

**SMEs** – (sl. mala in srednje velika podjetja); Small and medium-sized enterprises

**VCs** – (sl. tvegani kapitalisti); venture capitalists

## INTRODUCTION

In August 2009, the American Cable Television Network, ABC, started broadcasting a TV show called the “Shark Tank”. In the show, which is still running successfully today, entrepreneurs pitch their business ideas and search for venture capital support from real life investors, called “the sharks”, in return for a certain equity stake in their business. Between season one and the 18th episode of season eight, participating venture capitalists (hereinafter VCs) having invested more than 100 million USD (ABC, 2018). At the end of April, 2009, a crowdfunding platform called Kickstarter was launched. The platform enables entrepreneurs, artists, designers, movie producers and inventors to seek funds for their business projects. At August 2018, more than 3.8 billion USD had already been pledged by various crowds (“Stats,” n.d.). The comparison between the two phenomena may not be the most appropriate one, since VCs invest into a company and get equity in return. On the other hand, a typical backer on Kickstarter invests a small amount of money for a practical reward. Yet, the overall amount of money invested through both types of projects bears witness to the power of the crowd.

While the term crowdfunding is a relatively new term, crowdfunding behavior has been around in different forms for quite a long time. The last widely known use of crowdfunding, not for business purposes, happened when former US president, Barack Obama, offered people the possibility to support his 2008 presidential campaign by contributing small amounts of money online. In a relatively short time, he raised some 137 million USD. This was later copied by other politicians, as well. Schwiendbacher and Lambert (2010, p. 588) 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 purpose*”.

In the popular business press Slovenian entrepreneurs are often seen as a phenomenon when it comes to crowdfunding success. Relative to its peers, Slovenian entrepreneurs have been seen as more successful in acquiring funds for their projects on crowdfunding platforms, like Kickstarter. Since the first Slovenian Kickstarter campaign Kartuzija3D was launched in 2011, Slovenians have raised around seven million Euros on Kickstarter. Thus, two questions arise; are Slovenians more successful than others? And if yes, by how much?

This master's thesis examines crowdfunding as a viable business model for entrepreneurs, at the beginning of their business path and for others, who would like to seek funds for their project and run a successful Kickstarter campaign. Crowdfunding provides a possibility for small companies and start-ups to also test their product (ideas) in the market (Belleflamme, Omrani & Peitz, 2015). Furthermore, it is a great way of advertising and branding new products in the market (Schwiendbacher & Larralde, 2010). In addition, Kickstarter gives entrepreneurs access to the community which could be transformed into loyal customers (Voelker & McGlashan, 2013). My research is based on exploring which of the factors are associated with successful fundraising and what are the most important one.

**The purpose** of this master's thesis is to explore crowdfunding as an option for financing risky entrepreneurial projects in the context of Slovenian entrepreneurs. In doing so, I want to provide insight into crowdfunding in terms of project management; more precisely insight into the crowdfunding platform called Kickstarter. Many Kickstarter campaigns can succeed if the founders consider all factors and activities necessary for success before they launch a

campaign. I also want to specifically emphasize what these activities (factors) are and how they affect the final result of Kickstarter project; by doing I aim to help future project managers or founders with their Kickstarter projects. **The main goal** of this master's thesis is to analyze the factors that determine the chances of success of Slovenian projects on Kickstarter and identify which of them are the most important. In addition to this, I present a review of existing studies on reward-based crowdfunding and compare the results holding for Slovenian projects with other findings.

To achieve the objectives of this thesis, I try to answer the following key research questions:

[R1]: What is the average success rate for Slovenian projects between 2011 and the end of 2017 and how does it compare to overall success rate of projects on Kickstarter?

[R2]: What is the effect of various factors on success of Slovenian projects on Kickstarter?

[R3]: What are the most important success factors for Slovenian projects on Kickstarter?

The research question will be analysed through different quantitative research methods (logistic regression and Random forest algorithm). The study is based on the collection of secondary data. The source used for basic information about Kickstarter projects was Berce's (2017) spreadsheet and the Kickstarter website. Financial information was gathered on kicktraq.com and social with help of the Chrome extension Buzzsumo.

I have divided my master's thesis into a theoretical and empirical part. In the first chapter, I provide a comprehensive literature review of studied concepts around crowdfunding. I start with defining crowdsourcing and overview its different types. In addition, I explore the history of crowdfunding worldwide as well as in Slovenia. I also look at the development of crowdfunding in Slovenia and try to answer what makes this business practice so promising. Further, I present three well-known crowdfunding platforms, namely: Kickstarter, IndeGoGo and Patreon. I further describe different types of crowdsourcing and emphasize the differences among them. Furthermore, I introduce what are possible alternatives to crowdfunding and briefly describe them. At the end of the first chapter, I present advantages and disadvantages of crowdfunding.

In chapter two, I focus on the Kickstarter platform and describe how it works, who uses it and what are its advantages compared to other platforms. I analyse the Kickstarter community, which is one of the biggest advantages of Kickstarter. Furthermore, I examine the history of Kickstarter and present successful projects in terms of frequency and success rates. Kickstarter has 15 different categories and the success rate differs significantly among them. Furthermore, I overview and present specific components that every campaign contains or should have.

In chapter three, I analyse selected Slovenian projects on Kickstarter, which were launched between 2011 and the end of 2017. In these six years, there were, in total, 163 different projects in 13 categories. I briefly describe the success rates of the projects, present how much money they raised and how many backers in total backed Slovenian projects. I describe the Slovenian crowdfunding environment community and institutions, where Slovenian entrepreneur should turn for advice.

An empirical study of crowdfunding in Slovenia follows in chapter four. It starts with research design, then I present applied methodologies and data. To answer my research questions, I use logistic regression and the Random forest algorithm. Next, I present my research findings in the results section.



In chapter five, I interpret the results of my findings and compare them with other studies. I describe the limitations of my study and list recommendations for further research. I end my master thesis with a short conclusion.

# 1 CROWDFUNDING

## 1.1 Definition of crowdfunding

To explore the development of crowdfunding, we need to first peer into a broader antecedent concept: *crowdsourcing*. The term was firstly mentioned by Jeff Howe (2006) in his article “The rise of crowdsourcing” in The Wire magazine. For Kleemann, Voß and Rieder (2008, p. 6) “*crowdsourcing takes place when a profit-oriented firm outsources specific tasks essential for the making or sale of its product to the general public (the crowd) in the form of an open call over the internet, with the intention of animating individuals to make a (voluntary) contribution to the firm’s production process for free or for significantly less than that contribution is worth to the firm*”.

Howe (2008) sees crowdsourcing as a category of approaches with four different possible contributions from the crowd, namely; (1) knowledge or crowd wisdom, (2) using the crowd to shift through ideas and vote, (3) collecting information about consumers’ needs and (4) finally collective financial resources, to which we refer as crowdfunding. Crowdfunding emerged because new firms face difficulties in attracting external finance during their initial stages of business operations. This happens due to a lack of track record or unproven (business/product) concepts – be it through equity or bank loans (Cosh, Cumming & Hughes, 2009). Consequently, many entrepreneurial ventures remain unfunded and have to find other ways to start their business (Chen, Yao & Kotha, 2009).

Consider the following situation: an entrepreneur would like to start their own business, they have an idea and they developed it into a prototype or even a product that they would like to sell, but they don’t have the resources to produce the products for mass consumption. The entrepreneurs only have a few options. Firstly, they can go to the bank and ask for a loan, but without collateral he/she most likely won’t get it. The second option is to look for venture capital support, but without an existing revenue stream and knowing that there is a demand, this is also highly unlikely to succeed. The third option is to invest one’s own money and money from friends and family. However, the risks are high and involving friends and family to such an extent in business might not be the best idea. So, what can one do? Crowdfunding is a tool which helps entrepreneurs to find out if there is a need for their product and if customers would be willing to pay for it. It is also a great marketing and pre-ordering tool.

Belleflamme, Lambert and Schwienbacher (2013) claim that crowdfunding helps entrepreneurs adopt new approaches of undertaking entrepreneurial projects, managing ventures or more actively involves the crowd (who takes on the role of active consumer, investor, or both). This in turn leads to new forms of business. Lambert and Schwienbacher (2010, p. 588) 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 of reward and/or voting rights in order to support initiatives for specific purposes*”. Belleflamme, Lambert and Schwienbacher (2013) offer an expanded definition of Kleemann, Voß and Rieder (2008, p. 6) by saying that:” *Crowdfunding involves an open call, mostly through the Internet, for the provision of financial resources either in the form*

*of donation or in exchange for the future product or some form of reward to support initiatives for purposes.”*

However, for Mollick (2014), even this expanded definition leaves out examples that scholars labelled as crowdfunding, such as peer-to-peer lending and crowdfunding based on royalties. Thus, Mollick (2014, p. 2) defines it as: “*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*”. His definition, while narrow, provides specificity while allowing room for the continued evolution of the concept. In his definition, he didn’t address the other aspects of the Schwienbacher and Larralde’s (2010) definition, namely the goal of the crowdfunding effort and the goal of the investor. For them both goals are of great importance. However, they are also the subject of the most variation. By not including the goals in his definition, Mollick (2014) describes the ongoing development of crowdfunding, rather than limiting what the goals of founder and funder are.

For Belleflamme, Lambert and Schwienbacher (2013) the object of crowdfunding is not to collect funds for investment from a small group of sophisticated investors. Instead, crowdfunding helps firms obtain money from large audiences in which each individual provides a relatively small amount. In a crowdfunding relationship, individuals may approach the project as founders or as funders. The founders are entrepreneurial individuals who try to get their ventures funded; while funders are the crowd which consists of a relatively large number of individuals who are willing to invest relatively small contributions. For Mollick (2014), the goals of founders are: (1) to raise a relatively small amount of capital, (2) to initiate one-time project, and (3) to demonstrate demand for a purpose of product and for a marketing purpose, creating interest in new projects in the early stages of development.

On the other hand, the goals of the funders depend on the type of crowdfunding model employed. In a ‘patronage model’, typical of art and humanitarian projects, the founders assume the role of philanthropists, expecting no direct return for their donations, yet engaging in support for societal benefit and acknowledgement. The second model is the lending model, where the funds are offered as a loan. The third approach is commonly called reward-based crowdfunding. In this model, funders receive a reward in return for their investment. Funders are treated as early consumers. By funding a project, they first receive the product, a better price or another special benefit. Finally, after the passing of the Jumpstart Our Business Startups Act (hereinafter JOBS) in US Congress in April 2012, crowdfunding efforts may also treat funders as investors, giving them equity stakes or similar consideration in return for their funding (Mollick, 2014, p. 3). Crowdfunding is most often associated with community-based experiences generating different types of “community benefits” for participants which vary with the form of crowdfunding (Belleflamme et al., 2013).

## **1.2 History of crowdfunding**

The concept of crowdfunding originates from a broader concept of crowdsourcing, which itself refers to using the crowd to obtain solutions, ideas, feedback (Howe, 2008, p. 5). The Web 2.0 has significant importance for both concepts, namely crowdsourcing and crowdfunding. The Internet era started in the 1990s with hypertext transfer protocol and the first commercial browser, Netscape. The Web soon became a new channel where people

could interact with each other for personal as well as business purposes and, from it, emerged to today's online communities, virtual reality and more. In many ways, online platforms may help people overcome offline frictions which inhibit market transactions (Agrawal, Catalini & Goldfarb, 2011).

One of the earliest crowdfunding projects emerged without platforms or other intermediaries. Individuals announced the intent to collect funds through their website. A United States based company called ArtistShare is documented as being the first crowdfunding website in history. According to ArtistShare founder, Brian Camelio, the website was conceived and developed in the fall of 2000. ArtistShare's first crowdfunding project was Maria Schneider's jazz album "Concert in a Garden" in 2003. With the help of crowdfunding, she raised about 130,000 USD and later won a 2005 Grammy Award for the best large jazz ensemble album (Freedman & Nutting, 2015).

In 2005, the first loan-based crowdfunding platform was launched. Kiva was the first micro lending website and it gave individuals the ability to lend small amounts of money to entrepreneurs in poor areas. Kiva is unique, as lenders are given pictures and profiles for each loan, and individuals can see to whom they are lending the money (Clark, 2011). The total amount lent through Kiva is 1.2 billion USD and the overall Kiva rate of return is 97% (<https://www.kiva.org/>).

Thanks to success of crowdfunding, more crowdfunding platforms were launched. One of these was called Sellaband. While ArtistShare was a donation, reward-based platform, Sellaband used a different model, which was similar to today's royalty-based crowdfunding platforms. Sellaband was launched in August 2006. It was an Amsterdam based online platform, that enabled unsigned musicians to raise funds. It was one of the first mainstream platforms for raising funds and it has been referred to as the "grandfather of crowdfunding" (Kappel, 2009). Within the platform, musical artists set up a profile page at no charge. They include a photo, links, blog posting and up to three demo songs. Investors search the platform and buy one or more shares in artist's future album at 10 USD per share. An artist has to sell 5,000 shares and raise 50,000 USD and additionally spend the money according to the plan he/she sent to the Sellaband upfront. After the album is completed, the revenue is split equally three ways between the artist, investor and the platform (Agrawal et al., 2011, p. 5).

The most prominent rewards-based crowdfunding platforms, which were launched after ArtistShare and Sellaband were IndieGoGo and Kickstarter. The first one was launched in 2008 and Kickstarter was launched in 2009. In addition to the arts (music, film and video, photography, fine art, comics, dance, design, fashion), they also offered entrepreneurial products and small business in food, sports, gaming industry, publishing and technology. After those crowdfunding platforms emerged, the attempt from individuals to run crowdfunding campaigns on their own decreased. One of the most successful Kickstarter campaigns was the Pebble smart watch in 2012. A group of entrepreneurs from Palo Alto, California created a digital wristwatch that runs various sports and fitness apps. They sought 100,000 USD and at the end of the campaign raised 10,266,845 USD from 68,929 backers.

In 2015, they launched another campaign Pebble Time and raised 20,338,986 USD, which is the most funded campaign on Kickstarter to date (Freedman & Nutting, 2015). From these examples, it is evident that crowdfunding developed fast and in many different forms. For Belleflamme, Lambert and Schwiendbacher (2013), crowdfunding is important, especially considering the rapid expansion of crowdfunding initiatives in recent years.

### **1.3 History of crowdfunding in Slovenia**

The first Slovenian crowdfunding campaign on Kickstarter was the project Kartuzija3D, an architecturally accurate virtual re-creation of the medieval Carthusian monastery in Slovenia. They started the campaign in September 2011 and sought 8,400 USD. It was backed by 25 supporters, but didn't reach the pledge goal and the campaign ended in November 2011 having only received 903 USD. In this regard, the project could be deemed as a failure. Next year, Slovenian entrepreneurs were more successful on Kickstarter. In 2012 Slovenians ended five projects on Kickstarter, four of them ended up being successful. Together, the four projects raised almost 80,000 USD and were backed by 782 backers. Boomerang all-in-one iPad mount and stand was the most successful in raising funds of more than 50,000 USD and was backed by 516 backers.

In 2013 Slovenian founders ended 14 campaigns. One of the many successful projects launched in 2013 by Slovenians was a pinhole camera called Ondu. The campaign ended in June and successfully raised more than 100,000 USD from more than a thousand backers. FlyKly was the first Slovenian campaign run with an American PR agency and to this day, they are still the campaign with the highest pledged goal, raising 701,239 USD. In 2014 Slovenians ended 19 campaigns on Kickstarter. One of successful stories was Kefirko, a traditional fermented beverage, in 30 days they received 52,694 USD by 1,137 backers and exceed their goal by 76%. The campaign which exceeded their goal for far the most percentage was launched that year. ZenEgg, a wooden stress reliever in a shape of a wooden egg collected 111,144 USD in 42 days from 2,966 backers and exceed their goal for 5,062%. The most funded campaign which started in 2014 was Goat Mug, a horn-shaped coffee mug, they raised 458,071 EUR from more than 10 thousand backers, which is still the record number of backers of Slovenian project till this day.

The year 2015 was the most successful year for Slovenian founders in terms of money raised and in number of successful projects (57). The most successful campaign that year was Smart Ped – FlyKly. With his team, the founder, Nik Klanšek, raised 385,467 EUR from 428 backers and once again succeed on Kickstarter. Other very successful campaigns were Lumo Power, Less, Scoutee, SipSup and more. In 2016, 32 Slovenian projects ended on Kickstarter. 13 of them were successful. The most successful project that year was project MAG-LEV Audio | The First Levitating Turntable, they demanded 300,000 USD and at the end managed to raise 552,178 USD. That year Goat Mug founder, Anže Miklavec, was back on Kickstarter with his new project GINA: Smart coffee instrument by GOAT STORY, he raised around half a million USD. A further 35 Slovenian projects ended in 2017, of which 10 were successful. With success rate of 28.57%, the year 2017 was the worst year for Slovenian founders in terms of success rate, if 2011 is not taken into account, where only one project was launched.

In the Table 1 I compare year to year results. Between 2011 and the end of 2017 Slovenian founders launched 163 projects and raised 7,031,733.66 USD. In that period 66 projects were

successful. The success rate of Slovenian creators is 40.49% which is around five percent points above Kickstarter's average success rate (36.17%).

*Table 1: Statistics about Slovenian projects on Kickstarter from 2011 to 2017*

<b>Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Nr. of projects	1	5	14	19	57	32	35
Nr. of successful projects	0	4	8	6	25	13	10
Success rate	0%	80%	57.14%	31.58%	43.86%	40.63%	28.57%
Total project goal (in USD)	8,400	65,500	428,200	644,000	1,647,152	892,615	954,910
Total funds raised (in USD)	903	79,349	1,675,365	254,932	2,256,411	1,644,903	1,121,150
Total nr. of backers	25	782	14,602	3625	24,276	9,104	18,180

*Source: Own work.*

As a project can start and end in different years; I decided to group projects based on the year in which they ended. Because the majority (132) of projects raised their funds in USD I present all data in USD. For the projects which raised their funds in other currencies I converted them to USD, based on official exchange rate on 2.2.2018 (Valute.si).

#### **1.4 Types of crowdfunding**

Crowdfunding comes in a variety of fundraising forms and types of activities, depending on what is being offered in return for the pledged funds (Belleflamme et al., 2015). This attracts different types of participants. Belleflamme, Omrani and Peitz (2015) distinguish between (1) reward-based, (2) investment based and (3) donation-based crowdfunding platforms. For Mollick (2014), different types of crowdfunding emerge relative to how entrepreneurs see their funders. For example, backers who support art or humanitarian projects are usually patrons or philanthropists, who expect nothing in return. Other supporters are early customers who back a project in order to receive better price, early delivery or some other benefit. Finally, as legalized by the JOBS Act although some funders act as investors and support projects in order to gain equity share in a company. Regardless of the similarity between different types of crowdfunding in most literatures the researchers divided crowdfunding into five types, namely: (1) equity-, (2) credit-, (3) reward-, (4) royalty- and (5) donation-based crowdfunding. However, at times, they distinguish only between four (equity-based and royalty-based being combined).

In 2014, according to the Massolution report (2015), lending-based crowdfunding dominated the global crowdfunding industry with 68.4% (11.08 billion USD) of the total amount collected by crowdfunding and by 223% growth compared to the previous year. Founders who used donation- and reward-based model collected 3.26 billion USD and grew by 45% (donation-based) and 84% respectively (reward-based) in comparison with the previous year. Equity-based crowdfunding grew by 182% to 1.1 billion USD and royalty-based crowdfunding grew for 336% to 273 million USD in 2014. In 2015 the total global crowdfunding industry had an estimated fundraising volume of 34 billion USD. Lending based crowdfunding still dominates the industry with 25 billion USD. Donation, reward and equity crowdfunding have similar total funding volume, all at around 2.5 billion USD. in

2015, the lowest amounts have been raised from royalty based crowdfunding as total funding volume was 405 million USD.

The five main types of crowdfunding are categorized according to what investors receive in return for their contribution. However, the degree of information asymmetry between investors and fundraisers and the legal complexity differ significantly, depending on the type of crowdfunding. The most regulated are the equity-based and royal-based crowdfunding. On the other hand, donation-based crowdfunding, where funders donate to the cause they want to support and expect nothing in return, is the least regulated (Ahlers, Cumming & Gunther, 2015, p. 6).

In the next subchapter, I look into each type of crowdfunding and compare the similarities and differences among them.

#### 1.4.1 Equity-based crowdfunding

For Ahlers, Cumming and Gunther (2015, p. 6) equity crowdfunding is: *“a method of financing whereby an entrepreneur sells equity or equity-like shares in a company to a group of (small) investors through an open call for funding on Internet-based platforms”*. Equity-based crowdfunding treats funders as investors, giving them equity stakes or similar power in return for their funding. Equity-based crowdfunding was legalized in the US by the JOBS Act, passed in April 2012. However, is still relatively rare worldwide. According to the Massolution industry report, in 2013 equity-based crowdfunding made up less than 5% of all crowdfunding investment (Mollick, 2014). However, since 2012, when JOBS Act was passed, the fundraising amount invested in equity projects double every year. In 2015 the estimated volume of equity crowdfunding was 2.5 billion USD (Massolution, 2015).

Equity-based crowdfunding provides the largest amount of funds raised on a-per project basis. 21% of the funds raised by that type of crowdfunding were raised for projects that seek 250,000 USD or more, and only 6% of funds were raised for projects seeking less than 10,000 USD. It typically took eight to 12 months for an entrepreneur to find angels investors who were interested in the offer and to negotiate a deal, but on equity-based crowdfunding platforms the time can be measured in weeks, or sometimes in days so equity-based crowdfunding can be a viable alternative to traditional funding for raising capital to fund small business or start-ups (Massolution, 2013).

Equity crowdfunding is subject to various regulatory issues and is substantially influenced by the legislative environment of a given country. Until 2013, when the JOBS Act went into effect, U.K., France, Ireland, the Netherland, Switzerland and Australia were the only OECD countries in which equity crowdfunding was allowed (Ahlers et al., 2015, p. 8). In the US, the first equity offering platforms emerged around 2011 and were governed by Regulation D of the Securities Act of 1933. Regulation D platforms allow issuers to raise an unlimited amount of capital in each offering, but securities can be offered only to accredited investors, not to the crowd (Freedman & Nutting, 2015).

Before the JOBS Act in 2012, issuers could not advertise their offerings or generally solicit investors because of Rule 506 in Securities Act of 1933. After the JOBS act, based on Title II the Rule 506 was split into two parts. Rule 506(b) allows an unlimited number of accredited investors and up to 35-non-accredited investors to participate in each offering, but maintains the prohibition on general solicitation, which means that issuer can't announce and advertise many details of a securities offering to the public, including the amount being raised, price per share, percent of equity and other details of a securities. Rule 506(c) limits

an offering to accredited investors only, but lifts the ban on general solicitation. It also requires issuers of securities to verify each investor's accredited status (Freedman & Nutting, 2015).

In September 2013, Title II went into effect. After that, some Regulation D platforms chose to make 506(c) offerings and permitted their issuers to engage in general solicitation, but others stick with Regulation D. One disadvantage in Rule 506(c) is that investors need to submit documentations, for example a confirmation letter from a lawyer, banker or financial advisor to verify their accredited status, as a result, some investors might be spooked away. Some platforms continued with the Rule 506(b), quiet deal structure, which still let their investors "one click certify" but they must obey subscribed limitations (limited non-accredited investors to participate in each offering and prohibition on general solicitation). Example platform for Rule 506(b) is MicroVentures and for Rule 506(c) is CircleUp (Freedman & Nutting, 2015).

An exemplar for equity-based crowdfunding in Europe is UK-based Crowdcube. It claims to have funded more than 720 campaigns with a total volume of 489 million GBP and to have attracted more than 565,000 members (as of August 5, 2018). If a campaign is successful it charges 5% plus VAT on the total raised funds, like most of other crowdfunding platforms and if not, all funds are refunded back to investors. On top of that, Crowdcube charges a legal and administrative fee of 1,750 GBP plus VAT and a 0.5% processing fee (Belleflamme et al., 2015, p. 13).

#### 1.4.2 Credit-based crowdfunding

Also known as the "lending model", this is the model where the funds are offered as a loan by investors with the expectation of some rate of return on capital invested. For Mollick (2014), this is like microloan, where funders offer the founders loans in exchange of a return on their investments. The lending model bypasses traditional banks and lets funders decide for themselves if the particular project should be funded or not. The lending platform usually assigns a credit grade for each campaign, depending on different risk factors, so the platform can also be seen as a sort of credit-rating mechanism (Belleflamme et al., 2015).

Kiva was founded in 2005 and was one of the first credit-based crowdfunding platforms. It has around 1.6 million lenders which have lent more than 981 million USD with repayment rate of 97%. It works on a five continents and provides loans to people without access to traditional banking systems (<https://www.kiva.org/>). There are also other lending platforms out there for example: Lending Club is according to crowdcru.com the biggest lending page. As of August 5, 2018 they had lent almost 35 billion USD. Prosper is listed as the second largest, having 13 billion USD borrowed. There are many others. Overall, equity-based crowdfunding dominates the crowdfunding industry with 11.08 billion USD raised in 2014 and claims 68.4% of the total amount collected by crowdfunding (Massolution, 2015).

#### 1.4.3 Reward-based crowdfunding

Reward-based crowdfunding is the most commonly known and prevalent model of crowdfunding today. In this approach, founders list their project on reward-based platforms and funders that back the project receive a reward (Mollick, 2014, p. 3). Belleflamme, Lambert and Schwiendbacher (2013) claim that the reward based model is basically a pre-ordering model which enables the entrepreneur to discriminate on price between

crowdfunders and other customers. Moreover, entrepreneurs are forced to distort the pricing scheme to attract more pre-orders than what is otherwise optimal, especially when the amount of capital needed is large. Because of the distortion in the price discrimination the profitability of the crowdfunding campaign could decrease significantly if it became excessive.

This model can also be used as a screening device that induces consumers to reveal their willingness to pay for the product. Consumers are willing to pay a higher price when the product is on the market, so the preordering model could be used to price discriminate between the first and second group of buyers (Belleflamme et al., 2013). Reward-based crowdfunding treats funders as early customers, offering them the product at an earlier date, better price, or with some other special benefit. The pre-selling model is a common feature of those projects that more traditionally resemble entrepreneurial ventures, for example producing novel hardware, software or consumer products (Mollick, 2014, p. 3).

One of the main differences of reward-based crowdfunding relative to other types, except donations is that funders are not primarily interested in financial return and mainly play the role of so-called “prosumers” (producers and consumers). The platforms allow the founders to offer the product to a group of buyers and they pre-purchase the product. This reduces the risk of losses from the viewpoint of the founder, but increases the risk on the funders’ side, because there is no guarantee that the product will satisfy their needs (Belleflamme et al., 2013). Reward-based crowdfunding could be a predictor of future demands and therefore serve as a signal for future funding rounds, through more traditional channels, such as venture capital or bank loan. Fundraisers could act as ambassadors of the product, by posting on Facebook, Twitter, LinkedIn or other channels about the product and by doing that they could receive additional rewards in exchange (Belleflamme et al., 2015, p. 14). Gerber and Hul (2012, p. 14) suggest that there are different types of motivation why supporters participate in reward-based crowdfunding, despite the risks. Backers can be motivated by the reward they receive, by helping others, being part of a community or because they support the cause of the campaign.

The basis for the Kickstarter campaign is a project, which is a finite amount of work having a clear goal listed on the Kickstarter web-site. The funding goal is the amount of money that a creator needs to complete a project. Because Kickstarter follows an all-or-nothing approach they encourage founders to select their funding goal wisely. A creator is a person or a team who is behind the idea and would like to bring it to life. Backers are people who like the project and are willing to pledge money in order to bring the idea to life. Rewards are material or moral giveaway from creator to backers and a creator’s chance to encourage backers to back their project and the opportunity to share their project with their backer community (“Getting started,” n.d.).

The most successful crowdfunding project in terms of total funds on a reward-based platform is Pebble Time. The campaign was launched on February in 2015 and was the second project of Pebble Technology team. The project managed to raise 20,338,986 USD from 78,471 backers and beat their previous project by more than 10 million USD. The largest reward-based crowdfunding platform is Kickstarter which was launched in April, 2009. Till today projects on Kickstarter platform raised more than three billion USD by more than 15 million backers. The company’s stated mission is to help bring creative projects to life. Till August 5, 2018 they hosted 412,385 projects of which 148,364 were successful (“Stats,” n.d.). Kickstarter’s biggest competition right now is Indiegogo. It is active in 226 countries whereas for Kickstarter, you have to have a registered address in one of the 22 countries in



which they operate in to launch a project. Reward-based crowdfunding continues to grow. In 2014, they reached a total worldwide funding volume of 1.33 billion USD and recorded 84% annual growth. In 2015 worldwide funding volume of reward-based crowdfunding doubled to 2.68 billion USD (Massolution, 2015).

#### 1.4.4 Royalty-based crowdfunding

Some authors classify royalty-based crowdfunding as an equity-based crowdfunding, as in both cases funders act as investors and they must bear the financial risks, if the project does not develop (Belleflamme et al., 2015). However, royalty-based crowdfunding is the newest model to invest in a campaign in order to receive a share of future revenue. Crowdfunders invest in a project owners and receive a share of revenue earned in return for their investment (Massolution, 2013). Belleflamme, Lambert and Schwienbacher (2013) claim that crowdfunding based on profit sharing becomes more beneficial with larger amounts, because it is likely that the entrepreneur won't give up a large percent of profit. With large amounts, however, they would attract more individuals to participate in the financing with little effect on his or her share. In that case, the entrepreneur solicits individuals to provide money in exchange for a share of the profit.

This type of crowdfunding is still evolving and, in some countries, could be strictly regulated. As a result, there are only few platforms. One of the biggest is Quirky. Quirky believe that the best ideas in the world aren't actually in the world, but they are locked in people's heads and that they exist to solve this problem. They have more than million community members and have developed 150 projects (<https://quirky.com/>). According to the Massolution report (2015), royalty based crowdfunding grew by 336% to 273 million USD in 2014, which places it in the last place among the other types; but it has the highest growth annually and we could expect future grow. In 2015, the total volume of funds raised by royalty based crowdfunding was 405 million USD (Massolution, 2015).

#### 1.4.5 Donation-based crowdfunding

Charitable organizations started collecting money or other contribution long before web-based crowdfunding emerged. A donation may take various forms, for example; money, new or used clothes, humanitarian aid items and services, such as medical care or development aid support. Donation-based crowdfunding platforms mostly allow monetary support, followed by a patronage model, and placing funders as philanthropists (Mollick, 2013, p. 3). The role of donation crowdfunding platform is to support humanitarian and artistic projects, but the donors are not limited only by those areas. The campaign relies on voluntary contributions and the fundraisers do not offer monetary returns. Donation-based crowdfunding is similar to traditional campaigns by charities and non-governmental organizations, which ask for contribution to a cause (Belleflamme et al., 2015, p. 14). Belleflamme, Lambert and Schwienbacher (2013) claims that donors expect to become future consumers. If the community benefits are large, they may not only support a project by donating money so the entrepreneur can carry the project forward, but they will support the product during its lifetime.

The biggest donation-based crowdfunding platform is GoFundMe. Based in San Diego and Menlo Park, the platform was launched on May 10, 2010 and has quickly become the largest site for personal causes and life-events. In the past year millions of people raised over three billion USD and four million USD is raised every day. The campaigns don't have deadlines or goal limits. It's free to create and share the campaign, but the platform will take 5% fee

from each donation and 3% of the processing fee (<https://www.gofundme.com/>). According to the Massolution report (2015), donation based crowdfunding grew by 45% to 2.85 billion USD in 2015.

In the next subchapter I present an overview of most known crowdfunding platforms.

## 1.5 Overview of crowdfunding platforms

Kickstarter is not the only crowdfunding platform There are also others. Some are very similar to Kickstarter, while others use a slightly different approach. In this chapter, I present and compare Kickstarter, IndieGoGo and Patreon.

### 1.5.1 Kickstarter

When it comes to reward-based crowd-funding, Kickstarter is the largest crowdfunding platform by size and project number. Kickstarter was launched in April 2009 as a platform supporting the creative arts, but in the next few years broadened their pool of supporting activities. Today the ‘Project categories’ list includes 15. Categories are further divided into various sub-categories; in total there are more than 100 sub-categories within which you can launch the project. Kickstarter doesn’t allow projects to fundraise personal financial incentives or charity projects. Since their launch, on April 28, 2009, more than 15 million people have backed the project. Around 3.8 billion US dollars has been pledged and more than 148,300 projects have been successfully funded (“Stats,” n.d.).

Kickstarter’s mission is to help bring creative projects to life and by doing so: *“help artists, musicians, filmmakers, designers, and other creators find the resources and support they need to make their ideas a reality. To date, tens of thousands of creative projects — big and small — have come to life with the support of the Kickstarter community.”* (“Getting started,” n.d.). In 2015, they became a Benefit Corporation, which means they are obliged to consider the impact of their decisions on society and not only on shareholders.

Kickstarter uses an all-or-nothing approach which means that the founders must collect at least the amount of funds that they requested for their campaign to become successful. If they can’t manage that, all backers get an automatic refund, and the project is not successful. Kickstarter claims that this approach reduces risks and motivates founders to spread the word about their project. It also forces them to promote their project during the campaign. A project can raise more funds than its intended goal. The project stays live on Kickstarter until their funding deadlines, so it’s entirely possible that project collects more than its goal. Even more, Kickstarter allows so-called stretched goals, which means that the founder can set a new goal and add some new rewards or upgrade the product if the stretch goal is met. Stretched goals are not under the all-or-nothing rule, so even if the project doesn’t collect the amount of money they set with a new stretched goal, the founder still receives all the previously collected money. If the project is successful, Kickstarter applies a 5% fee from the funds collected and there is also payment processing fee, which is between 3%-5%. If funding isn’t successful, there are no fees and backers have their full investment returned on the account (“Getting started,” n.d.).

### 1.5.2 Indiegogo

Indiegogo sees itself as the largest global sites for fundraisers, which helps individuals, groups and non-profits raise money to make their ideas a reality. Indiegogo was founded in

January 2008 by Danae Ringelmann, Slava Rubin and Eric Schell. Its headquarters are in San Francisco, California and it was among the first reward-based crowdfunding sites. Indiegogo has around 15 million visitors per month. Since their launch, more than 11 million people have backed 650,000 projects which started in 223 different countries and more than one billion USD has been raised. The overall success rate on Indiegogo is 17.39%. Indiegogo supports the projects not only during the campaign but also before and after campaign. Creator can set a “Coming soon” page to help generate pre-campaign buzz and spread the word to his/her network and collect the emails from the people who show interest (<https://www.indiegogo.com/>).

When starting a project, the creator has two options: to launch a project or collect money for a cause. The fees are presented in the Table 2 below. Founders can choose between Flexible or Fixed Funding model. If they choose the Flexible Funding option, they can keep all contributions even if they don't meet the campaign goal. This is great option if the founders don't have a strict go/no-go funding minimum. Fixed Funding is a better and cheaper solution if there are minimum quantities required by manufacturer. When you meet a goal, there is also the option to set a stretch goal. Integrated analytics is a great tool to adjust your campaign for maximum impact. It includes Analytics dashboard, where you can find valuable audience—track contributions, locations, conversions, referrals, and more. Indiegogo is also integrated with Google and Facebook accounts that help you track and optimize a campaign (<https://www.indiegogo.com/>).

### 1.5.3 Patreon

Founded in May, 2013 by artist Jack Conte and Sam Yam, Patreon is one of the youngest crowdfunding platforms which, in terms of visitors and popularity, can compete with experience platforms such as Kickstarter and Indiegogo. Patreon has a different business model than other reward-based platforms. Instead of project based support, where backers support one time projects, on Patreon “patreons” support content creators on a monthly basis or per product. In practice this means that creators start a project with ongoing goal and offer different rewards to their supporters. Fans later subscribe to creator's project by choosing one of the subscription in exchange for exclusive experiences or behind-the-scenes content. Since creators are getting money every month or every time they create a product, they can focus on creating new content and not on raising money. Further, this approach provides them financial stability and freedom. The platform supports all kinds of creators, nevertheless the platform is more focused on services and not on physical products. Most popular categories are Video and Film, Music, Writing, Comics and Illustration, Podcasts, Games and so on. Their fees are pretty straightforward, they keep five percent and on average five percent goes to transaction fees. From its beginnings the platform sends more than 150 million USD to creators (<https://www.patreon.com/>). In January 2018, an estimated monthly payout of 11 million USD, from 3.4 million backers, had been pledged to creators (<https://graphpatreon.com/>).

Table 2: Most known reward-based crowdfunding platforms from 2009 to 2017

Platform	Kickstarter	Indiegogo	Patreon
Founded (year)	2009	2008	2013
Worldwide ranking by traffic (SimilarWeb)	637th	2,002nd	435th
Amount Raised/pledged	3.8 billion USD	Over 1 billion USD	Over 150 million USD
Monthly Visits	48 million	22,5 million	92 million
Number of Active Campaigns	3,784	~19,000	~15,000
Number of projects	Over 412,385 projects	Over 650,000 projects	Over 50,000 creators
Success rate	35.91%	17.39%	N/A
Number of supporters	15 million	11 million people	3.4 million/monthly
Crowdfunding Model	All-or-nothing only	All-or-nothing and keep what you raise funding models	Monthly recurring pledges and per product pledges from backers
Fees	5% of funds raised and payment processing fee, which is between 3-5%	5% of funds raised and payment processing fee: 3-5% of funds via PayPal, 3% + \$0.30 per pledge via Stripe	5% of funds raised and 5% payment processing fee

Source: <https://www.kickstarter.com/>, <https://www.similarweb.com/>, <https://www.indiegogo.com/>, <https://www.patreon.com/>, <https://graphtrreon.com/>.

## 1.6 Alternatives to crowdfunding

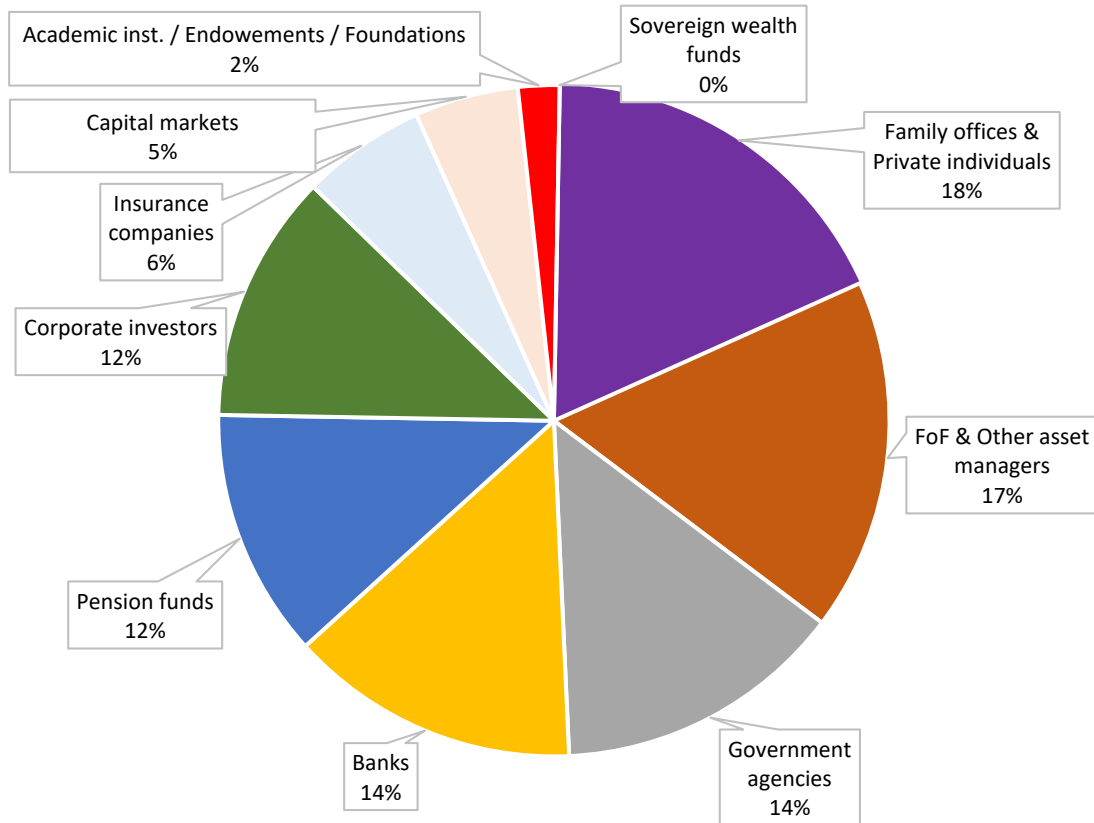
In comparison to other already established methods of financing start-ups and small and medium-sized enterprises (hereinafter SMEs), such as self-financing, family and friends, VCs and banks, crowdfunding is a relatively new financing form on the market. A possible cause of its evolution could be that established methods were unable to fulfil the requirements of start-ups whereas SMEs have been able to.

Every business starts because founders truly believe they will be successful and profitable. However still only about half newly established companies survive at least five years (U.S. Small Business Administration, 2012). If founders are willing to sell their shares at the beginning of their business journey, that might be indicator that the company is overvalued, since its shares are on sale. However, there is a possibility that the company is undervalued, and founders simply couldn't secure any other form of financing. This information asymmetry between management/founders and investors was the ground for the Pecking Order theory. The Pecking Order theory proposes that there is a preferred order of how companies should choose the way to finance their business. The theory was developed by Myers and Majluf (1984). Authors state, that because of information asymmetry, as managers know more about new opportunities than outside investors, internal financing should be the preferred method of financing rather than external financing. When owners are willing to sell their equity, they give the signal that a company could be overvalued. Taking that into account, the use of bootstrapping and self-financing is a signal that the board is confident that the investment is in fact profitable. Therefore, bootstrapping and self-

financing should be the preferred way of getting funds. Furthermore, it is a signal that a company's stock price is undervalued and that with new investments, stock price will go up, since board doesn't want to sell the equity. However, if there is a need for external financing, the pecking order theory favors the issue of debt over selling equity (Myers & Majluf, 1984).

New companies typically seek alternative financing when their company is relatively new on the market. However, they are facing information asymmetries, so they can't establish credit profiles with banks or other financing institutes, as a result, they have to seek other forms of financing (Rupeika-Apoga, 2014). Lee, Sameen and Cowling (2015) identify three main reasons why there may be a structural problem of access to finance for innovative small companies. First, innovation companies are riskier to finance. Second, information asymmetries make it harder for banks to value innovative investments and third, new innovation could be company specific and couldn't be used as a collateral outside the firm itself. Fundraising has fundamentally changed since the economic crisis (Wilson, 2015). In 2007, 3.8 billion EUR were invested in early staged companies; in 2012 the amount invested was cut almost by half to two billion EUR. From Figure 1 we can notice that in 2007 most funds for business came from family offices and private individuals (18%), second was Fund of funds and other asset managers (17%), third place was shared by banks and government agencies (14%).

Figure 1: Venture funds raised in Europe by type of investor in 2007

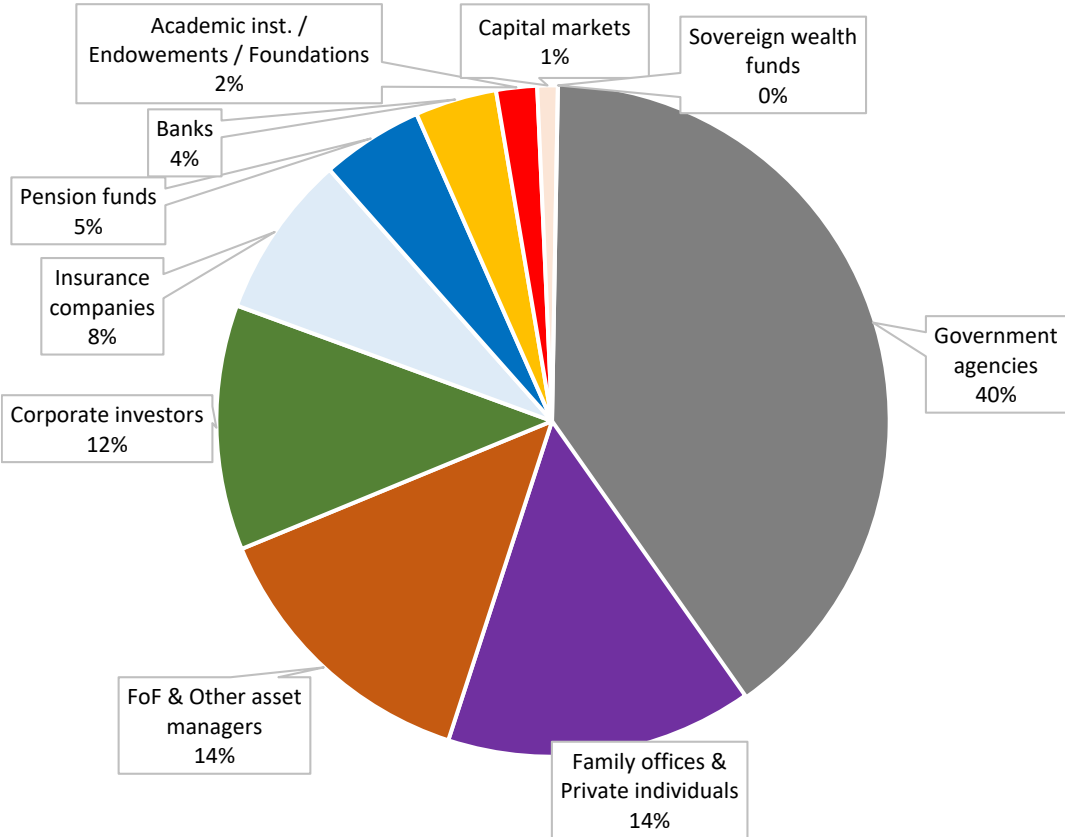


Source: Wilson (2015).

After the economic crisis the investing landscape changed a so did the behaviors of investors. Figure 2 demonstrates that government agencies take the lead with 40% of total investments, family offices and private individuals move to second place with 15% share, followed by

Fund of funds and other asset managers (14%). However, what is alarming is that banks were responsible for only 4% of all investments in 2012 (Wilson, 2015).

Figure 2: Venture funds raised in Europe by type of investor in 2012



Source: Wilson (2015).

When analyzing UK companies pre- and post-economic crisis, Lee, Sameen and Cowling (2015), found that innovation-based firms find it harder to access finance than other companies. However, in the period after crisis (2010 – 2012) capability to get credit worsen for all companies and not only for innovative firms. Furthermore, they found that the crisis in some respects narrowed the capability gap of obtaining a loan between the two sets of firms, however the gap still remains.

Robb and Robinson’s (2012) research might be at first glance contradictory to previous findings, since they claim that the most used sources of financing for a majority of start-ups in order of average prevalence are bank debt, personal equity, and trade credit. However, they conclude that many start-ups received debt financed through the personal balance sheets. Surprisingly, family and friends, don’t play such important role in financing start-ups, as it is commonly assumed. Their study is based on using restricted-access data from the Kauffman Firm Survey of 4,928 US firms which were surveyed annually from 2004 till 2011.

Companies do not develop in a vacuum and it is extremely important in what entrepreneurship ecosystem they evolve. Global Entrepreneurship Monitor (GEM) research correlates entrepreneurship dynamics with conditions encouraging (or hindering) the creation of new businesses and found that financing is one of the most important factors (Rebernik et al., 2015).

SMEs are an important segment of the Slovenian economy, not only according to their numbers (99% of all enterprises in Slovenia are SMEs); as they also provide three quarters of all jobs in the private sector and contribute more than 60% added value produced by companies in Slovenia. In addition, they are important instrument for acceleration industrial competitiveness and also an important source of innovation and research and development (stat.si, 2014). SMEs in Slovenia rely mainly on bank financing and, on average, pay higher financing costs. Latter is related to several factors, (1) insecurity of future business and (2) lower value of tangible assets by the company to set the insurance. Due to the shallow and illiquid domestic capital market as their alternative sources, financing is more limited (Bank of Slovenia, 2018). Within the SME category, the European Parliament and Council Directive 2013/34/EU (2013) defined a micro company as a company with less than 10 employees, whose turnover doesn't exceed 0.7 million EUR and balance sheet total is less than 0.35 million EUR ("EUR-Lex - 32013L0034 - EN - EUR-Lex", 2013).

*Table 3: SMEs categorization*

Company's size	Number of employees	Turnover	Balance sheet total
Micro	< 10	< 0.70 million	< 0.35 million
Small	< 50	< 8.00 million	< 4.00 million
Medium	< 250	< 40.00 million	< 20.00 million

*Source: "EUR-Lex - 32013L0034 - EN - EUR-Lex", (2013).*

This segmentation within the SME category of micro, small and medium companies is important in Slovenia, as there is a difference between them in terms of bank financing. At the end of 2009 only 29.08% of micro companies in Slovenia had some form of bank financing, compared to small, medium and large companies where more than 70% of them cooperate with a bank (Mörec & Raškovič, 2012).

The important features of SMEs like innovation, research and development can't be delayed in a later period, therefore, companies at a certain point need external sources of funding. Since around 70% of Slovenian micro companies can't secure a bank loan they are forced to seek alternative ways of financing. In the following sub-chapters, I will reveal what possibilities are for Slovenian entrepreneurs to finance their business with one of the following methods.

#### 1.6.1 The Slovenian Enterprise Fund

The Slovenian Enterprise Fund, which is a public financial fund in ownership of the Republic of Slovenia established for the purpose of granting financial support and incentives to the entrepreneurial sector of Slovenia. The fund covers four development phases in terms of financial support, namely: (1) start-up incentives, (2) seed capital, (3) venture capital and (4) microcredits and guarantees. The first three development phases are included in a program "Young Enterprise", which support enterprises younger than five year old, which have due to specifics of development difficulties in obtaining fund on the market. The vision of the program Young Enterprise is to provide the initial financial support for entrepreneurial ideas or young companies, which demonstrate a potential increase in values added per employee (Slovenski podjetniški sklad, 2018).

The first development phase is oriented to product development and it is structured into two parts. The first part is incentive for innovative start-ups – the purpose is to support the

transfer of development ideas of entrepreneurial individuals and groups into market-oriented enterprises which have high growth potential with focus on development and commercialization of products. The company must be younger than 14 months and in their first development phase in order to enter, and, as a result, can receive up to 54,000 EUR of grants or credit. The second part is incentive for start-ups in problem regions – the purpose is to encourage entrepreneurs to start a company in regions with high unemployment rate. The support helps to improve business operations and increase the survival rate in the initial period of operation. The companies can get up to 20,000 EUR in grants (<https://podjetniskisklad.si/sl/>).

The second development phase is helping companies entering into the market and it is called Seed capital. It is intended for companies which are younger than five years and have entered into the second development phase, meaning penetrating the market with its products. Slovene Enterprise Fund alone or with other investors directly invest in the form of convertible loan or in the form of direct capital investment in young high-tech companies. It's structured into two parts: (1) a convertible loan for start-up of innovative enterprises – SK75, up to the amount 75,000 EUR and (2) direct capital growth of innovative enterprise – SK200 – up to the amount 200,000 EUR. Those two options are designed for companies with growth potential and with potential of creating new jobs with added value (<https://podjetniskisklad.si/sl/>).

The third development phase includes the entry into the ownership structure and management of the company in corporation with capital investments from private investors. They supporting fast growing innovative companies that have penetrated global market. The fourth development phase is called “SMEs 5+” and includes financial support for companies older than five years, which operate profitably and provide steady growth and fill a specific market niche. In 2016 The Slovenian Enterprise Fund supported 905 enterprises with 124 million EUR, which is 17% more than in 2015. In 2015 The Slovene Enterprise Fund helped 776 businesses with 109,48 million EUR (Slovenski podjetniški sklad, 2016).

Around 62% of the financial incentives were granted to SMEs older than five years (SMEs 5+) and the rest to the companies in the first and second development phase. As in the previous year the largest proportion of companies (88%) received guarantees with a subsidized interest rate. SMEs are the main objective of the Slovene Enterprise Fund. In 2015, SMEs faced difficulties in accessing finance, since they are depended mainly on bank funding sources. On average, they pay higher financing costs than large companies or their competitors in other countries. In the last few years has the Fund recorded increases in approved bank loans where the fund issued guarantee and subsidies interest rate for the company. That demonstrates that the small and medium-sized companies are facing difficulties getting a bank loan, without guarantee of a Slovene Enterprise Fund at a decent interest rate. The Slovene Enterprise Fund give special encouragement to young companies which are up to five years' old. In 2016 The Slovene Enterprise Fund supported 344 young companies. 80 of them were in the Startup incentive program (P2). They received grants of up to 54,000 EUR. In total they invested 3,835,876.8 EUR (Slovenski podjetniški sklad, 2016).

#### 1.6.2 FFF (Friends, Family and Fools)

Triple F stands for Friends, Family and Fools. As a group, FFF invested in 38% of newly established start-ups in US in 2013 with the average amount of 23,000 USD (Entis, 2013). Despite the importance of family and friends, scholars mainly focused on social ties between



the entrepreneurs and other professional resource providers such as venture capital investors or business angels. Fewer studies focus on how entrepreneurs mobilize funds from friends and family (Kotha & George, 2012, p. 1; Vissa, 2012). Kotha and George (2012) in their study discover that as family ties increase in the helper's network, the entrepreneur is far less likely to distribute equity selectively, consequently family members mostly have equal stake share in the company.

Cumming and Johan (2009) state that apart from an entrepreneur's savings, family and friends are the most common source of capital for earliest-stage entrepreneur, since acquiring funds from established investors is difficult without a track record. Agrawal, Catalini and Goldfarb (2011, p. 3) in their study examine the geography of crowdfunding and they discovered that friends and family are disproportionately co-located with the entrepreneurs they invest in and that friends and family invest in early stage of crowdfunding campaign compared to other investors who waits for the signals of quality. Early stage investments are extremely important, because the data in their research suggest that high levels of cumulative investment may cause an increase in the rate at which new investment arrives.

### 1.6.3 Business angels and investors

Scott (2003) define a business angel as a wealthy investor who provides capital for a new business venture. In Europe, there is a pan-European representative for the early state investors called the European Trade Association for Business Angels, Seed Funds and Early Stage Market Players. It represents 170 member organizations in 59 countries. It was established in 1999 by a group of pioneers and later supported by European Commission so they became official Business angel platform for EU. The European Business Angels Network (hereinafter EBAN) defines a business angel as an individual investor who invests their own money directly and is financially independent. A business angel invests predominantly in seed or start-up companies with no family relationship and makes their own investment decisions. They invest with a medium to long term set time-frame and is ready to provide on top of their individual investment, follow up strategic support to entrepreneur from investment to exit (Dibrova, 2015).

With 6.672 billion EUR, angel investments remained the main financier of European start-ups in 2016. The European angel investment market community grew to more than 300,000 investors which closed 6,672 deals in 2016. The total European early stage investment market is worth 9.9 billion EUR. Business angels represent the biggest share. They invested 6.7 billion EUR, while venture capital industry invested 2.5 billion EUR and with equity crowdfunding companies get 0.7 billion EUR investments. According to EBAN data there are three Business Angel Networks in Slovenia which include 60 business angels. In 2016, they invested 36 times with total amount of 3.3 million EUR (EBAN Statistics Compendium 2016, 2017).

### 1.6.4 Accelerators, start-up incubators

The first accelerator, Y Combinator, was established in 2005 by Paul Graham, Jessica Livingston, Robert Morris and Trevor Blackwell in Cambridge, Massachusetts. Since 2005, they have funded over 1400 startups (<http://www.ycombinator.com/>, 2018). Their model later inspired other accelerators to follow. Usually accelerator programs last about three months and they provide start-ups with a small amount of seed capital or a loan in exchange for equity and working space. To get into Accelerator the start-up (or a company) has to pitch their product or business idea in front of special commission, who decides if they are

the right fit for them. When they are on the program they enroll in a mentorship program and get offered network opportunities with business angels, executives and successful entrepreneurs. Most accelerator programs end with a “demo day” where ventures pitch their ideas to potential investors (Cohen, 2013).

Incubators provide shelter to vulnerable start-ups until they become stronger and independent. Incubators receive rent from startups in exchange for a workspace and other administrative support. Incubators also typically provide companies with legal, financial, accountant and other consulting. With all additional help and subsidies rents incubators are protecting companies from market forces. Some companies might not survive on the long run on the market by themselves. However, because they are part of incubator they do and they are consuming meaningful resources which might be used another way. Another drawback is that companies are missing valuable feedback and signals from the market and they might lose the opportunity to adapt to it in their early stage (Cohen, 2013).

Accelerators and incubators differ in four key respects. These are the duration of the program, entrance process (cohorts or selection), business model as well as education and mentorship program. It is expected that firms who join the incubator will graduate between one and five years after they begin. On the other hand, accelerators narrow this time period to only three months. The idea is to speed up the cycle of the venture and either succeed or fail quickly. Ventures enter and exit accelerator in groups, known as cohorts. Accelerators usually accept new ventures once or twice per a year. Therefore, they become very close to each other, they help and motivate each other and foster uncommonly strong bonds. On the other hand, ventures in an incubator entered the program separately and on an ongoing basis, therefore relationships between them are not as close (Cohen & Hochberg, 2014). Accelerators are mostly privately-owned enterprises which take equity from enrolled companies in exchange for seed capital and facilities. On the other hand, incubators are publicly owned, run by professional incubator manager and usually they don't take the equity, but instead minor replacement for rented offices and other administrative support. Tenants rarely take full advantage of education, mentorship and network development which is offered by incubator for a fee. In contrast, the whole purpose of joining accelerator is their support and mentorship. Participants are enrolled in a scheduled education program and have active support (Cohen, 2013).

In 2017 Slovenia had five globally recognized accelerators. These are: ABC accelerator, Go:Global Slovenia pospeševalnik, Silicon Gardens, DsgnFwd Design and Start:up Geek House. They invest between 15,000 and 200,000 EUR in return for 8-26%, some are offering offices and opportunity to pitch in front of global investors as can be seen in Table 4.

Table 4: Comparisment of Slovenian accelerators and start-up incubators

Accelerator	ABC accelerator	GG Accelerator	Silicon Gardens Fund	DsgnFwd Design	Start:up Geek House accelerator
Investment (in cash)	15,000 EUR	200,000 EUR	20,000 - 40,000 EUR	20,000 EUR or more	help to acquire a 75,000 EUR convertible loan
Equity in return	8%	12%	5-15%	10% or more	6-26%
Offices	Yes	Yes	No	No	No
Mentor program	Yes	Yes	Yes	Yes	Yes
Pitch in front of investors	Yes	Yes	-	No	No

Source: <https://abc-accelerator.com/>, <https://www.startup.si/>, <http://www.silicongardens.si/>, <https://www.dsgn-fwd.com/>, <http://www.geekhouse.si/en>.

### 1.6.5 Bank loans

Debt financing is debt-creditor relationship between entrepreneurs and lenders, who may be a natural or legal person, and where the trader undertakes to return the borrowed amount within a specified period of time at a predetermined rate. Most often, debt financing takes the form of short- or long-term loans, leasing and other forms of lending. A result of the previously mentioned debt financing due to the risk of business startups and the current unpredictable economic situation it is not only inappropriate, but also almost unreachable. Young entrepreneurs are forced to seek funds elsewhere (Makovec, 2014).

## 1.7 Advantages and disadvantages of crowdfunding

Before going on the entrepreneurial journey, every founder should consider which path would be the best for their product and/or service to succeed. When deciding whether crowdfunding is the most suitable for their business, an entrepreneur should consider its advantages and disadvantages and then decide for crowdfunding or for some alternative way of financing which I described above.

Schwienbacher and Larralde (2010) present a bootstrapping technique, which means that the founders try to use as many alternative resources of financing as possible. Therefore, founders could participate in crowdfunding and also acquire funds from other channels. By doing so, they could unbalance disadvantages of crowdfunding and get the best from every channel. Looking through the eyes of the entrepreneur, crowdfunding could be perceived as an affordable method for starting a mass production, however this is not always the case. Especially because acquiring funds from business angels, banks and venture capital funds is a challenging approach for every entrepreneur in the beginning of his career (Cosh et al., 2009).

Young inventors usually create innovative products that from the VCs perspective might be risky for investing. On the other hand, creative, attractive and innovative products are tempting for influencers and the crowd who is seeking for something new. Moreover, if the crowd accepts the product this could be a signal that the product is suitable for mass production (Belleflamme et al., 2015). Schlueter (2015) emphasize four main advantages of

crowdfunding, which are: (1) the financing statement, (2) the communication with potential customers and the feedback about the product/ service, (3) test of the market demand and the public attention and (4) the access to user innovativeness. On the other hand, disadvantages the author are: (1) the disclosure of the idea, (2) non- professional investors and (3) the costly investor management.

In the next two sub-chapters I investigate further and present those advantages and disadvantages in detail and intend to explore whether an entrepreneur should choose crowdfunding for their business.

### 1.7.1 Advantages

The first and most important advantage of crowdfunding owes to the reason that crowdfunding arose, being an alternative to collect funds for a new business idea (Belleflamme et al., 2013). As mentioned, for business angels, venture capitalists and banks new unproven business ideas are often too risky for investment. Consequently, entrepreneurs were searching for some alternative ways (Cosh et al., 2009). Financing unproven business ideas by traditional resources is still one of the biggest obstacles that SMEs and young entrepreneurs have (OECD, 2015). A second advantage is the communication with potential customers in the early stage of product life cycle and obtaining feedback about the product or service. Belleflamme, Omrani and Peitz (2015) see reward-based crowdfunding as a tool with which entrepreneur can predict future demand for their product or service. They also claim that funders have another important role besides providing funds, which is promoting the product or service. They see crowdfunding as extra promotion device and backers as product ambassadors who will promote new product or service on social media and other channels.

Further, crowdfunding allows the founder to test the market and to get public attention. Public attention is, according to Schwienbacher and Larralde's (2010) research, the second reason, after fundraising, why founders engage in crowdfunding. Public attention shows if there is enough interest for the product or service on the market. Crowdfunding reduce risks for both funders and founders. It gives early information whether the product will generate profit to the founder. If there is no interest from the public, the entrepreneur won't proceed with the project and waste resources on it (Belleflamme et al., 2015). On the other hand, if there would be a demand for the product on the crowdfunding platform, the entrepreneur could be able to get funding also from the traditional sources (Mollick, 2014). For Belleflamme, Lambert and Schwienbacher (2013) reward-based crowdfunding is akin to a pre-ordering model which allow entrepreneur to price discriminate between backers and other customers who will buy the product outside crowdfunding platform. Mollick (2014) believe that for some projects the pre-selling motive is the reason that the project is published on crowdfunding platform at all.

Crowdfunding communities can actively design new products and have an impact on future projects. Two-way communication allows users to actively communicate their ideas and preferences which founders can later implement (Mollick, 2014). Crowdfunding platforms include users into the value creation process and empower backers to express their opinion. In that sense, crowdfunding is like crowdsourcing, where public is actively involved in the product creation process (Kleemann et al., 2008). Howe (2008) claims that a large group of people can be more creative and efficient than an individual.

## 1.7.2 Disadvantages

Despite the enormous growth and popularity of crowdfunding, there are still some drawbacks which entrepreneurs and backers should consider before getting involved in crowdfunding. One of the biggest risks of participating in crowdfunding is revealing information about a founder's project to the general public. By doing so, on one hand entrepreneur is encouraging backers to participate and to back their project. However, on the other hand, the inventor is sharing their insights with the competition and consequently risks to be copied by competitors. If the inventor is funded by traditional sources, they won't face those risks since they keep information about the project a secret (Agrawal et al., 2011).

Another drawback involves the opportunity costs of raising funds via crowdfunding instead of from entrepreneurs, venture capitalists or business angels. The disadvantage is that those professional investors have a large network, business experiences and existing relationship in branch and specific industry knowledge. When an inventor is raising funds via crowdfunding they give away those resources (Agrawal et al., 2011; Schlueter, 2015). Furthermore, because funders invest relatively small amounts of money into projects, they won't be as motivated as professional investors to actively participate and help the project to succeed (Macht & Weatherston, 2014). Macht and Weatherston (2014) also mention the investor management risks and additional work which need to be done by the founder, since they must manage a large crowd and not only few investors. Managing the crowd might cost substantially more than appealing business angels and VCs. From the backer's perspective, however, there is always a risk that founder won't deliver the promised rewards or that the project will fail.

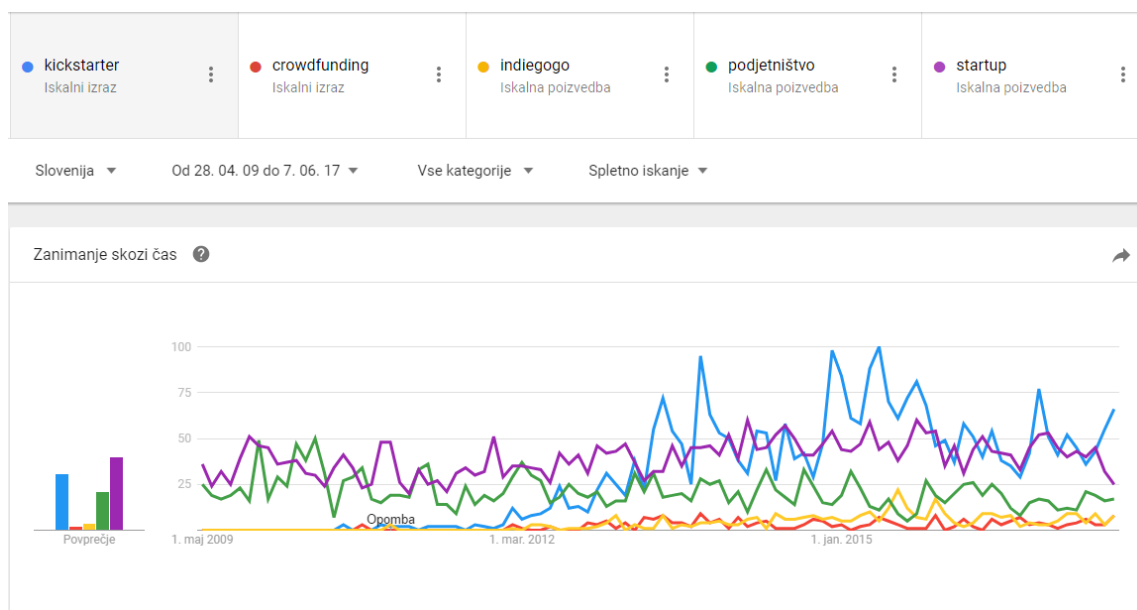
## 2 A LOOK AT KICKSTARTER

### 2.1 The Kickstarter platform

Perry Chen, Yancey Strickler and Charles Adler founded the crowdfunding platform Kickstarter. It was launched in April 2009 in Brooklyn, New York. At its beginning, the platform's focus was mainly on supporting creative and artist projects. Through years, however, the platform evolved and now supports a much wider range of categories. On Kickstarter, you can create or support projects among 15 listed categories ("Getting started," n.d.).

Since its launch in 2009, the public interest for Kickstarter and crowdfunding dramatically increased (Voelker & McGlashan, 2013). In Slovenia, the platform become popular with a bit of delay in comparison with the Western World. The first break through in terms of popularity happened in February 2012, which can be seen in Figure 1. It shows the popularity of Kickstarter compared with other terms related to entrepreneurship and crowdfunding (like, for example startup, Indiegogo, entrepreneurship, crowdfunding) analysed with Google Trend analysis tool. Kickstarter was the most popular among searches in December 2012. The date coincides with the most funded Slovenian projects that year, LLSTOL and Boomerang. If we compare Kickstarter with other terms related to entrepreneurship, only the term "startup" is more searched and gathered more interest than Kickstarter. However, in the last few years, Kickstarter seems to be more popular than term "startup" starting with May 2013. Overall, Kickstarter was the most popular in Slovenia in May 2015 when projects like Pure water filter, Cando, SipaBoards, Trobla, Leano, ONDU, Ori were about to start or end their campaign.

Figure 3: Trend and popularity of Kickstarter, crowdfunding, Indiegogo, entrepreneurship and startup in Slovenia from 28.4.2009 till 7.6.2017



Source: Google Trends (2017).

Kickstarter’s mission is to bring creative projects to life. In 2015 they become a Benefit Corporation and committed themselves to art, culture and fighting inequality. Since their launch, on April 28, 2009, 148,364 projects were successfully launched, around 3.8 billion USD has been pledged and more than 15 million people have backed a project (“Stats,” n.d.)

### 2.1.1 Kickstarter’s rules and policy

Kickstarter’s rules and policy are thoroughly described in the FAQ and “Our Rules” sections. The basic rules are that a project must create something to share with others. A project must be clearly presented and can’t mislead people or misrepresent facts. Kickstarter highly encourages inventors to show backers a prototype or what they are making, especially if the product is a complex one. Moreover, projects can’t fundraise for charity or raise funds to later donate to a charity or cause. Investment is not allowed on Kickstarter. Inventors can’t offer equity, revenue sharing or investment opportunities in exchange for support. Projects can’t involve prohibited items. In general, prohibited items are drugs, weapons, items which claim to cure, treat, or prevent an illness, offensive material, pornographic material, products that already exist, and financial, money processing, or credit services (“Getting started,” n.d.)

Kickstarter use all-or-nothing funding, meaning that if the founder’s goal isn’t met or surpassed the platform refund all the money to the backers. Kickstarter use this approach because by their opinion is less risky for everyone, it motivates and it works: *“Of the projects that have reached 20% of their funding goal, 81% were successfully funded. Of the projects that have reached 60% of their funding goal, 98% were successfully funded. Projects either make their goal or find little support. There’s little in-between”* (“Getting started,” n.d.).

Kickstarter is open to backers all over the world, but if you want to open a project on Kickstarter there are some limitations, for example:

1. Project creation is currently available to individuals in only 22 countries (US, UK, Canada, Australia, New Zealand, the Netherlands, Denmark, Ireland, Norway, Sweden, Germany, France, Spain, Italy, Austria, Belgium, Switzerland, Luxembourg, Hong Kong, Singapore, Mexico and Japan).
2. The founder has to be at least 18 years old.
3. They have to create a project in their own name, or on behalf of a registered legal entity with the individual is affiliated.
4. The founder has to have an address, a bank account, and government-issued ID based in the country that they are creating a project for as well as having a major credit or debit card. Parents and teachers can launch projects in collaboration with children under 18 provided that the adult registers for the Kickstarter and payments accounts and oversees the project itself (“Getting started,” n.d.).

Kickstarter is not responsible if the founder won't complete the project and deliver the rewards. The risk is on the backer's side. Therefore, they should look for creators who share a clear plan and have a solid history. On the other hand, inventors should present themselves as credible and successful entrepreneurs and share as much information about their previous work as possible. However, since Kickstarter follows an all-or-nothing approach, the founder receives the raised funds after the goal is met and after the funding period ends. This gives backers time to evaluate the project and report concerns to Kickstarter.

#### 2.1.2 Launching the campaign on the platform

The process of launching a Kickstarter campaign starts with building and submitting the project to the Kickstarter team for their validation and confirmation. A project manager submits their project through the platform. Kickstarter then suggest that founders make a detailed budget of their costs and use this to set their goal. Furthermore, potential inventors should check other similar projects on Kickstarter and discuss what rewards to offer and how to stand out. Additionally, Kickstarter suggest that founders check the Creator Handbook and @KickstarterTips for pointers, as well their blog. Lastly, Kickstarter encourages to have a plan for spreading the word about their campaign. When a founders are ready to start the project, they must click on the button “Start a project” on the Kickstarter website. In first step, entrepreneurs choose the category, describe what they are creating, select one of 22 listed countries and accept the terms. Then the creator is redirected to the next page where further actions are gathered into two sections Campaign and Account as you can see in Figure 4 below.

Figure 4: Campaign and Account interface when creating campaign on Kickstarter

Campaign

- Basics  
Add an image, set your funding goal, and more.
- Rewards  
Set your rewards and shipping costs.
- Story  
Add a video and detailed project description.

Account

- Profile  
Write a bio and add links to your social accounts.
- Account  
Confirm your identity and link a bank account.  
3 days to verify

0 of 5 complete  
After you've completed all steps, you can submit for review.

Source: Kickstarter (n.d.).

Campaigns consist of three sub-sections: Basics, Rewards and Story. In the Basic area, the main image, short description, funding duration and funding goal are added. When basic information about the campaign are inserted, the creator should fill their rewards in Rewards area. In the section Story, founder insert project video, project description and risk and challenges. The account is divided into Profile and Account. In the profile founders share information about themselves, like profile picture, name, Facebook account, and biography. The final step is entering all the relevant transaction information and confirming the identity in the account. After submitting the project, Kickstarter takes up to three business days to validate and confirm or decline a proposed project. According to several forums and blogs, the actual response time could be a bit longer in practice, so if project managers are planning to start their campaign on a certain date, it's better to plan some extra days ahead for project validation. When a project is published on the Kickstarter platform the founders can start sharing their campaign.

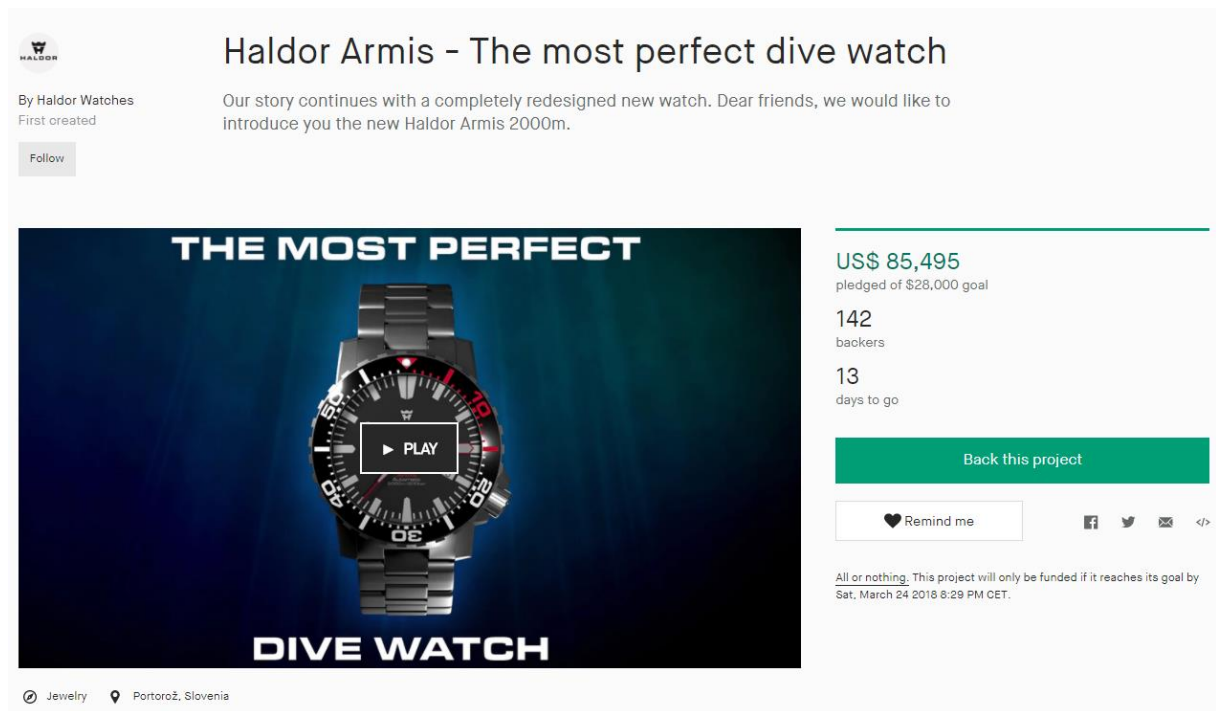
## 2.2 Components of a Kickstarter campaign

The components of a Kickstarter campaign allow founders to communicate to the backers: what they are trying to do, how they are planning to do it, for what and how the funds will be used, is the team qualified to complete the project and how far from completion the project is. The more information founder includes the more they will earn the backers' trust. The



main component on the project page is video. Video is not mandatory, however, projects with videos have much greater chance to succeed. Above the video the founder's name and title of the campaign are presented. When the viewer clicks on the founder's name, a short description about founder is provided, the person who validated them, number of Facebook friends the inventor has and how many projects they have already created and backed.

Figure 5: Components of a Kickstarter campaign

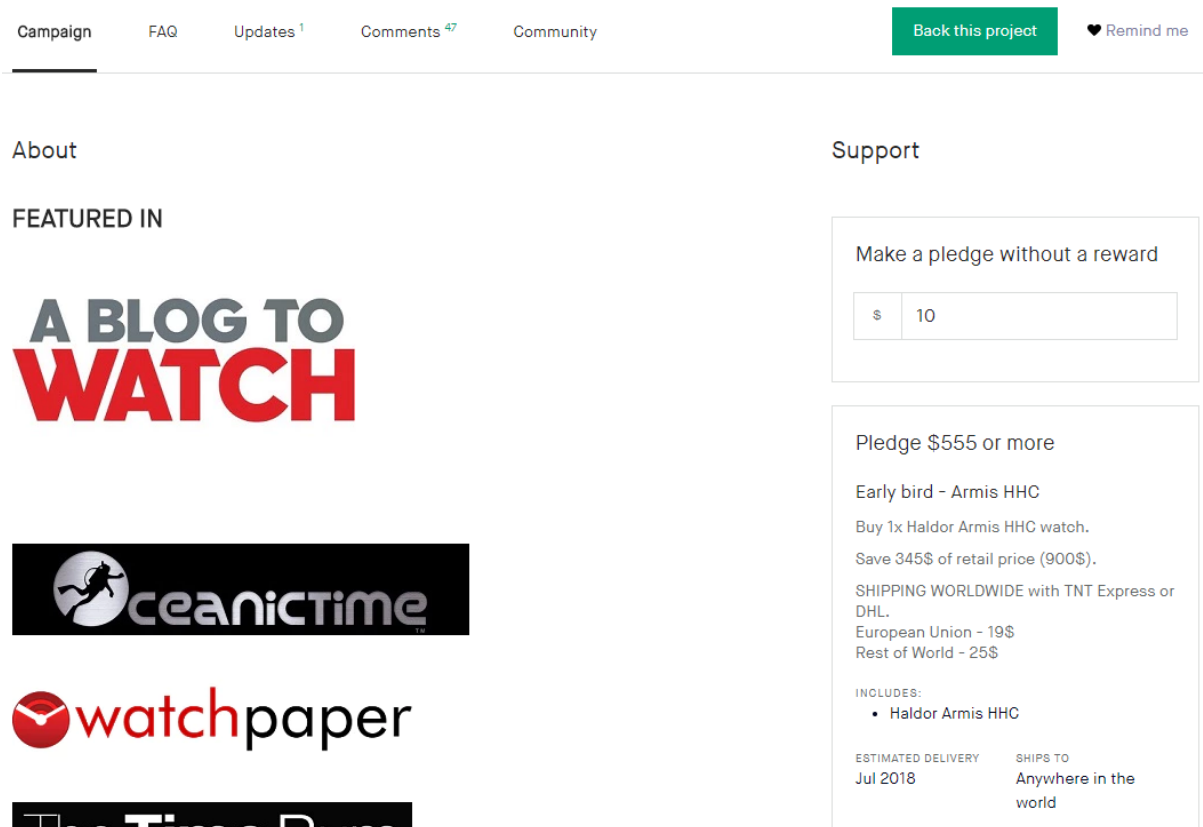


Source: Kickstarter (n.d.).

On the right side of the video, the total amount of already raised fund and the founders goal are displayed. In that area we can see, how many days still left till the end and how many funders already backed the project. Below, the button Back this project is displayed. In the lower section there are five tabs from which can be selected: (1) Campaign, (2) FAQ, (3) Updates, (4) Comments and (5) Community.

In the Campaign section, more details about the project are listed. Here we can find detailed pictures of the product and its varieties, additional short videos, specifications, stretch goals, description of their partners and team members, timeline of the project and its risk and challenges. The rewards offered are shown on the right side of the campaign section. The entrepreneur should include an eye-catching project image, an interesting and not too long video, a detailed description of product or service and attractive rewards.

Figure 6: Example of Description and Rewards layout of project page



Source: Kickstarter (n.d.).

FAQs or Frequently Asked Questions, are questions posed by the audience, answered by the founder and publically posted to avoid future misunderstandings. In the 'Updates' section, founders write recent information about the project. In general, this section is used by founders to thank and update the backers and to encourage them to support the project. In fact, inventors use this place to promote their campaign and solicit the funders with promotion gifts, special offers and so on. The Comments section is reserved for backers and public to comment or ask additional question about the project. Founders, however, have to pay attention to this section and respond consistently and in short notice, that way, they present themselves as a credible partner. The 'Community' section shows the city and country that backers come from. Furthermore, the division of new and returning backers is also visible.

### 2.2.1 Project duration, Goal and Rewards

A campaign on Kickstarter can last anywhere from one and 60 days. Kickstarter recommends to set a project to 30 days or less, since projects with shorter duration have higher success rates. Before setting the funding goal, entrepreneurs should calculate the minimal amount of fund needed to complete/realize the project. Kickstarter suggest that founders do a list of all materials, expenses and resources and based on that define a funding goal – a sort of production price calculation if you will. Additionally, it's beneficial if inventors share a breakdown of their budget in their project description to show backers they thought it through. When the project is out, the funding goal and campaign duration can't be changed. Projects can exceed their funding goal, as the project is still live even if the funding amount has been reached. It is live until the funding deadline ("Getting started," n.d.).

Typically, the reward on Kickstarter is the product itself or its variations. Sometimes, inventors offer a creative experience for a reward, like a personal meeting or phone call, office visits, or naming a character after the backer. All rewards must correspond with Kickstarter's rules. The founder can set a quantity limit to certain rewards, as soon as the limit is reached, the reward is marked as sold out. During the campaign the project manager/founder can change the quantity limit or mark any reward as sold out at any time. Inventors have the possibility to schedule their rewards in advance, with that the reward will be added on the campaign on certain date automatically. The maximum amount of the single reward varies depending on the country the campaign is set in, but in general it is around 10,000 USD. When setting up a reward, the shipping options must also be set. Founders can choose from three options: (1) no shipping involved, (2) only ships to certain countries, (3) shipping anywhere to the world. The no shipping involved option, can be used for digital rewards, donations or for creative experience. While in the remaining two options, shipping costs have to be set. Shipping costs are displayed separately from the reward price in reward section. However, project manager has to take into account, that shipping costs count towards project's goal, when setting the campaign goal ("Getting started," n.d.).

To keep project interesting and the team motivated when the initial goal is met, the Kickstarter community came up with additional goals, named Stretch goals. Stretch goal is a new funding target set by the founder and can be set when the original Kickstarter goal is met. Stretch goals aren't a part of Kickstarter requirements. The founder gets funds irrespective of whether the stretch goals are met.

### 2.2.2 Video

A video on the project page is not required. However, projects which have a video, succeed at much higher rates than projects without (50% and 30% respectively). A video is one of the best way to introduce a product or service and also yourself. It's recommended to use captions and subtitles to maximize the conveyed information and to captivate an audience. Uploaded video can't be larger than 5GB and should be in MOV, MP4, or WMV file type. Kickstarter then converts the uploaded video and creates a 640 x 360 (16:9 ratio) version which will be displayed on project page. Videos can also be embedded from YouTube or other video-sharing site in project description and Updates section. The main video can't be embedded ("Getting started," n.d.).

### 2.2.3 Description

A description is placed in the Campaign section which is then placed where founders should present all the relevant information about their project. By default, this section is divided into two parts: (1) About this project and (2) risks and challenges. Kickstarter gives the founder free rein of what to include in this section. A best practice is that the creator of this section includes a short intro, briefly describing what the project is about and why they need backers' support. Aaron Rasmussen (Mr.Ghost: iPhone EMF Detector, Technology) suggest that the founder should: *"be clear about what your project is at the top of the page. Include any relevant information on technical specs etc. When I'm glancing over a Kickstarter project, I always read a little before watching the video. If the video is beautiful but the written part is a disaster, I may never see your beautiful video"* ("Getting started," n.d.).

Typically, after the short summary in the part About this project, founders place few more detailed pictures of the product or additional short videos. Detailed description of the product or service, its benefits, how the product or service works and the presentation of the team is

recommended to be shown in the description section. Moreover, supporters expect full transparency, therefore a breakdown of the project's budget might help. If they include the aforementioned elements, backers can see it as indicator of preparedness and professionalism (Mollik, 2014). Projects which have already received media attention present and show logo and quotes of media they have been published in. Lastly, founders present in which phase they are and explain their timeline – all the activities they did and activities which are still ahead of them. The description ends with Risks and challenges where founders describe their challenges and risks associated with the project development and delivery issues. This part is mandatory by Kickstarter.

#### 2.2.4 Timeline

The timeline is a description what has already been done, in which stage the project is right now and what else needs to be done to complete the project so that all the backers receive their rewards. Most often, timelines are presented as infographics. Infographics consist of milestones which are crucial for the project and brief description of the stage. Timelines tell the backers how much effort the founders and their team have already invested into the project as well as how much more investment is needed. It can also serve as a signal how well the team is prepared and how likely they are to achieve their goal. Timelines are not mandatory by Kickstarter.

#### 2.2.5 Images

Kickstarter has prepared a guide on making a great project image. They suggest to use a main project image which brands the project and makes it stand out. It should also represent the founder or the founding team and what they are creating. They propose that the project image should show what backers will help to create. The project image is what others will see when the project is shared, so the image should inspire and motivate people to click on it and encourage backers to share it on. Moreover, Kickstarter recommend avoiding badges, banners, extra promotion text on project image. Too many add-ons could distract potential customers and shift their attention off the product. It is recommended that the project image is in high resolution, that way it would appear sharp on every device. Jake Parker, founder of project Drawings, emphasizes that the main project image, which is shown as a big image on project page is also shown as a thumbnail on main Kickstarter pages. He claims that more people will see thumbnail than big project image, therefore he suggests picking image which will look nice as a thumbnail with focus on product. For the other images on the project page, Jake Parker is suggesting, that users prefer to check pictures rather than read text. Inventors should use large, compelling images and show the real product and its benefits (“Getting started,” n.d.).

#### 2.2.6 Updates

Founders use Updates as a project blog. With updates, they keep their backers informed about the progress and their development during the campaign. Moreover, updates allow founder to notify their backers that something new has been added on their project page. By doing so a project manager can present new features, rewards or just remind backers that they still need their help. Each post can be made publicly viewable or project manager can limit the reach of the new post to backer only (“Getting started,” n.d.).

### 2.2.7 Project We Love (Kickstarter staff pick)

Kickstarter recently removed the feature “Kickstarter staff pick”, where Kickstarter employees picked few products in each category and present it on the front page. They replace this feature with a similar feature called “Project We Love”. According to Kickstarter the badge “Project We Love” only presents projects that stand out. Beside the icon “Project We Love” on the project thumbnail image, selected projects can be even featured on the Kickstarter homepage or in its newsletter. It is common that selected projects have a clear description, interesting images or video, a timeline with detailed descriptions and development stages as well as an excited community behind them. To understand which projects acquire this feature, project managers should check previous campaigns and try to design their project in a similar way. Since being featured on the Kickstarter homepage undoubtedly increase traffic to campaign page, founders are eager to be picked. Therefore, Kickstarter publish a guide and outline what they take into account when selecting the project. Their instructions are fairly general: (1) choose a great project image, which should not be covered with badges, banners or stamps, (2) write a great blurb, (3) respect peoples time, (4) use a lot of high quality media, (5) show your rewards, (6) adjust for your audience and (7) don't spam (“Getting started,” n.d.).

### 2.2.8 Cross-selling

The term cross-selling is based on Sonnerberg (1988, p. 56) statement that “*every sale or transaction is regarded as the beginning of a new sales opportunity*”. Cross-selling isn't something that Kickstarter officially offers as a tool. Pledge for pledge, as cross-selling on Kickstarter is often called, is an agreement that is between two founders. Usually they contact each other and agree on joint promotion. Most often, project managers publish other projects on their Kickstarter project page or include links to other projects in Updates with a few encouraging lines. Additionally, they can promote other project on their social channels, their website, blog or any other promotion channel.

## 2.3 The Kickstarter community

Kickstarter presents itself as an enormous global community built around creativity and creative projects and not solely as a crowdfunding platform. People, backers, and founders are extremely important for crowdfunding platforms and Kickstarter is aware of that. Therefore, they created the Community Guidelines, where they share three basic rules to make sure, that Kickstarter is a wonderful place for everyone. The rules are as follows: (1) don't spam, (2) don't be a jerk, (3) if you see something, say something. The core values on Kickstarter are transparency, trust, and honesty. The 'Campus' section can be found on Kickstarter and is used as a Q&A or Question and Answer forum. People there ask different questions which are answered by Kickstarter community.

Gerber and Hul (2012) found that funders participating in crowdfunding are also looking for social interactions and that their participation is driven by a need to belong to a certain community with similar interests. In addition, they suggest to founders to actively interact with backers, because communication can increase the commitment of the backers and attract people with similar interests to support the campaign. Zvilichovsky, Inbar and Barzilay (2014) confirm both direct and indirect reciprocity effects on crowdfunding platforms. Their study shows that projects with founders who previously backed other projects on the platform, have different results compared to founders who didn't. Founder-backers have higher success rates, raise more funds and receive more support from backers

compared to founders who haven't backed a campaign. Bearing that in mind, they conclude that being previously involved in the crowdfunding community pays off. Moreover, their results show that on Kickstarter there is sub-community of founder-backers, which is highly engaged with the platform and has other characteristics than founders or backers exclusively. Their existence has long term as well as short-term strategic benefits for the community.

Inbar and Barzilay (2014) found that Kickstarter's community is composed of a hierarchy of multiple, partially overlapping communities in which members have different behavior patterns. They differ between three community types: (1) ad hoc communities centered around a single campaign or project, (2) communities of interest centered around a specific category, and (3) the platform-centered community, whose members are Kickstarter enthusiasts, interested in crowdfunding and innovation per se. They notice that over time, category-centered members start backing projects outside of their category of interest, since those users have different characteristic than category-centered community, they named them (4) *category-diverged community*.

In their study, they observe that almost no campaigns raised more than 40% of funding goal but less than 100%. More than 97% of campaigns that raised more than 40% of their funding goal succeeded. They found that project-centered community members (first time backers) present 38.7% of early supporters (backing the campaign before 5% of funding goal was reached), but 52.5% when the project met its goal. However, after the goal is met their relative number start decreasing. On the other hand, category-centered and platform-centered shares decrease over time. On the day that the project goal is met, category-centered backers represented 6.8% of all backers, while they represented 7.2% before 5% of funding goal was reached. The same applies to platform-centered community. On the day the campaign met its goal they represent 28.4% of total backers, while they present 34.2% of total supporters before 5% of funding goal was reached. However, after the project goal is met their share started increasing, while project-centered community shares start decreasing (Inbar & Barzilay, 2014).

Moreover, they spot the enormous differences in number of projects each community support. While each member of project-centered community support on average only 1.02 project, member of category-centered community support on average 3.26 projects and member of platform-centered community support on average 5.46 projects, respectively (Inbar & Barzilay, 2014).

On their website Kickstarter presents the exact number of total backers and the exact number of repeat backers. As of 5th of August 2018 15,039,347 backers have supported at least one project and 4,890,573 backers supported two or more projects. On the same day, the total number of pledges was 47,408,071. If we reduce the number of total backers by number of repeat backers we get the total number of one-time backers, which is in this case 10,148,774. This means that repeat backers pledged 37,259,297 times. Therefore, we can conclude that repeat backers present an extremely powerful community on Kickstarter and that repeat backer on average pledge more than seven times.

## **2.4 Kickstarter success factors and success rates**

Projects on Kickstarter usually succeed by narrow margin or fail by large amount (Mollick, 2014). Mollick (2014) analyzed key variables in Kickstarter campaign, aiming to reveal what are the key factors for success (project raised the amount at least equal to their goal) on Kickstarter. For key variables he included: (1) project goal, (2) funding level, (3) number of backers, (4) the mean pledge per backers - pledge/backers, (5) number of Facebook friends

of founders (FBF), (6) category, (7) updates and (8) comments. He later analyzed how those variables interact on success. The findings show that an increase in project goal size is negatively associated with success. Being featured with badge Kickstarter Staff Pick (now Project We Love) on the homepage will strongly increase possibilities for success. On the other hand, project duration decreases the chances of success. Mollick (2014), speculated that this is because longer duration is a sign of lack of confidence.

Further, social network size could also be a strong signal for backers. Mollick (2014, p. 9) found, that: "a founder with 10 Facebook friends would have a 9% chance of succeeding, one with 100 friends would have a 20% chance of success, and one with 1000 friends would have a 40% chance of success." What is more, his results show, that is better not to link Facebook account with Kickstarter if the founder doesn't have respected number of connections.

Having video and frequent updates are associated with greater chance of success. On the other hand, not having a video decreases chances by 26% and a lack of early update for 13%. Further, projects with spelling errors succeed 13% less likely than those without one. When funders taking decisions, whether backing the project or not, they are considering the size of founder's social network and preparedness signals (video, updates, spelling errors...) (Mollick, 2014). Aside from preparedness signals, which I described above, Chen, Yao and Kotha (2009, p. 201), include entrepreneurial passion in their research and define it as "entrepreneur's intense affective state accompanied by cognitive and behavioral manifestations of high personal value". An entrepreneur's passion can be expressed through their voice, facial expression and other non-verbal signs and it can have impact on final success.

Another activity that founders can undertake to increase chances of success is to use sufficient project description and by being active on the platform. It is highly beneficial if creators provide informative and extensive description with pictures and videos and update backers about the recent improvements. Besides that, Koch and Siering (2015) confirmed reciprocity theory (Gouldner, 1960) and conclude that founders who previously backed other projects are more successful in having their campaign funded.

Founders can rely that their family and friends will support the project in their early days. However, they should actively encourage them and get as much support as possible, since their support would be a strong positive signal to others and will encourage them to back the campaign (Agrawal, Catalini & Goldfarb, 2015). The same can be said for the number of previously successfully founded projects by founder. The higher the number, more positive impact it has on the success of the campaign. Contrary, the number of previously unsuccessfully funded project has a negative impact (Zvilichovsky et al., 2014).

Even though human decisions are not only based on objective, quantitative factors, most studies concentrate on quantitative factors. Koch and Cheng (2016) in their study combine quantitative as well as qualitative factors and analyze them to gain deeper insight into crowdfunding success. On the quantitative side they analyze similar factors like Mollick (2014) which are: (1) size of funding goal, (2) length of funding period, (3) description length, (4) risk section length, (5) number of pictures, (6) existence of video and updates, (7) previous project of founder, (8) number of his/her Facebook friends and (9) number of project backed by the founder. On the other hand, qualitative factors in their study are: (1) description of how money will be used, (2) stage of project development, (3) existing prototype, (4) founder appearance in video, (5) risk detailed level, (6) mention that there is

a chance of delay, (7) mention that there is a chance of failure, (8) video professionalism, (9) video tone quality and (10) experiences of the founder.

They have found that disclosing how the money will be used doesn't have any impact on success. The same can be said for presentation of the prototype in description. On the other hand, project status, (the stage in which a project is), has a positive influence on the funding success the later the stage of development a project is in, the higher the chances are that their Kickstarter campaign will be successful. The appearance of the founder similarly has a positive effect on the campaign, as also the level of detail of the risk description, video professionalism and information on previous experiences of founders. Contrary, indicating that there is a risk of delay has a negative influence on the project success (Koch & Cheng, 2016).

Kickstarter tracks overall funding success rates of all the projects on a daily basis. Further, the website breakdown success rate by category and present how many projects raised certain amount of money. Overall success rate on Kickstarter on 5th of August 2018 was 36.29%. Altogether, 412,385 projects were funded by 3.82 billion USD. Success rates vary by category. The biggest chance for success have project in Dance (61.85%), Theater (59.81%) and Comics (55.84%). On the other hand, the least chances for success have project in Technology (20.08%), Journalism (21.80%) and Crafts (24.24%). Most projects have been founded in category Film & Video (68,090) and least in Dance (3,962). The higher amount of funds has been raised in category Games (798.06 million USD), Design (742.42 million USD) and Technology (655.44 million USD) and the least in Journalism (12.30 million USD). Most successfully funded projects (82,012 projects) raise between 1,000 and 9,999 USD, 312 projects raised more than one million USD. *“14% of projects finished having never received a single pledge 78% of projects that raised more than 20% of their goal were successfully funded.”* (“Getting started,” n.d.).

### **3 OVERVIEW OF SLOVENIAN PROJECTS ON KICKSTARTER**

#### **3.1 Slovenian Kickstarter community**

After May 2013, when Kickstarter became more popular among Slovenians, projects started getting mainstream coverage in local press. In addition, several online and offline communities evolved.

On 18<sup>th</sup> of February 2013 a Slovenian Crowdfunding Facebook group was created (<https://www.facebook.com/groups/sloveniacrowdfunding/>). Their founder said that the group is for people who are preparing Kickstarter projects, creating crowdfunding platforms or would just like to share knowledge and experience. Since its beginnings the group was active, and posts were published daily, this trend slowly started decreasing and it turned in 2016 when only few posts were published monthly. The same situation can be observed today. On the 5<sup>th</sup> of August 2018, the group had 1987 members, and almost all members were Slovenian. In the group, participants mostly publish in Slovene, about their projects, news about Kickstarter or crowdfunding, events with crowdfunding topics, startup news, interviews with founders and statistics about crowdfunding. When founders post their project in the group the community mostly encourage and support them, comments were positive and each post about starting the campaign or about project in progress gathered a few dozen likes (Facebook, 2018). On the 26<sup>th</sup> of April 2016 the first Crowdfunding Meetup happened in NLB – Center Inovativnega Podjetništva in Ljubljana. Since then,



approximately every three months there is new event about Kickstarter or crowdfunding. On 5<sup>th</sup> of August 2018 Slovenia Crowdfunding Meetups group has 736 members (Meetup, 2018).

News about Slovenian Kickstarter campaigns are frequently published in the Slovenian mainstream media like siol.net or 24ur.com. Most articles describe what Slovenians launched on Kickstarter or promote campaigns in progress. For example, Žibert (2015) published on mladipodjetnik.si the article ‘Top 10 slovenskih Kickstarter kampanj’ (eng. *Top 10 Slovenian Kickstarter campaigns*), similarly siol.net published the article titled ‘Slovenski projekti, ki jim je letos uspelo na Kickstarterju’ (eng. *Slovenian projects which succeed on Kickstarter this year*). Similar articles can be found on dnevnik.si, zurnal24.si, startaj.finance.si, delo.si and citymanazine.si.

### 3.2 Main characteristics of Slovenian project on Kickstarter

From 2011 till end of 2017, 163 Slovenian projects ended on Kickstarter. The basic information on these projects are presented in Table 5 below.

*Table 5: Information on Slovenian Kickstarter projects ending between 2011 and 2017*

Number of Slovenian projects	163
Total successful projects	66
Total fund seeking	4,716,966 USD
Total fund raised	7,031,733.66 USD
Success rate	40.49%
Total number of backers	70,594
Total number of comments	10,286
Total number of updates	974

*Source: Own work.*

Below I analyse key components and project features of Slovenian Kickstarter projects and compare them to other authors’ findings. I compare goal size with Mollick’s (2014) and Kuppuswamy and Bayus’s (2017) study. Furthermore, I present the structure of Slovenian founders’ social networks and compare successful and unsuccessful Slovenian projects in terms of video length, number of words in Description and in Risk section and projects with a badge “Project We Love vs project without the badge. By comparing the two, by comparing the two, the success rates of Slovenian projects can be compared with other studies to examine the differences between successful and unsuccessful Slovenian projects.

#### 3.2.1 Goal size and duration

Mollick (2014) found that the mean amount funded of failed projects is 10.3% of their goal and that only 10% of projects that fail raised more than 30% of their goal. I compare his findings with Slovenian projects from 2011 till 2017 and show that Slovenian failed projects have higher mean of funding goal (16.67%). Additionally, only 18.6% of failed projects (18 out of 97 projects) raised more than 30% of their goal. In Mollick’s (2014) study 25% of projects that are founded are 3% or less over their goal, compared to Slovenian projects 2011-2017 where 9.09% of successful projects are 3% or less over their goal. Most Slovenian projects which are founded (81.82%) raised at least 10% over their goal, compared

to Mollick’s (2014) findings where half of successful projects raised about 10% over their goal. Moreover, 11% of all projects which Mollick (2014) analyzed received 200% of its goal, on the other hand, 18% of Slovenian projects raised more than 200% of its funding goal. The comparison is presented in Table 6 below.

*Table 6: Comparison between Mollick's findings about Kickstarter projects and Slovenian projects related to project goal*

<b>Object of comparison</b>	<b>Mollick’s (2014) findings</b>	<b>Slovenian projects from 2011 till 2017</b>
Mean amount funded of failed projects in percent of set goal	10.3% of their goal	16.67% of their goal
Projects that fail, but raised more than 30% of their goal	10% of failed projects	18.6% of failed projects
Projects that are founded and are 3% or less over their goal	25% of successful projects	9.09% of successful projects
Projects that are founded and are at least 10% over their goal	50% of successful projects	81.82% of successful projects
% of projects which received more than 200% of its goal	11% of all projects	18% of all projects or 43.94% of successful projects

*Adapted from Mollick (2014).*

Projects on Kickstarter tend to either receive very little support or just enough to reach their goal (Mollick, 2014; Kuppuswamy & Bayus, 2017). More than 90% of projects which reach at least 30% of their funding goal are funded in the end, this is known as the “Kickstarter Effect” (Kuppuswamy & Bayus, 2017). 84 Slovenian projects received 30% or more of its funding goal and 66 of them was successful at the end, which is 78,57%. Since in theory and practice, people give much credit to the period in the beginning of Kickstarter campaign I researched how important are the first 72 hours in terms of money raised. I found out that 53 projects manage to raise 20% or more of their goal in first 72 hours and 48 of them were successful at the end (90.57% success rate). On the other side, 83 projects that raised less than 10% in first 72 hours have 7.23% success rate, as six projects out of 83 were successful.

Projects on Kickstarter can last anywhere between 1 and 60 days. Kickstarter recommends setting campaigns at 30 days or less (“Getting started,” n.d.). Mollick (2014) emphasize that the project length has a negative influence on the project success, the reason is presented lack of confidence towards project. 109 Slovenian projects have project duration 40 days or less, 41 projects ended successful (37.61%). Other 54 projects lasted more than 40 days, 25 were successful (46,3%). If taking only duration into account, Slovenian projects which last 40 days or more are more successful then projects which lasted 40 days or less.

### 3.2.2 Building social network and PR

Mollick (2014) analyzed the social network of founders in the Film category and found that founders with 10 Facebook friends would have 9% chance of succeeding, founders with 100 friends 20% chance, and one with 1000 Facebook friends would have 40% chance of success. His results further advocate that not having linked Facebook account with Kickstarter is better, than having few online connections and that large networks are associated with successful fundraising. On the other hand, Koch and Cheng (2016) didn’t find significant influence of the number of Facebook friends.

97 Slovenian projects didn't link their Facebook profile with Kickstarter campaign, 34 of them were successful (35.05% success rate). 28 founders which linked their profile, have more the 1000 Facebook friends in their network, 17 of them succeed with their campaign (60.71% success rate). The rest, 38 founders, have between 82 and 942 Facebook friends; their success rate were 39.47%.

### 3.2.3 Video preparation

Video is one of the most important component of Kickstarter project and a good predictor of success. Projects with videos succeed at much higher rate, than projects without them (50% vs 30%) (Kickstarter, 2017). Similarly, other studies present similar results (48% vs 26%) (Davison, 2017). Mollick (2014) claims that not having a video decreases the chances of success by 26%. It seems that Slovenians are aware of the importance of the video, since only four projects out of 163 didn't have a video. Only one project without video ended successfully. Wisner (2017) suggest that video length is around 2-3 minutes. Of Slovenian successful projects which have a video, the average video length was 169 seconds. Similarly, the average length of unsuccessful projects was 158 seconds. Surprisingly, Slovenian projects that have videos longer than three minutes have better success rates (41.18% compared to 40.18%).

### 3.2.4 Project Description and Risk section

Koch and Siering (2015) analysed 1000 Kickstarter projects (half of them successful) and they found that on average a project description is roughly 550 words. On the other hand, the average Risk section is distinctly shorter, consisting of around 100 words. In their study they found that the depth of project description has a positive effect on the project success. Surprisingly, the length of Risk section doesn't have any influence on funding success. Additionally, their study shows that images and videos included in project Description have positive effect. This shows that backers value additional information regarding project via different media. The same was confirmed in Koch and Cheng (2016) study where they demonstrate that the length of project description, information on the project status (how close the project is to its perfection) and the number of pictures in description have a positive impact. Similarly, Kim, Por and Yang (2017) stress that projects with details are more likely to persuade backers to support the project.

In Table 7, I compare the average number of words in the Description and in Risk sections and the average number of pictures between successful and unsuccessful Slovenian projects between 2011 and 2017. Successful projects have on average more words in Description, 1023 vs 879 words, but on the other hand less words in Risk section, 108 vs 114 words, than unsuccessful projects. Successful projects have also on average five pictures more in Description, 20.27 vs 15.25 pictures.

*Table 7: Comparison of average number of words in Description and in Risk section and average number of pictures between successful and unsuccessful Slovenian projects*

<b>Object of comparison</b>	<b>Successful projects</b>	<b>Unsuccessful projects</b>
Nr. of words in Description	1023	879
Nr. of words in Risk section	108	114
Nr. of pictures in Description	20.27	15.25

*Source: Own work.*

### 3.2.5 Featured on Kickstarter/Staff Pick

Kuppuswamy and Bayus (2013) claim that successful projects receive additional backer support from Kickstarter related actions (e.g., blog post, Staff Pick/Project we love, being published on the front page or categorized as “Most Popular” or “Ending Soon”) and that this additionally help a project reach its goal. 36 Slovenian projects were selected by Kickstarter and received badge “Staff Pick” or “Project we Love” as it is called today, 26 of them was successful. This means that projects with badge had success rate of 72.22% compared to 31,5% success rate for projects without the badge.

## 4 EMPIRICAL STUDY

### 4.1 Research design

The main purpose of my study is to present recent Slovenian Kickstarter projects and, through this, propose reward-based crowdfunding as an alternative way of financing and a viable business model for Slovenian start-ups and young companies. My aim is to provide insight into crowdfunding in terms of project management. Kickstarter projects can increase their chance of obtaining funding if they follow the activities that have contributed to the success of previous Kickstarter projects. The main goal of this master’s thesis is to analyze the factors that determine the chances of success of Slovenian projects on Kickstarter and identify which of them are the most important. In addition to this, I analyse all Kickstarter projects and compare the results with Slovenian projects.

To achieve the objectives of this thesis, I try to answer the following key research questions:

[R1]: What is the average success rate for Slovenian projects from 2011 till end of 2017 and how it compares to overall success rate of projects on Kickstarter?

[R2]: What is the effect of various factors on success of Slovenian projects on Kickstarter?

[R3]: What are the most important success factors for Slovenian projects on Kickstarter?

Since to date, no such study has been conducted for Slovenian projects. My research is based on secondary data gathered using online sources. I base my list of success factors on review of similar researches (Mollick, 2014; Kuppuswamy & Bayus, 2017). I checked similar works and attempt to include all relevant variables which could influence the Kickstarter projects’ result. Since Kickstarter doesn’t share all information about projects publicly, the data gathered from their website is limited. For that reason, I rely also on other sources.

To analyse my first research question I use secondary data found on Kickstarter website, from there I collected success rate for all projects and success rate by categories. To get information about Slovenian projects I use Berce’s (2017) table where he collected all Slovenian projects and categorized them. I use that data to conduct logistic regression with success as dependent variable and category and country (Slovenia vs all Kickstarter projects) as dummy coded independent variables. The results show how much the probability of a project succeeding changes if it’s from Slovenia, controlled for category of the project, compared to all projects.

Given the nature of the dependent variable (it is categorical since either the project has succeeded, or it has not) I use logistic regression to answer my second research question.

With that method I can tell which factors are associated with a project’s success. For that analysis I use secondary data gathered either on Kickstarter or Kicktraq website or with Chrome extension BuzzSumo. In the results I describe how much a relative change of single factor influences a probability of success, controlled for all other included variables.

To answer what are the most important success factors for Slovenian projects on Kickstarter I use the Random forest algorithm. With that method I can compare head to head all success factors for all Slovenian projects and determine their relative importance. Logistic regression was not suitable for this research question, since for every variable is suggested to have at least 10 events or non-events (whichever is smaller) (Peduzzi, Concato, Kemper, Holford & Feinstein, 1996). In my case I have 66 successful events vs 97 unsuccessful events, therefore I could analyse at most six variables. For that analysis I use secondary data which I gathered on Kickstarter and Kicktraq website and social information which I gathered with Chrome extension BuzzSumo.

## 4.2 Data

The study is based on the collection of secondary data. The source for basic information about projects was Berce’s (2017) spreadsheet with a title Crowdfunding projects in Slovenia. Berce (2017) collected information such as project name, creator, category, number of comments and number of updates and project goal and money raised in original currency which I use in analysis with some adaptations. As well, I collected additional project data, such as most backed reward, number of pictures and words, badge Project we love on Kickstarter website. For financial data, e.g. how much money was raised in first three days, I used a website which analyses Kickstarter projects and present data in charts, kicktraq.com. Social information about project, I gathered with website buzzsumo.com and Chrome extension Buzzsumo. In this way, I have gathered data on 163 Slovenian projects which ended between 2011 and till end of 2017.

At this moment campaigns can only be launched from 22 countries and Slovenia is not among them (“Getting started,” n.d.). For this reason, I needed to use a different approach to identify projects from Slovenia. I count project as Slovenian if key persons (founder, project manager) or majority of project members came from Slovenia or if the project was developed in Slovenia but posted on Kickstarter from other country. My analysis proceeds on the assumption that I gathered all Slovenian projects which ended between 2011 and 2017 which complied with criteria above. Three projects didn’t raise any money, therefore, I couldn’t include them in the logistic regression.

In the Table 8 below I present variables used in research and their description.

*Table 8: Variables used in research and their description*

<b>Variable</b>	<b>Description</b>
Project success	If the project raised more funds on Kickstarter than its goal project success has a value 1, otherwise 0.
Project goal in USD	Represents the amount founders seek to raise using crowdfunding.
Project duration	Describes how many days the campaign lasted.

*(table continues)*

(continued)

Table 9: Variables used in research and their description

<b>Variable</b>	<b>Description</b>
Number of comments	Describes how many comments a project has on Kickstarter project site under the tab Comments.
Number of updates	Describes how many updates a project has on Kickstarter project site under the tab Update.
% of goal raised in first 72h	Describes the percentage of set project goal which was raised in the first 72 hours of campaign.
Campaign of the founder by number	Describes which project it is on Kickstarter of founder.
Number of Facebook friends	Describes how many Friends the founder has on Facebook.
Number of campaigns backed by founder	Describes how many Kickstarter campaigns the founder backed.
Value of most backed reward per project in USD	Describes how much the most backed reward in a project was worth.
Video length (sec)	Describes how long project video is.
Nr. of media logos in description	Describes how many media/publishers' logos are in the project description and it indicates how many publishers reported on the project.
Displayed timeline in description	Describes if project has a timeline in the description. 1 represents that project has a timeline and 0 that project doesn't.
Nr. of words in description	Describes how many words are in the project description.
Nr. of words in Risks and Challenges	Describes how many words are in the project Risk and Challenges section.
Nr. of pictures & videos in description	Describes how many pictures and videos are in the project description.
Facebook Engagements	Describes how many engagements the project ha on Facebook.
Twitter Shares	Describes how many shares the project had on Twitter.
Pinterest Share	Describes how many shares the project had on Pinterest.
Total Engagements	Describes how many engagements the project had on Facebook, Twitter and Pinterest combined.
Has badge "Project we Love"	Describes if the project received the Kickstarter badge "Project we Love" (previously "Staff Pick". 1 represents that project received the badge and 0 that it didn't.

Source: Own work.

### 4.3 Descriptive statistics

The Table 9 below I present descriptive statistics for the variables that are used in the analysis, number of observed projects and provide information regarding the mean, minimum and maximum value for each variable.

Table 10: Descriptive statistic of variables used in the analysis

Variable	Nr. of observed projects	Mean	Min	Max
Project success	163	0.40	0	1
Project goal in USD	163	29,765	100	300,000
Project duration	163	36.30	1	60
Number of comments	163	63.10	0	1,631
Number of updates	163	5.98	0	34
% of money raised in first 72h	158	14%	0%	214%
Campaign of the founder by number	163	1.11	1	3
Number of Facebook friends	66	1,071.48	82	4716
Number of campaigns backed by founder	163	9.12	0	170
Value of most backed reward per project in USD	160	88.98	1	1,250
Video length (sec)	159	162.87	19	588
Nr. of media logos in description	163	4.01	0	38
Displayed timeline in description	163	0.66	0	1
Nr. of words in description	163	937.29	1	3449
Nr. of words in Risks and Challenges	163	111,82	1	332
Nr. of pictures & videos in description	163	17.28	0	59
Facebook Engagements	163	1,112.62	0	20,094
Twitter Shares	163	93.20	0	2,681
Pinterest Share	163	170.69	0	15,278
Total Engagements	163	1360.07	0	20,530
Has badge "Project we Love"	163	0.22	0	1

Source: Own work.

## 4.4 Methodology applied

In the subchapters that follow, I shortly describe logistic regression and the Random forest algorithm and display equations.

### 4.4.1 Logistic regression

Logistic regression is a mathematical modeling approach which can describe the relationship of several independent variables to a dichotomous dependent variable (Kleinbaum, 1994). Because of its ease of interpretation on the results, the logistic regression model has become widely used method for analysis of outcome variable. It is used for estimating probabilities and/or odds ratios (Hosmer, Hosmer, Le Cessie & Lemeshow, 1997). Additionally, from mathematical point of view, is extremely flexible and it leads itself to a clinically meaningful interpretation (Cox & Snell, 1989).

Logistic regression follows the general principals of linear regression. The main difference between the logistic and linear regression models is that the outcome variable in logistic regression is binary or dichotomous. This difference is reflected in choosing the right parametric model and in the assumption. The second significant difference between the models is conditional distribution of the outcome. In linear regression the mean is expressed as an equation linear in  $x$ . Therefore, the outcome of linear regression  $E(Y|x)$  can take on any value as  $x$  ranges between  $-\infty$  and  $+\infty$ . On the other hand, with dichotomous data, the conditional mean in logistic regression must be greater than or equal to zero and less than or equal to 1 (Hosmer Jr., Lemeshow & Sturdivant, 2013).

The logistic model is based on the logistic function called  $f(z)$  and is given by equation (1).  $Z$  varies from  $-\infty$  and  $+\infty$ . When  $z$  is  $-\infty$ , the logistic function  $f(z)$  equals 0 and when  $z$  is  $+\infty$ , then  $f(z)$  equals 1. Therefore, the range of  $f(z)$  is always between 0 and 1, regardless of the value of  $z$ , which is perfect for describing probability (Kleinbaum, 1994).

Logistic function:

$$f(z) = \frac{1}{1 + e^{-z}} \quad (1)$$

The logistic function has an elongated S-shaped figure. The S-shape of  $f(z)$  indicates that the effect of  $z$  on an individual's risk is minimal for low  $z$ 's until some threshold is reached. The risk then rises rapidly over a certain range of intermediate  $z$  values, and then remains high around 1 once  $z$  gets large enough. To derive logistic regression from logistic function we write  $z$  as the linear sum  $\alpha$  plus  $\beta_1$  times  $X_1$  plus  $\beta_2$  times  $X_2$ , and so on to  $\beta_k$  times  $X_k$  where  $\alpha$  and  $\beta_i$  are constant terms representing unknown parameters and  $X$ 's are independent variables of interest.  $Z$  is an index that combines the  $X$ 's. The next step in generating a logistic regression formula is to substitute  $z$  in the logistic function for  $\alpha$  plus the sum of  $\beta_i X_i$  for  $i$  ranging from 1 to  $k$ . To describe the probability of some event we need to observe independent variables  $X_1$ ,  $X_2$  and so on up to  $X_k$  on a group of subjects to whom we also determine status of dependent variable; 1 if subject has achieved or if it possessed dependent variable and 0 if not. Based on data obtained on the  $X$ 's and on dependent variable for a group of subjects we estimate unknown parameters  $\alpha$  and  $\beta_i$ . Thus, because we know the



parameters  $\alpha$  and  $\beta_i$  and we have values for  $X_1, X_2$  and so on up to  $X_k$  we can use this formula to estimate probability for future status of subjects (dependent variables) (Kleinbaum, 1994).

The logistic model can be written as it is in equation (2) below:

$$P(X) = \frac{1}{1 + e^{-(\alpha + \Sigma\beta_i X_i)}} \quad (2)$$

$P(X)$  is the probability that the event will occur. If we divide the probability of first subject  $P_0(X)$  with probability with other subject  $P_1(X)$ , we get a risk ratio. With the risk ratio which is represented by equation (3), we compare two subjects this ratio describes by how much the risk is higher or lower for first subject to occur, when comparing to second subject (Kleinbaum, 1994).

$$\text{Risk ratio} = RR = \frac{\hat{P}_1(X)}{\hat{P}_2(X)} \quad (3)$$

This method is known as the direct method for estimating risk ratio. To estimate risk ratio directly, two conditions must be met. First, we must have follow-up study, which means that we can estimate individual risk and second, we must specify values for all the independent variables for each subject. If this is not the case, we can estimate the risk ratio indirectly. To do so, we must first compute the odds ratio. In contrary with risk ratio, where we must conduct a follow-up study, the odds ratio can be used in follow-up, case control, or cross-sectional studies. To begin the description of the odds ratio in logistic regression, we must transform the logistic model to the logit form of the model as given by equation (4) (Kleinbaum, 1994).

$$\text{Logit } P(X) = \ln_e \left[ \frac{P(X)}{1-P(X)} \right] = \alpha + \Sigma\beta_i X_i \quad (4)$$

To estimate the odds ratio, we first need the odds for individual X. The odds are the ratio of the probability that some event will occur over the probability that the same event will not occur as is evident from equation (5) (Kleinbaum, 1994).

$$\text{Odds for individual } X = \frac{P(X)}{1 - P(X)} \quad (5)$$

An odds ratio, by definition, is a ratio of two odds written here as  $odds_1$  divided by  $odds_0$ , in which the subscripts indicate two individuals, or two groups of individuals being compared and is given by equation (6) (Kleinbaum, 1994).

$$\text{Odds ratio}_{x_1, x_0} = \frac{\text{odds for } X_1}{\text{odds for } X_0} \quad (6)$$

A maximum likelihood estimation that is used in the logistic regression models rests on the asymptotic theory and big samples are necessary so that consistency is achieved. Further, we can't use logistic regression for analyzing completely separated outcome variables. Complete separation occurs when variables completely determine the likelihood of an event. For example, if analyse how many people have their driver's license, underage people shouldn't be included, because they couldn't apply for a driver's license yet. In this case, age completely determines the probability as someone who is underage couldn't have a driver's license by law (Marinšek, 2015).

#### 4.4.2 Random forest algorithm

To assess variable importance in predicting the success of Kickstarter project I used the Random forest algorithm which is a type of classification tree algorithm. The Random forest algorithm splits the data in a tree structure (Friedman, Hastie & Tibshirani, 2001, p. 588). It works in the following way:

1. Repeat  $B$  times:
  - a. Draw a bootstrap sample of size  $N$  from the data.
  - b. Grow a random-forest tree  $T_b$  to the bootstrapped data, by recursively repeating the following step for each terminal node of tree, until the minimum node size  $n_{min}$  is reached.
    - i. Select  $m$  variables at random from the  $p$  variable
    - ii. Pick the best variable/split-point among the  $m$
    - iii. Split the node into two daughter nodes
2. Output the ensemble of trees  $\{T_b\}_1^B$ .

At each split only  $m$  randomly selected variables are considering for splitting the node. The variable that best splits the node according to split criterion is used. To assess variable importance, we just calculate the improvement in the split criterion produced by the variable in a tree and average this measure over the entire ensemble of trees. Split criterion used was decrease in Gini impurity or Gini index. It is important to note that this is not a Gini coefficient, which is intended to represent income of wealth distribution, and it is used as a measurement of inequality, usually used by economists. A Gini index for two class classification (success/failure) is calculated as given by equation (7) (Friedman et al., 2001, p. 588).

$$\begin{aligned} \mathbf{Gini} &= \mathbf{p}_{success} * (\mathbf{1} - \mathbf{p}_{success}) + \mathbf{p}_{failure} * (\mathbf{1} - \mathbf{p}_{failure}) \\ &= \mathbf{2} * \mathbf{p}_{success} * \mathbf{p}_{failure} \end{aligned} \quad (7)$$

An index measures the homogeneity of a node. The more homogenous the node the smaller is Gini impurity and better the classification. A decrease in Gini index is calculated below in equation (8).

$$\mathbf{w}_1 * \mathbf{Gini}_{node1} + \mathbf{w}_2 * \mathbf{Gini}_{node2} - \mathbf{Gini}_{parent} \quad (8)$$

In the next subchapter I present the results of the logistic regression of Slovenian projects which occurred between 2011 and 2017 and what success factor has the biggest impact on success (variable importance) using Random forest algorithm. Calculations were done with

R programming language for statistical computing (R Core Team, 2017) I used basic functions and library Random Forest (Liaw & Wiener, 2002).

#### 4.5 Results

Below I present the results for my research questions.

To answer my first research question, “What is the average success rate for Slovenian projects from 2011 till 2017 and how its compared to overall success rate of projects on Kickstarter?”, I use a statistic which is published on Kickstarter website. There I gathered information what is the success rate per category for all projects which were launched on Kickstarter and what is the category structure. I present that information in Table 10 below.

*Table 11: Success rate and category structure for all projects on Kickstarter and for Slovenian projects 2011-2017*

Category	All projects					Slovenian projects 2011-2017				
	Succeed	Fail	All	Success rate (in %)	Cat. structure (in %)	Succeed	Fail	All	Success rate (in %)	Cat. structure (in %)
Dance	2423	1485	3908	62	0.97	0	0	0	N/A	0
Theater	6674	4495	11169	59.75	2.78	1	0	1	100	0.61
Comics	6498	5223	11721	55.44	2.91	1	1	2	50	1.23
Music	27709	28236	55945	49.53	13.91	0	5	5	0	3.07
Art	12358	17550	29908	41.32	7.43	4	3	7	57.14	4.29
Film & Video	24967	42088	67055	37.23	16.67	1	2	3	33.33	1.84
Games	13946	24211	38157	36.55	9.48	5	5	10	50	6.13
Publishing	13105	28871	41976	31.22	10.43	1	6	7	14.29	4.29
Photo	3455	7725	11180	30.9	2.78	1	1	2	50	1.23
Fashion	6206	18325	24531	25.3	6.1	4	6	10	40	6.13
Food	6430	19360	25790	24.93	6.41	4	4	8	50	4.91
Crafts	2242	7074	9316	24.07	2.32	1	2	3	33.33	1.84
Journal	1085	3907	4992	21.73	1.24	0	0	0	N/A	0
Tech	6928	27639	34567	20.04	8.59	8	17	25	32	15.34
All	145494	256800	402294	36.17	-	66	97	163	40.49	-

*Source: Own work.*

It is evident that there are differences in success rate among categories and I also noticed that Slovenian projects have different structure of categories than all projects launched on Kickstarter. For example, Slovenians have relatively more Design projects compared to global average (49% vs 8%) and significantly less projects in Film & Video (1.8% vs 16.6%) or Music (3% vs 13.9%). Data for all projects was gathered on 17.6.2018. I decided to compare success rates controlled for categories. Given that, I excluded impact of categories on success rate. I ran a logistic regression with success as independent variable and category and country as dependent variables (equation (9)). I observe 163 Slovenian projects and

402,294 total projects. I made dummy variables for every category and dummy variable for Slovenian projects.

$$\text{Logit}(p_{\text{success}}) = \beta_0 + \gamma_i \times \text{kat}_i + \beta_1 \times \text{Slovenia} \quad (9)$$

Results can be seen in the Table 11 below.

*Table 12: Success rate of Slovenian projects launched between 2011-2017 compared to all projects*

Coefficients	Log odds ratio				Odds ratio		
	Estimate	Std. Error	z	P> z	Estimate	95% Conf. Interval	
Slovenia	0.34086	0.16217	2.102	0.0356	1.4062	1.0233	1.9323

*Source: Own work.*

that the research demonstrated that, on 17<sup>th</sup> of June 2018, the overall success rate for all projects on Kickstarter was 36.17%. The success rate for Slovenian projects between 2011 and 2017 was 40.49%. The results show that, after controlling for project categories, Slovenian projects are more likely to be successful than projects from other countries (a positive and statistically significant coefficient with p values  $p = 0.036$  is obtained for the dummy for Slovenian projects). The odds ratio for Slovenian projects is 40.62% higher than the odds ratio for projects from other countries.

To answer my second research question, "What is the effect of various factors on success of Slovenian projects on Kickstarter?", I use logistic regression and control the model for influence of goal size and category (category controls). I observed 154 Slovenian projects, as five projects didn't have data of funds collected in the first 72 hours, three projects didn't raise any money and one project doesn't have data about Twitter, Facebook and Pinterest shares. In my research I include the following independent variables: (1) % of money raised in first 72 hours, (2) updates, (3) social media engagement, (4) media sponsors in the description. I collected the data for all variables and estimate the following logistic regression with R programming language:

$$\begin{aligned} \text{Logit}(p_{\text{success}_Slo}) &= \beta_0 + \beta_1 \\ &\times \log(\% \text{ of money raised in first 72h}) + \beta_2 \\ &\times \log(\text{Updates}) + \beta_3 \\ &\times \log(\text{Social media engagemen}) + \beta_4 \\ &\times \log(\text{Media logos in description}) + \gamma_i \\ &\times \text{kat}_i + \beta_5 \times \log(\text{Goal USD}) \end{aligned} \quad (10)$$

I logarithmize independent variables as it is easier to interpret how relative change in independent variables influences the probability of success. Additionally, I exponent the regression coefficient because it's easier to interpret results as odds ratio compared to log odds ratio. Further, since I logarithmized independent variable the results present relative influence (1% change) on the probability of success and not absolute change (unit change). I calculated odds ratio for 1% change in independent variable, as shown in equation (11).

$$\text{Odds ratio for 1\% change} = e^{\frac{\beta}{100}} \quad (11)$$

Results are presented in Table 12 below.

*Table 13: Results for logistic regression: Predictors of project success*

Variables	Log odds ratio				Odds ratio for 1% change		
	Estimate	Std. Error	z	P> z	Estimate	95% Conf. Interval	
Log (% of money raised in first 72h)	1.6691	0.5029	3.319	0.0009	1.0168	1.0069	1.0269
log(Updates)	2.3073	0.6635	3.477	0.0005	1.0233	1.0101	1.0367
Log (Social media engagement)	0.5546	0.2863	1.937	0.0527	1.0056	0.9999	1.0112
Log (Media logos in description)	-0.1388	0.2042	-0.680	0.4967	0.9986	0.9946	1.0026
Log (Goal USD)	0.6567	0.4666	-1.408	0.1593	0.9935	0.9844	1.0026

*Source: Own work.*

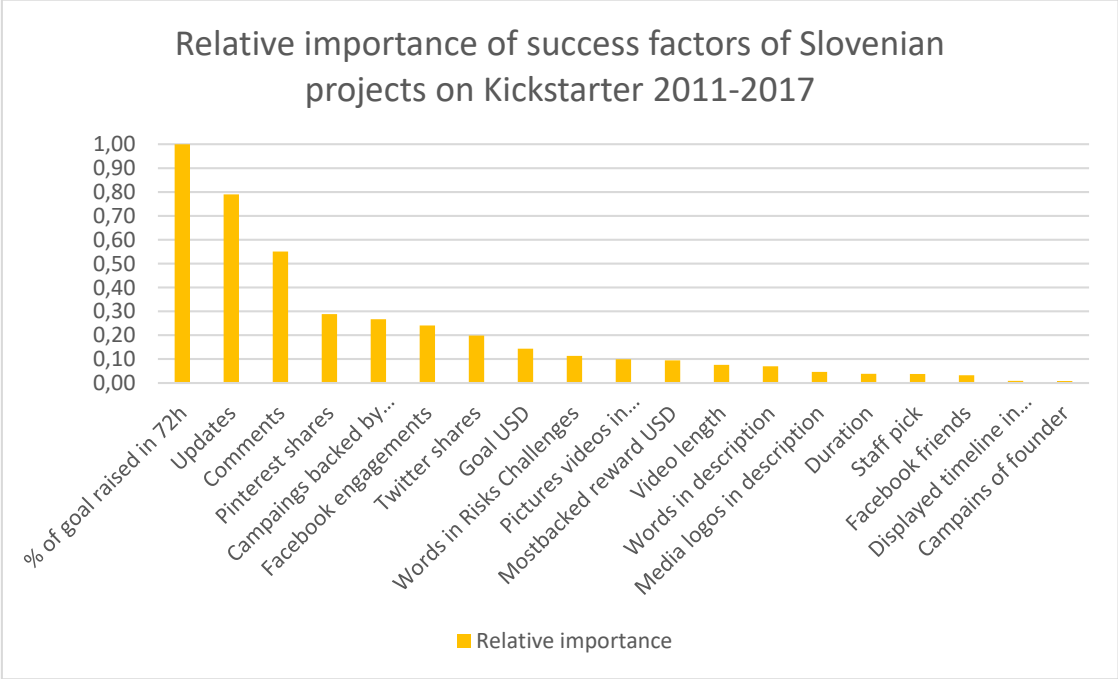
I use logistic regression to establish which variables are associated with the success of Slovenian Kickstarter projects. These factors are already established and have been included into research on crowdfunding success in several studies. Mollick (2014) and Koch and Cheng (2016) analyzed Facebook network size and updates and found influence on success. Agrawal, Catalini and Goldfarb (2011) concluded that early investments serve as a signal of entrepreneur commitment and that they encourage other backers. Li and Duan (2014) in their model show that investors are more likely to support the project which has already attracted a critical mass of funds. Belleflamme, Omrani and Peitz (2015) and Kuppuswamy and Bayus (2017) claim that early funders with their contributions affect the decisions of future backers. Koch and Siering (2015) stated that different communication cues have an impact on funding success, therefore I included presence of media logos in description.

I observed that the proportion of total project goal which is raised in the first 72 hours is a statistically significant predictor of success even after controlling for the number of updates, social media activity, media support (media logos in description) and goal size and category controls. Every 1% increase in the share of collected money, increases odds of success for 1.68%. The number of updates is a statistically significant predictor of success even after controlling for money raised in first 72h, social media activity, media support (media logos in description) and goal size and category. Every 1% increase in updates, increases odds of success for 2.33%. The number of social media shares is a marginally statistically significant predictor of success ( $p = 0.053$ ) after controlling for money raised in the first 72h, number of updates, media support (media logos in description) and goal size and category controls. Every 1% increase in shares, increases odds of success for 0.56%. The number of media logos in the description (which is an indicator that the Kickstarter project or product was presented in that media) is not a statistically significant predictor of success ( $p = 0.497$ ) after controlling for money raised in first 72h, number of updates, number of social media updates and goal size and category controls.

Results for my third research question are presented in the Figure 7 below. In the figure, I present independent variables of Slovenian Kickstarter projects 2011-2017 which I use as

success factors and variable importance indexes. With that we can define how important a variable is in predicting the success of a Kickstarter project. The algorithm starts by drawing a bootstrap sample of  $n$  observations with replacement. Then the algorithm randomly selects a limited number of variables. In my example, four variables (rule is square root of number of variables rounded down – in my case four) from all included variables for example Updates, Facebook shares, Comments, Twitter shares and compares them head to head. Then it chooses one variable and its value which among those selected split the data most homogeneous. For example, number of Updates. The data is split into two groups as homogeneous as possible (in one group we have more successful projects and in another more unsuccessful projects) based on selected value so that decrease in Gini impurity in two children nodes is maximized. This approach is continued until stoppage criteria is reached. The algorithm stops when the size of the split groups become small enough (this is determined by R software). The average decrease in Gini impurity for every variable in all bootstrapped trees is then calculated and the bigger the average decrease in impurity of Gini index is, the better the variable discriminates between success and failure. In the final step, results are scaled according to the value of the most important variable. That means that the average decrease in Gini impurity is divided by the largest value of average decrease in Gini impurity. We get an index of relative importance in relation to the most important variable. In my case that would mean that Updates with value 0.79 have on average 21% lower decrease in Gini impurity compared to the most important variable (% of goal raised in 72h). I found that the most important success factor when analyzing variable importance with the Random forest algorithm is the percentage of goal raised in first 72 hours, the second and third most important factor is how many updates and comments campaign has. Fourth, but significantly less important than first three is how many Pinterest shares project has. Of nearly the same importance is how many Kickstarter campaigns founder supported on Kickstarter and Facebook engagements and Twitter shares. Other factors for Slovenian projects between 2011-2017 have index of relative importance below 0.14, when analyzing with Random Forest Algorithm.

Figure 7: Relative importance of success factors of Slovenian projects on Kickstarter



Source: Own work.

## 5 DISCUSSION

### 5.1 Interpretation of results

In my first research question I find that Slovenian projects are more likely to be successful than projects from other countries when controlled for project categories. The odds ratio in favour of a Slovenian project being successful is 40.62% higher. The reason for that might be in the Slovenian crowdfunding community and media coverage, since Slovenian projects on Kickstarter were perceived as positive and received commercial media attention. Another reason could be that since Slovenians can't launch Kickstarter project from Slovenia and they have to find foreign company to start it, this might serve as a filter for half-done projects. This would mean, that founders who don't believe in success, won't even bother and try to find someone abroad, who is willing to launch project in their name.

In my second research question I try to explore what the effect of selected success factors on success of Slovenian projects on Kickstarter are. With that I could advise project managers on what they should focus on, either:

- a) to raise as much money in the first 72h (as share of goal size),
- b) to post a lot of updates to a project,
- c) try to get as much social media shares and engagements as possible (Twitter + Facebook + Pinterest),
- d) to put as many media sponsors into description.

The percentage of goal reached in first 72 hours and number of updates are both statistically significant predictors of success. Further, social media engagement is a marginally statistically significant predictor of success ( $p = 0.053$ ). Therefore, those factors can be said to be associated with increasing the success of Kickstarter project. On the other hand, number of media logos in description (which is usually indicator that Kickstarter project or product was presented in that media) is not a statistically significant predictor of success.

Our finding that updates are associated with successful projects are in line with similar studies done on projects from other countries. For example, Kim, Por and Yang (2017) claim that the number of updates influence success ratio and Koch and Cheng (2016) in their study emphasize that provision of updates has a positive influence on funding success. When it comes to the percentage of goal reached in first 72 hours as a success factor, I couldn't find any study which analyzed how this influences the project success. However, there are several studies which mention how early backers influence the backing behavior of future backers (Agrawal et al., 2011; Belleflamme et al., 2015). Similarly, Inbar and Barzilay (2014) claim that 97% of projects able to raise 40% of their target amount succeeded in meeting their goal. I found that 53 Slovenian projects manage to raised 20% or more of their goal in first 72 hours and 48 of them were successful at the end (90.57% success rate). On the other hand, 83 projects which raised less than 10% in first 72 hours have 7.23% success rate, six projects out of 83 were successful. With logistic regression I was able to confirm that the percentage of goal reached in first 72 hours has an effect on final result.

Social media engagement is found to be marginally statistically significant. My findings reflect the lack of consensus in this area. For example, Belleflamme, Omrani and Peitz (2015) highlight that social networking does not increase the funding amount. Contrary, Lu, Xie, Kong and Yu (2014) presented the connections between promotion campaigns in social media and the fundraising results of crowdfunding projects. Additionally, they claim that

social media will increase the popularity of the project. Further, Kraus, Richter, Brem, Cheng and Chang (2016) claim that Facebook has an important role as updating tool and keeps the crowd interested in the project.

Based on the analysis of my second research question, I would suggest to future project managers to use updates and to allocate most advertising activities in the first 72 hours. Updates are anyhow convenient and free tool which allows founders to communicate with their backers throughout the campaign. Therefore, project managers have to plan frequent updates during the campaign, post the first update very recently after the beginning of the campaign and write last updates with semantic content. Additionally, project managers might adapt their crowdfunding strategy and focus all their resources (paid PR and advertisement) to the first three days of campaign instead of allocating them across the whole campaign, since money raised in first three days also have influence on success of Slovenian projects and it is also the most important success factor for Slovenian projects as I found when analyzing my third research question.

Addressing my third research question, with the Random forest algorithm method, I found that money raised in the first three days of the Kickstarter campaign, turns out to be the most important success factor. The reason could be that projects which raised relatively more money in the beginning of the campaign need to raise relatively less money till the end. *Ceteris paribus*, projects which raised relatively more in first three days, have better chances for success, because they need to raise relatively less money before the end of campaign. Other reasons could be that early funders with their contributions affect the decisions of future backers, this is known as herding effect (Belleflamme et al., 2015; Kuppuswamy & Bayus, 2017). Since on Kickstarter everyone can see, how much money each project raised all the time, getting a lot of money in the beginning of the campaign could be a positive signal to future backers. Zhang and Liu (2012) found when analyzing P2P landing market that supporter behavior may resemble herding because of payoff externalities: lender which supported campaigns which didn't received enough support at the end, received money back and faced opportunity costs. The same happened on Kickstarter with unsuccessful projects. Kuppuswamy and Bayus (2017) found that more than 90% of projects that reach at least 30% of their goal at some point during the campaign eventually succeed. This is known as Kickstarter effect. Projects which raised relatively more money in first three days, have therefore better chances that they will be influenced by Kickstarter effect. Additionally, Kuppuswamy and Bayus (2017) confirmed the hypothesis that backers want their contributions to make an impact, and this can be achieved by supporting projects close to the deadline of their funding cycle.

The second most important factor identified for Slovenian projects were updates. Early and frequent updates were recognized as important also from other researchers. Koch and Siering (2015) observed that it is of high importance to update the project throughout the funding period. Further, Kuppuswamy and Bayus (2014) emphasize the importance of having public and private updates as the end of funding cycle approaches. Comments can be seen as a public statement from a brand's spokesperson and function as a marketing tool (Kraus et al., 2016). The number of comments matters as well. Antonenko, Lee and Kleinheksel (2014) state that intensive communication with the crowd has a positive impact on project success. This is something that can also be said to be true Slovenian projects between 2011 and till the end of 2017.

Surprisingly, Pinterest shares are more important than Twitter shares and Facebook engagements for Slovenian projects ended. Despite the fact that social networks are widely



used in crowdfunding campaigns, and more than 50% of founders used social networks, Belleflamme, Lambert and Schwienbacher (2010) other authors didn't include amount of engagements on Pinterest, Twitter and Facebook in their research. Some only focus on Facebook (Kraus et al., 2016). Mollick (2014) analyzed if the amount of Facebook friends which founder has, influence the outcome of the campaign. He concluded that founders with more Facebook friends tend to be more likely to succeed. However, if the founders don't have a lot of friends on Facebook is better that they don't connect their Facebook profile and Kickstarter campaign.

The amount of Kickstarter campaigns a Slovenian founder has previously supported on Kickstarter is the fifth most important success factor identified in our analysis. This is in accordance with indirect reciprocity theory, which says that projects with founders who previously backed other projects on the platform, have different results compared to founders who didn't. Founder-backers have higher success rate, they raised more funds and get support by more backers compared to founders who haven't backer any campaign (Zvilichovsky et al., 2014; Koch & Siering, 2015).

## **5.2 Limitations**

The limitation of my research mostly resulted from the fact that crowdfunding is a relatively new business model in Slovenia. From 2011 till the end of 2017, Slovenians ended only 163 Kickstarter projects. Therefore, when conducting research, I operate with a limited sample size.

Another limitation is that Slovenians can't launch campaign from their home country, but instead need access to a foreign company. Therefore, when selecting projects for the research I couldn't simply focus on the place or origin, but I had to establish other criteria. I count projects as Slovenian if key persons (founder, project manager) or majority of project members came from Slovenia or if the project was developed in Slovenian but posted on Kickstarter from another country. Therefore, there could be a possibility that there are some projects that are actually Slovenian but I did not recognize them as such and consequently I didn't include them in the research.

Kickstarter doesn't publicly share all information about projects, therefore, when gathering information, I needed to use other tools. Financial information was gathered with help of another website Kicktraq.com and for five projects the financial information how much money projects raised in first three days wasn't available. Information about social media engagement was gathered with Chrome extension BuzzSumo. Since this is a free tool it is possible that some data was rounded to a whole number and that not all social media engagements were captured and additionally for one project there was no social media data at all.

## **5.3 Implications and recommendation for further research**

It would be interesting to further research how important the first few days of a Kickstarter campaign are on a broader scale, since money raised in first three days of Kickstarter campaign, turns out to be the most important success factor when analyzing data with the Random forest algorithm. It would be interesting to gather daily financial data of all projects and analyse on which days project managers should spend their resources. New findings in this area could change the business model founders use to approach Kickstarter campaigns. It would answer if is better to allocate resources during the whole campaign and everyday spend a little bit or concentrate everything in some narrow period during the campaign.

Updates and comments appeared to be highly important for project success. In my research I analyzed a cumulative number of updates and comments. However, it would not make sense if project managers write all comments and updates on the first day and then stop. Therefore, additional analysis should be done on how frequently project manager should post updates or comment in a way to attract the best results.

In my research I focus only on quantitative data rather than qualitative data. There is a difference if a project has a high quality, professional video or if a project has a video which is poor quality. In my research I couldn't recognize those anomalies, as I only capture if project has a video or not. The same can be said for other variables such as Facebook shares, updates, comments, images and so on. Therefore, additional research which should also focus on qualitative factors as it would be a benefit, for Slovenian as well as for all Kickstarter projects.

## **CONCLUSION**

Being successful on Kickstarter is not only about having a good idea. Everyone who launches a project on Kickstarter believes that they will be successful at the end, however the average success rate is only around 36%. Therefore, to succeed on the platform, you have to consider what makes successful projects successful and incorporate those success factors into the Kickstarter campaign.

In this master's thesis I focused on Slovenian projects which ended between 2011 and 2017. When comparing Slovenian projects with other studies, Slovenians did better than average. For example, 81.82% of Slovenians projects raised around 10% over its goal versus other projects, where only half of them raised at least 10% or more over its goal. Additionally, 11% of foreign successful project raised more them 200% (Mollick, 2014), compared to Slovenians where 18% raised more than that. The average success rate for Slovenian projects was around four percentage points higher than for other projects (40.49% vs 36.17%), but it differs between project categories. Therefore, I wanted to examine whether Slovenian projects are more successful than projects from other countries even after controlling for project categories. Using logistic regression, I found that the odds of having a successful project for Slovenian projects are 40.62% higher than the odds for projects of other countries. Taking that into account I conclude that Slovenians are in fact more successful on Kickstarter than others.

Knowing that Slovenians achieve better results was not enough. Since I wanted to help future project managers/founders with theirs Kickstarter campaigns. Therefore, I wanted to discover what the success factors that have an effect on success are. To achieve that, I conducted logistic regression with four factors which were also exposed by other researches or labeled in Kickstarter community as vital. My findings were mostly in accordance with other prominent research in the field. Updates and percentage of goal reached in the first 72 hours have effect on success, as well as social media engagement (which was found to be marginally statistically significant). Surprisingly, the amount of media logos didn't t have the effect on result. Having only 66 successful projects in our sample, I was only able to include a limited number of factors into logistic regression. Therefore, I made an additional analysis with the Random forest algorithm. With that method I was able to compare head to head 19 possible success factors. The results were similar to results of logistic regression. The percentage of goal reached in the first 72 hours turned out to be the most important success factor, following by updates, comments and Pinterest shares. This can be explained

by the Kickstarter effect, Kuppuswamy and Bayus (2017) found that more than 90% of projects that reach at least 30% of their goal at some point during the campaign eventually succeed and confirm the herding effect, which says that everyone wants to support what others supported (Zhang & Liu, 2012).

I would advise future project managers or founders to intensively communicate with the community. The best free tools to do that are updates and comments on their project site and through social media. Additionally, since it turns out that percentage of goal raised in first 72 hours is the most important factor I would advise to focus their campaign on first three days and allocate a large proportion of the budget in this period, so that their project might be influenced by Kickstarter and the herding effect.

To the best of our knowledge, this was a first empirical study of factors contributing to the success of Slovenian projects on Kickstarter. There is ample room for further research. There are many other factors that could have effect on project's final result for example, qualitative factors, which I didn't include in my research, since they tend to be subjective (for example, having a lot of comments, doesn't mean anything if founders are not responding to them and encouraging backers for support). Additionally, I was limited with a relatively small sample of Slovenian projects (163 projects) and, therefore, was not able to include a larger number of variables when using logistic regression to examine factors associated with successful fundraising.

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## **APPENDICES**



## Appendix A: Summary in Slovene

Avgusta 2009, je ameriška televizija ABC začela predvajati televizijsko serijo "Shark Tank". V seriji, katera poteka še danes, podjetniki predstavljajo svoje ideje investitorjem, ki jim v oddaji pravijo "morski psi". Investitorji so v tej uspešni seriji v osmi sezoni 18. epizode presegle mejo 100 milijonov USD investiranega denarja od začetka serije (ABC, 2018). Nekaj mesecev pred začetkom serije, konec aprila, 2009 je v Brooklyn-u nastala nova platforma za množično financiranje, Kickstarter. Na platformi podjetniki, umetniki, dizajnerji, filmski producenti in izumitelji iščejo sredstva za uresničitev svojega poslovnega projekta. Do avgusta 2018 so zbrali že več kot 3,8 milijarde USD ("Stats," n.d.). Primerjava mogoče ni najbolj primerna, glede na to, da gre za različna načina investiranja. Investitor v zameno za denar dobi kapital, v primerjavi z množico Kickstarter podpornikov, ki dobijo v zameno za denar izdelek, ampak iz nje vseeno lahko prepoznamo moč množičnega financiranja.

Besedna zveza množično financiranje je relativno nov termin, ampak pojav je v praksi poznan že dolgo. Eden izmed bolj odmevnih primerov množičnega financiranja, ki ni bil uporabljen v poslovne namene, je primer Baracka Obama, ko je kandidiral za predsednika Združenih držav Amerika leta 2008. Takrat je pozval množice, naj ga podprejo z manjšimi zneski preko spleta. V relativno kratkem času je zbral 137 milijonov USD. Pozneje so ga kopirali tudi drugi politiki. Schwienbacher in Lambert (2010, p. 588) definirata množično financiranje kot »poziv množicam, večinoma preko interneta, da darujejo ali prispevajo manjši znesek denarja v zameno za neko nagrado ali volilni glas, za podporo določeni iniciativi ali za določen namen«

V medijih so Slovenci bili večkrat označeni kot fenomen, ko se gre za množično financiranje. Mala država z dvema milijonoma prebivalcev je bila izjemno uspešna pri pridobivanju sredstev na platformah za množično financiranje, kot je na primer Kickstarter. Od prve kampanje na Kickstarterju, Kartuzija3D, ki je bila objavljena v letu 2011, so Slovenci do konca leta 2017 zbrali okoli sedem milijonov USD. Na podlagi tega se poraja vprašanje: ali so Slovenci res bolj uspešni kot drugi in če da, za koliko?

V mojem magistrskem delu, predstavim množično financiranje kot uspešen poslovni model za podjetnike, ki so na začetku svoje poslovne poti ali za vsakogar, ki išče sredstva za svoj projekt in bi želel ustvariti uspešno Kickstarter kampanjo. Množično financiranje omogoča, da mala podjetja ali start-upi testirajo svoj produkt ali idejo na trgu (Belleflamme et al., 2015). Poleg tega je tudi odlično orodje za oglaševanje in promocijo novega izdelka na trgu (Schwienbacher & Larralde, 2010). Dodatna prednost pa je tudi, da Kickstarter nudi podjetnikom dostop do skupnosti, katero več podjetnik lahko pretvori v zveste kupce Voelker in McGlashan, 2013).

Namen mojega magistrskega dela je, da raziščem kateri so dejavniki uspeha na Kickstarterju. Da sem to dosegel, sem najprej opisal in raziskal množično financiranje z vidika projektnega vodenja, pri tem sem se osredotočil na platformo Kickstarter. Uspeh Kickstarter kampanje je odvisen tudi od tega, če je izumitelj ali projektni vodja kampanje premislil, katere vse aktivnosti oz. faktorjih uspeha so ključni za uspeh na Kickstarterju ter kako vplivajo na končni rezultat kampanje, preden je objavil projekt na platformi. Z mojo analizo sem odgovoril, na vprašanje, na katere faktorje naj se osredotočijo. Cilj magistrske naloge je analiza faktorjev, ki določajo uspeh na Kickstarter kampanji ter identifikacija tistih najbolj pomembnim. Nadalje je moj cilj predstaviti raziskave na področju množičnega financiranja ter njihove rezultate primerjati z rezultati Slovenskih projektov.

Za doseg cilja tega magistrskega dela, moram odgovoriti na naslednja raziskovalna vprašanja:

- a) Kakšna je povprečna stopnja uspešnosti slovenskih projektov od leta 2011 do leta 2017 in kakšna je v primerjavi z projekti iz drugih držav na Kickstarteru?

- b) Kakšen je vpliv izbranih dejavnikov uspeha na uspeh slovenskih projektov na Kickstarterju?
- c) Kateri so najpomembnejši dejavniki uspeha za slovenske projekte na Kickstarterju?

Magistrsko delo sem razdelil v teoretični in praktični del. Prvo poglavje začnem z definicijami množičnega financiranja in s pregledom različnih tipov financiranja. Poleg tega predstavim zgodovino množičnega financiranja ter Slovensko zgodovino množičnega financiranja na Kickstarterju ter na kratko opišem najbolj odmevne Slovenske projekte. Nadalje predstavim tri najbolj popularna platforma množičnega financiranja, to so Kickstarter, IndieGoGo in Patreon ter predstavim alternative množičnemu financiranju. Na koncu prvega poglavja predstavim še prednosti in slabosti množičnega financiranja.

V drugem poglavju, se osredotočim na Kickstarter platformo. Opišem kako deluje, kdo jo uporablja ter kakšne so prednosti v primerjavi z drugimi platformami. Opišem Kickstarter skupnost, katera je ena izmed večjih prednosti platforme Kickstarter in predstavim zgodovino platforme. Povem tudi katerih 15 kategorij je možno objaviti na Kickstarterju ter predstavim njihovo strukturo ter stopnjo uspešnosti, ki se znatno razlikuje med kategorijami. Nadalje podrobneje predstavim komponente, katere so del Kickstarter projekta.

V tretjem poglavju analiziram Slovenske projekte na Kickstarterju, ki so bili objavljeni od leta 2011 ter do vključno leta 2017. V teh šestih letih, je bilo objavljenih 163 Slovenskih projektov v 13 kategorijah. V tem poglavju tudi na kratko opišem stopnjo uspešnosti Slovenskih projektov po kategorijah, predstavim koliko denarja so zbrali ter koliko podpornikov so imeli skupaj. Orišem tudi Slovensko okolje množičnega financiranja ter Slovensko skupnost ter institucije, na katere se lahko podjetniki obrnejo.

Empirična analiza Slovenskih projektov je predstavljena v četrtem poglavju. Poglavja začnem z predstavitvijo namena, cilja in raziskovalnih vprašanj ter predstavim metoda zbiranja podatkov ter spremenljivke, katere tudi opišem. Podrobneje opišem tudi raziskovalni metodi, logistično regresijo in Random forest algoritem. Nadalje predstavim rezultate analize, katere v petem poglavju interpretiram ter jih primerjam z ostalimi študijami. V tem poglavju predstavim tudi omejitve raziskave in podam priporočila za nadaljnje študije.

Množično financiranje (crowdfunding) izhaja iz širšega termina, crowdsourcing, katerega prevajamo tudi kot množično zunanje izvajanje. Množično zunanje izvajanje je sestavljeno iz štirih podkonceptov: 1) znanje ali modrost množice, (2) uporaba množice za glasovanje in odločanje, (3) zbiranje informacij o potrebah potrošnikov (4) in končno množičnega financiranja (Howe, 2008).

Cilj množičnega financiranja ni zbrati denar od ozkega kroga priznanih investitorjev. Namesto tega, množično financiranje podjetjem pomaga pridobiti denar od množice, v katerih vsak posameznik zagotavlja relativno majhen znesek (Bellaflame et al., 2015). V množičnem financiranju posamezniki pristopijo k projektu kot ustanovitelj ali kot podpornik. Prvi so podjetniški posamezniki, ki se trudijo, da bi pridobili denar za svoj projekt. Podporniki pa so množica, ki jo sestavlja relativno veliko število posameznikov, ki so pripravljeni prispevati relativno majhne prispevke. Mollick (2014) kot cilje ustanovitelja izpostavlja naslednje: (1) pridobiti relativno majhno količino kapitala, (2) začetek enkratnega projekta in (3) ugotoviti ali obstaja povpraševanje po izdelku in trženju ter promocija izdelka.

Ne glede na podobnost med različnimi vrstami množičnega financiranja v večini literature raziskovalci delijo množično financiranje na pet vrst, in sicer financiranje v zameno za: (1) kapital, (2) kreditno/posojilno financiranje, (3) nagrado, (4) licenčino in (5) donacija.

Financiranje v zameno za nagrado temelji na nagrajevanju podpornika in je prevladujoč model množičnega financiranja. Pri tem pristopu ustanovitelj na platformo objavi svoj projekt ter navede nagrade, katera ponudi podpornikom v zameno za financiranje. Če podporniki podprejo projekt v določenem znesku, prejmejo za ta znesek dodeljeno nagrado (Mollick, 2014). Belleflamme, Lambert in Schvienbacher (2013) trdijo, da je model množičnega financiranja, ki temelji na nagradi, v osnovi model predhodnega naročanja, ki podjetniku omogoča cenovno diskriminacijo med strankami. Poleg tega so podjetniki prisiljeni izkrivljati cenovno shemo, da bi pritegnili več prednaročil, kot je sicer drugače optimalno, zlasti če je potreben velik kapital. Zaradi »prodaje« nagrad pod pravo ceno, se lahko dobičkonosnost kampanje zmanjšala, v primeru, da bi morali dostaviti večje količino nagrad po precej nižani ceni. Raziskovalci dodatno izpostavijo, da model množičnega financiranja lahko poligon, kjer potrošniki razkrijejo ali so pripravljeni plačati za izdelek.

Mladi izumitelji navadno ustvarjajo inovativne izdelke, ki so z vidika investiranja lahko tvegani. Po drugi strani so privlačni in inovativni izdelki zanimivi za vplivneže in množice, ki iščejo nekaj novega. Še več, če množica sprejme izdelek, je to lahko znak, da je izdelek primeren za množično proizvodnjo (Belleflamme et al., 2015). Schlueter (2015) poudarja štiri glavne prednosti množičnega financiranja, to so: (1) pridobitev finančnih sredstev, (2) komunikacija s potencialnimi kupci in povratne informacije o izdelku / storitvi, (3) preizkušanje tržnega povpraševanja in pridobitev pozornosti javnosti in (4) dostop do povratne informacije o izdelku. Po drugi strani pa ima množično financiranje tudi pomanjkljivosti: (1) razkritje ideje, (2) neprofesionalni vlagatelji in 3) drago upravljanje investitorjev, ker jih je veliko.

Osnovna za Kickstarter kampanjo je projekt, ki mora imeti jasen cilj, ki je naveden na spletni strani Kickstarter. Cilj financiranja je znesek, ki ga mora ustanovitelj zbrati s projektom. Ker Kickstarter sledi pristopu vse ali nič (v primeru, da projekt ne doseže cilja, ustanovitelj ne dobi nič, že pridobljen denar pa se vrne podpornikom) ter s tem spodbujajo ustanovitelje projekta, da pametno izberejo svoj cilj financiranja. Ustanovitelj je oseba ali ekipa, ki je ustvarila projekt na Kickstarterju. Podporniki so ljudje, ki jim je projekt všeč in so pripravljeni zastaviti denar, ter s tem podpreti ustanovitelje. Nagrade so materialni ali nematerialna darila s katerimi želijo ustanovitelji projekta spodbuditi podpornike, da jih finančno podprejo.

Kickstarter je največja platforma za množično financiranje glede na število uspešnih projektov in skupnim zbranim zneskom (Daciuk, 2017). Kickstarter je bil ustanovljen aprila 2009 kot platforma, ki podpira umetnike, vendar je v naslednjih nekaj letih razširila dejavnosti. Danes podpira 15 kategorij v katerih lahko objavite različne projekte. Kategorije so dalje razdeljene v različne podkategorije. Skupaj je več kot 100 podkategorij. Od svoje uvedbe, 28. aprila 2009, je več kot 15 milijonov ljudi podprlo različne projekte, zbranih je bilo več kot 3,8 milijarde USD ter uspešno zaključenih več kot 148.000 projektov. Projekti na Kickstarterju lahko zberejo več denarja, kot je zastavljen cilj na projektu. Če je projekt uspešen se od zbranega zneska odšteje 5% Kickstarter provizije ter provizija za procesiranje plačila, ki se giblje med tri in 5% ("Getting started," n.d.).

Postopek začetka Kickstarter kampanje se začne vpisom podatkov o projektu na Kickstarter spletni strani ter predložitev projekta v potrditev. Ko je ustanovitelj pripravljen za začetek projekta, mora na spletni strani Kickstarter klikniti gumb »Začni projekt«. V prvem koraku mora podjetnik izbrati kategorijo, opisati kaj ustvarja in izbirati eno izmed 22ih držav iz katere projekt sploh lahko začne (Slovenije zaenkrat še ni med njimi) ter sprejeti Kickstarter pogoje. Potem je ustvarjalec preusmerjen na naslednjo stran, kjer opiše projekt, določi nagrade ter izpolniti kakšna so tveganja projekta. Zaželeno je, da naloži tudi video v katerem se predstavi in pokaže izdelek oz. opiše storitev. Po predložitvi projekta naj bi Kickstarter odobril ali zavrnil projekt v roku treh delovnih dni. Kar nekaj ustanoviteljev projekta je v svojih blogih opisalo,

da je dejanski odzivni čas v praksi lahko nekoliko daljši, zato naj si ustanovitelj vzame nekaj dodatnih dni rezerve. Ko je projekt objavljen na platformi Kickstarter, lahko ustanovitelj začne s kampanjo in promocijo.

Kickstarter se predstavlja kot ogromna svetovna skupnost, katero gradijo ustvarjalni in inovativni ljudje in ne le kot platforma za množično oglaševanje. Ljudje, podporniki in ustanovitelji so izredno pomembni za platforme množičnega financiranja, kar se Kickstarter zaveda.

Projekti na Kickstarterju običajno uspejo z zelo malim procentom prekoračitve cilja ali pa dosežejo le nekaj procentov cilja. Projektov, ki bi recimo zbrali polovico cilja je zelo malo (Mollick, 2014). Mollick (2014) je analiziral ključne dejavnike uspeha v kampanji Kickstarter. Dejavniki, po njegovem vplivajo na uspešnost projekta so: (1) ali ima projekt video, (2) količina Facebook prijateljev, (3) število komentarjev, (4) število vmesnih, novih informacij (update), (5) število slovničnih napak, (6) dolžina projekta, (7) velikost cilja. Navedeni dejavniki uspeha so za Chen, Yao in Kotha (2009) signal pripravljenosti ustanovitelja. Poleg signalov, kako so se ustanovitelji pripravili na projekt, je za njih pomembna tudi ustanoviteljeva strast. Ustanovitelj strast izrazi s svojim glasom, mimiko obraza in drugimi neverbalnimi znaki in to lahko vpliva na končni uspeh projekta.

Druga aktivnosti, katere lahko povečajo stopnjo uspešnosti projekta, je ustrezen opis projekta in aktivno delovanje na platformi. Zelo koristno je, če ustvarjalci zagotavljajo informativen in obsežen opis s slikami in videoposnetki ter ažurirajo podpornike o nedavnih izboljšavah. Poleg tega sta Koch in Siering (2015) potrdila teorijo recipročnosti (Gouldner, 1960) in zaključila, da so ustanovitelji, ki so predhodno podprli druge Kickstarter projekte, bolj uspešni pri pridobivanju sredstev. Ustanovitelji se lahko zanesejo, da bodo njihova družina in prijatelji v prvih dneh podpirali projekt. Vendar pa jih morajo aktivno spodbujati in dobiti čim večje podporo, saj je njihova podpora močen pozitiven signal drugim (Agrawal et al., 2015).

Koch in Cheng (2016) v svoji študiji združujeta kvantitativne in kvalitativne dejavnike uspeha ter jih analizirata, da bi pridobila globlji vpogled v dejavnike uspeha množičnega financiranja. Ugotovila sta, da razkritje, kako se bo denar uporabil, ne vpliva na uspeh, podobno lahko rečemo tudi za predstavitev prototipa v opisu projekta. Po drugi strani pa status projekta, ki pove, v katerem fazi je projekt, pozitivno vpliva na uspešnost financiranja – bližje kot je zadnji fazi razvoja, večja je verjetnost, da bo Kickstarter kampanja uspešna. Izpostavitve in mimika ustanovitelja podobno pozitivno vpliva na kampanjo. Enako velja za podroben opis tveganja kaj vse lahko gre narobe, profesionalnost video posnetka in informacije o prejšnjih izkušnjah ustanoviteljev. Negativen vpliv na uspeh projekta pa imajo informacije, da obstaja tveganje zamude pri dostavi izdelka.

Po maju 2013, je Kickstarter postal bolj priljubljen med Slovenci, Kickstarter projekti so se začeli pojavljati med lokalnimi novicami ter na lokalnih spletnih straneh. Poleg tega se je razvilo več spletnih skupnosti, kjer so Slovenci razpravljali o množičnem financiranju in Kickstarterju. Ustanovljena je bila Facebook skupina Slovenian Crowdfunding, katera ima okrog dva tisoč članov. Leta 2016 so se v prostorih NLB – Center inovativnega podjetništva začela tudi uradna srečanja na temo množičnega financiranja.

Slovenci so od leta 2011 do konca leta 2017 zagnali 163 Kickstarter projektov. Od tega je bilo uspešnih 66. Vsi projekti skupaj so iskali 4.716.966 USD, zbrali pa 7.031.733.66 USD. Povprečna stopnja uspešnosti je bila 40,49%. Skupaj je Slovenske projekte podprlo 70.594 podpornikov, imeli so 10.286 dodatnih komentarjev ter 974 vmesnih dodatnih informacij. Če Slovenske projekte primerjamo s študijo, ki jo je izvedel Mollick (2014), ugotovimo, da so neuspešni projekti, ki jih je analiziral zbrali 10,3% cilja, neuspešni Slovenski projekti pa so

zbrali 16,67%. Dodatno, 81,82% slovenskih projektov, ki so bili uspešni so dosegli okrog 10% nad svojim ciljem, v primerjavi z ugotovitvami Mollicka (2014), kjer se je le polovica uspešnih projektov približna 10% nad zastavljenim ciljem. Poleg tega je en od devetih projektov, ki jih je Mollick (2014) analiziral, podvojilo svoj cilj, na drugi strani pa je to naredil skoraj vsak peti slovenski projekt.

Projekti na Kickstarterju prejmejo zelo malo podpore ali pa dosežejo svoj cilj (Mollick, 2014; Kuppuswamy & Bayus, 2017). 90% projektov, ki dosežejo vsaj 30% njihovega cilja v času kampanje, so na koncu uspešni. To je znano tudi kot "Kickstarter Effect" (Kuppuswamy & Bayus, 2017). 84 slovenskih projektov je prejelo 30% ali več svojega cilja financiranja, 66 pa je bilo na koncu uspešnih, kar je 78,57%. Ker se v teoriji in praksi ljudje veliko nagibajo k obdobju v začetku kampanje Kickstarter, sem raziskal, kako pomembnih je prvih 72 ur glede na zbran denar. Ugotovil sem, da je 53 projektov uspelo zbrati 20% ali več svojih ciljev v prvih 72 urah, na koncu pa jih je bilo 48 (uspeh 90,57%). Na drugi strani pa je 83 projektov v prvih 72 urah zbralo manj kot 10%,. Uspešnost teh projektov je bila le 7,23%, od 83 projektov je bilo uspešnih le 6 projektov.

Za analizo mojega prvega raziskovalnega vprašanja uporabljam sekundarne podatke, ki sem jih našel na spletni strani Kickstarter, od takrat sem zbrala stopnjo uspešnosti za vse projekte in stopnjo uspešnosti po kategorijah. Za informacije o slovenskih projektih uporabljam podatke, ko jih je zbral Berce (2017). Zbral je vse slovenske projekte in jih kategoriziral. Na podlagi teh podatkov izvedem logistično regresijo z uspehom kot odvisno spremenljivko in kategorijo ter državo (Slovenija in vsi projekti Kickstarter) kot neodvisno spremenljivko. Glede na naravo odvisne spremenljivke (ta je kategorična, projekt je lahko uspešen ali ne) uporabljam logistično regresijo, da bi odgovorila na moje drugo raziskovalno vprašanje

17. junija 2018 skupna stopnja uspešnosti vseh projektov na Kickstarteru 36,17%. Stopnja uspešnosti slovenskih projektov 2011-2017 je bila 40,49%. Rezultati kažejo, da so ob kontroliranju kategorij projektov, slovenski projekti uspešnejši kot projekti iz drugih držav. Razmerje verjetij je za slovenske projekte višje za 40,62% od razmerja verjetij za projekte iz drugih držav. Razlog za to bi lahko bil v močni slovenski crowdfunding skupnosti in medijski pokritosti slovenskih projektov, ki so na Kickstarterju. Drug razlog bi lahko bil ta, da ker Slovenci ne morejo zagnati Kickstarter projekta iz Slovenije in zato potrebujejo tuje podjetje, bi lahko to predstavljalo prepreko in filter za projekte, v katere ustvarjalci niso popolnoma prepričani oz. so projekti na pol dodelani. To bi pomenilo, da se ustanovitelj, ki ne verjame v uspeh projekta, ne bo trudil in poskušal najti podjetje v tujini, da bi zagnal projekt.

kot odgovor na drugo raziskovalno vprašanje sem ugotovil, da odstotek denarja, zbranega v prvih 72 urah in število posodobitev informacij (updates), je statistično značilen napovedovalec uspeha Kickstarter projektov. Poleg tega je angažiranost socialnih medijev le delno statistično značilen napovedovalec uspeha ( $p = 0,053$ ). Ti dejavniki vplivajo na uspeh Kickstarter projekta. Po drugi strani pa število medijskih logotipov v opisu (ki je običajno pokazatelj, da je bil projekt ali izdelek predstavljen v tem mediju) ni statistično značilen napovedovalec uspeha. Podobno je mogoče najti tudi v drugih podobnih študijah. Na primer, Kim, Por in Yang (2017) trdi, da število posodobitev informacij o projektu vpliva na uspešnost. Prav tako sta Koch in Cheng (2016) v svoji študiji poudarili, da zagotavljanje rednih posodobitev pozitivno vpliva na uspešnost projekta.

Žal nisem našel nobene študije, ki bi analizirala, kako odstotek denarja, zbranega v prvih 72 urah, vpliva na uspeh projekta. Vendar obstaja več študij, ki omenjajo, kako zgodnji podporniki projekta vplivajo na prihodnje vedenje bodočih podpornikov (Agrawal et al., 2011, Belleflamme et al., 2015). Podobno tudi Inbar in Barzilay (2014) navajajo, da je 97% projektov,

ki so zbrali vsaj 40% ciljnega zneska, na koncu bilo uspešnih. Z logistično regresijo sem potrdil, da odstotka denarja zbranega v prvih 72 urah pozitivno vpliva na končni rezultat.

Tudi vključenost socialnih medijev se je izkazala za relevantni faktor (sicer s stopnjo značilnosti 0,053). Druge študije so pokazale različne zaključke o vplivu socialnih omrežij na uspešnost. Na primer, Belleflamme, Omrani in Peitz (2015) poudarjajo, da socialna omrežja ne povečuje uspešnosti projekta. Nasprotno, Lu, Xie, Kong, in Yu (2014) trdijo, da obstajajo pozitivne povezave med promocijo projekta na socialnih omrežjih in uspešnostjo projekta. Poleg tega trdijo, da socialna omrežja povečajo priljubljenost projekta. Poleg tega Kraus, Richter, Brem, Cheng in Chang (2016) trdijo, da ima Facebook pomembno vlogo kot orodje za opominjanje množice o projektu. Če povzamem moje drugo raziskovalno vprašanje, bi predlagal prihodnjim vodjem projektov uporabo posodobitev informacij (updates) in intenzivno kampanjo v prvih 72 urah. Posodobitve o informacijah o projektu so vsekakor priročno in brezplačno orodje, ki omogoča ustanoviteljem, da komunicirajo s svojimi podporniki v celotni oglaševalski akciji. Zato morajo vodje projektov načrtovati pogoste posodobitve med oglaševalsko akcijo, ter objaviti prvo posodobitev takoj po začetku projekta ter pisati ažurne posodobitve z zanimivo vsebino. Poleg tega lahko vodje projektov prilagajajo svojo strategijo množičnega financiranja in svoja sredstva (plačano PR in oglaševanje) usmerijo v prve tri dni kampanje, namesto da jih razporejajo po celotni kampanji, saj denar, zbran v prvih treh dneh od začetka projekta, pozitivno vpliva na uspeh projekta. Poleg tega pa ja bila ta spremenljivka tudi najpomembnejša glede na Random forest algoritem.

Eden izmed razlogov, da je odstotek denarja, zbranega v prvih 72 urah najpomembnejša spremenljivka je lahko ta, da morajo projekti, ki so v prvih treh dneh zbrali relativno več denarja, do konca zbrati relativno manj denarja. Ceteris paribus, projekti, ki so se v prvih treh dneh zbrali relativno več, imajo tako boljše možnosti za uspeh, saj morajo do konca kampanje zbrati relativno manj denarja. Drugi razlogi bi lahko bili, da zgodnji financerji s svojimi prispevki vplivajo na odločitve bodočih podpornikov, kar je znano kot »herding« (Belleflamme et al., 2015; Kuppuswamy & Bayus, 2017). Ker lahko na Kickstarterju vsi vidijo, koliko denarja je v danem trenutku zbral projekt, je lahko veliko denarja na začetku projekta, pozitiven znak prihodnjim podpornikom. Zhang in Liu (2012) ugotavljata, da pri analizi trga P2P (vsak z vsakim) posojil, se posojilodajalci raje odločajo in posojajo denar tistim, ki so tik pred tem, da bodo zbrali dovolj denarja za začetek projekta. Namreč v primeru, da posodijo denar nekemu, katerega projekt ne bo uspešen, mu bodo denar vrnil, posledično bo ob oportuniteti zaslužek. Podobno je na Kickstarterju z neuspešnimi projekti, saj v primeru, da projekt ni uspešen, podporniki dobijo nazaj denar. Kuppuswamy in Bayus (2017) sta ugotovilo, da več kot 90% projektov, ki dosežejo vsaj 30% svojega cilja v določeni točki med kampanjo, na koncu uspe. To je znano kot »Kickstarter effect«. Projekti, ki so v prvih treh dneh zbrali relativno več denarja, imajo torej boljše možnosti, da bodo deležni tega učinka. Poleg tega sta Kuppuswamy in Bayus (2017) potrdil hipotezo, da podporniki projekta želijo, da ima njihov prispevek nek vpliv, to lahko dosežejo s podpiranjem projektov, ki so že blizu zadanemu cilju.

Pri svojem delu sem se soočal tudi z nekaj omejitvami. Prvi je ta, da so Slovenci objavili od leta 2011 in do konca 2017 le 163 projektov. Na podlagi tega, sem moral analizirati z logistično regresijo manj spremenljivk kot bi jih želel. Druga omejitev je ta, da Slovenci ne moremo objaviti projekta iz Slovenije, ampak za to potrebujemo tuje podjetje v eni izmed 22 dovoljenih držav. Zato, projektov nisem mogel enostavno opredeliti kot Slovenskega glede na lokacijo, ampak sem jih opredelil glede na to ali so v njem sodelovali pretežno Slovenci ter kakšno težo si imeli. Obstaja možnost, da je kakšen projekt, ki ni bil zajet v raziskavo. Tretja omejitev ja ta, da Kickstarter ne objavlja javno vseh podatkov, nekateri podatki pa so takšni, da sploh niso na voljo na Kickstarterju, zato sem si pomagal z drugimi, neuradnimi viri, kar lahko zmanjša točnost podatkov.



Bodočim raziskovalcem bi priporočil, da podrobneje raziščejo pomembnost prvih nekaj dni od začetka Kickstarter projekta ter kako zbran denar v teh dneh vpliva na končni rezultat. Zanimivo bi bilo tudi analizirati kampanjo po dnevih in ugotoviti, kateri dnevi so najbolj donosni. V moji raziskavi sem analiziral končno število komentarjev in posodobitev informacij na projektu. Vemo pa, da če bi ustanovitelj napisal veliko število komentarjev in posodobitev prvi dan, to nima enakega učinka, kot če so le ti razporejeni tekom kampanje. Zatorej, bi priporočil raziskave na kako pogosto naj se dogajajo te posodobitve. Nadalje, v moji raziskavi sem se osredotočil zgolj na kvantitativne podatke, saj je interpretacija kvalitativnih podatkov lahko subjektivna. Vsekakor pa so kvalitativni podatki vsaj toliko pomembni kot kvantitativni, namreč ni vseeno ali ima projekt videoposnetek, ki je zanimiv in profesionalen ali ima amaterski in nedodelan video. Zato bi priporočil raziskave tudi na tem področju.

## **Appendix B: Accelerators, start-up incubators**

Acceleration Business City, also known as ABC accelerator is one of the most known accelerators in Slovenian. They have two locations in Ljubljana, Slovenian and also Entrepreneurial Hub in Munich, Germany and Eco system hub for later staged startups in Silicon Valley. They are offering 15,000 EUR in equity funding, services worth up to 310,000 EUR, free office space, mentor program with more than 120 experts Technology and Industry Experts, Serial Entrepreneurs, Corporate Partners, Business Angels, and VCs experts, testing ground and so on. In return, they expect 8% of company's equity (abc-accelerator.com, 2017).

GG Accelerator (Go:Global pospeševalnik) has been design by Ljubljana Technology Park in partnership with the Venture Factory (Tovarna podjetij) and as part of the Start:up Slovenia initiative. The goal of the program is to support start-ups which have global potential. To successfully join the program start-up should already find their "product market fit" and they should be in process penetrating global markets. GG Accelerator (in cooperation with the Slovene Enterprise Fund and the SK200 product) offers 200,000 EUR public equity investment, administrative assistant, infrastructure in Slovenia, investor network and active promotion both in Slovenia and abroad. They also train entrepreneurs to become investment-ready and they provide The Go:Global for Growth training programme and One-to-one mentoring programme. Besides that, cooperate with US-based accelerators Y Combinator and TechStars and London-based Wayra accelerator which provides access to the UK and Latin American markets (goglobal.si, 2017). Equity which they want in exchange for the capital and services vary, according to company's value, usually is around 12% (startup.si, 2017).

Silicon Gardens Fund was established by young entrepreneurs, whose mission is to be actively involved in helping the portfolio companies. They will provide coaching, business connections and network in an early stage of start-up. They invest between 20,000 and 40,000 EUR and expect between 5-15% equity share in return (silicongardens.si, 2017).

DsgnFwd Design accelerator program by Gigodesign helps transform ideas and innovations into great products and inspiring brands. They expect that entrepreneur have a global vision, clear business idea and passion for the product. They provide launch support, UX and website, brand design and identity, product and service design and development and communication support. They invest 20,000 EUR or more for 10% or more equity (dsgnfwd.com, 2017).

The aim of Start:up Geek House accelerator is to help companies acquire a 75,000 EUR convertible loan in cooperation with the Slovene Enterprise Fund, as part of the SK75 grant scheme. They divided their process in 2 stages: pre-investment and post-investment stage. First step in pre-investment stage are roadshows around Slovenian where they share all the information how accelerator works. In second step, startups need to write application and do a brief pitch. Startups are later invited to Start-up weekend where they attend workshops and work on their ideas, which is considered as step three. Step four is the Demo day where start-ups give pitch to the pre-selection panel. In fifth step Start:up Geek House's advisers help draft the documentation for Start-ups which are selected at the Demo day. In post-investment phase companies who are successful in acquiring funds (SK75) are invited to take part three-month programme based on "lean and agile" methods, get mentor and administrative assistance of the advisor (geekhouse.si, 2017). In return they expect between 6-26% of equity if the start-up was successful with acquiring SK75 grant (startup.si, 2017).

**Appendix C: Independent variables and variable importance index for Slovenian projects 2011-2017**

*Table 14: Independent variables and variable importance index for Slovenian projects 2011-2017*

<b>Variable</b>	<b>Relative importance</b>
Raised 72h percent	1.00
Updates	0.79
Comments	0.55
Pinterest shares	0.29
Campaigns backed by founder	0.27
Facebook engagements	0.24
Twitter shares	0.20
Goal USD	0.14
Words in Risks Challenges	0.11
Pictures videos in description	0.10
Most backed reward USD	0.09
Video length	0.08
Words in description	0.07
Media logos in description	0.05
Duration	0.04
Staff pick	0.04
Facebook friends	0.03
Displayed timeline in description	0.01
Campaigns of founder	0.01

*Source: Own work.*