

Crowdfunding and the venture creation process

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Abstract

This inquiry explores how crowdfunding affects the venture creation process specifically in the Philippine setting. Using a qualitative, intensive, multi-case based approach, the study traces the progress of four Philippine-based entrepreneurial ventures that began as crowdfunding projects. The progression is then compared to the entrepreneurial venture creation process model developed by Bhawe [*Journal of Business Venturing*, 9(3), 223-242 (1994)]. The study finds that crowdfunding modifies the venture creation process in every stage specified in the model.

Key Words: crowdfunding, venture creation process, Philippines, entrepreneurship

Introduction

Bhawe's (1994) process model of entrepreneurial venture creation is one of the most cited paradigms that discusses and explains how a business venture is organized and develop. The venture creation process described is "iterative, nonlinear, feedback-driven, conceptual, and physical." The process involves 7 different elements or conceptual categories: opportunity recognition, commitment to physical creation, set up of production technology, organization creation, product creation, linking with markets, and customer feedback. While the entire process is nonlinear, Bhawe explains each element as it forms part of three general stages in the process: opportunity stage, technology set-up and organization-creation stage, and exchange stage. The "end" of opportunity recognition is the business or product concept, while product and feedback, aside from payment, are traded in the culminating exchange stage.

Bhawe further identifies important transitions points in the venture creation process. To transition from the opportunity stage to the technology set-up and organization-creation stage, entrepreneurs must make the commitment to the physical creation of the venture. While funding was not widely discussed in the Bhawe (1994) study, it acknowledges that funding is an essential element in the production technology set-up and organization-creation stage. The first sale, on the other hand, is "the last step in the physical creation of a venture" and "bridges the boundary between the supply side and the demand side." Furthermore, the first sale establishes the exchange relationship between the venture and the customer, and also the point where the customer provides feedback for the first time. Figure 1 provides a simplified illustration of Bhawe's venture creation process.



Figure 1. Simplified Bhavé Model of Venture Creation

Crowdfunding and the Evolving Role of the Consumer

The Bhavé process model of venture creation clearly delineates the supply and demand side of any business transaction, and considers the customer, or the consumer, as an actor that resides only in the demand side. However, a growing body of literature acknowledges the expanding role of the consumer, and contends that consumer interests and activities extend beyond demand.

Von Hippel, Ogawa, and De Jong (2011), for example, contend that consumers are “major sources of product innovation” and take significant roles in the product development process. Beyond merely providing feedback during the exchange stage in the Bhavé model, consumers are taking proactive roles in modifying existing products or even innovating new products to suit their own needs. Von Hippel et al (2011) cite that the phenomenon of consumer innovation is brought about by developments in technology, such as 3D printing and outsourcing, which makes it easy for consumers to design and fabricate products for themselves.

Crowdfunding, a novel phenomenon and alternative fundraising scheme that allows consumers, or the “crowd,” to pool small amounts of money to fund a project, has also contributed to the expanding role of consumers. Crowdfunding essentially operates as pre-selling—when a campaign backer pledges support, it is essentially providing the funding for the manufacture of the product. Ordanini, Miceli, Pizzetti, and Parasuraman (2011) contend that by pledging support to or funding a project, the consumer also takes on the role of an investor, a similar assertion made by Belleflamme, Lambert, and Schwienbacher (2014). This essentially extends the consumer purview from the demand side into the supply side.

While the Bhavé model acknowledges the important role of consumer feedback in the venture creation process, it maintains that consumer feedback is only given during the exchange stage, which commences when the entrepreneur makes the first sale. Crowdfunding, however, changes the timing of consumer feedback. Essentially, in crowdfunding, the entrepreneur receives product feedback before the production process even begins. Many studies contend that it is this informational advantage that motivates entrepreneurs to participate in crowdfunding (Agrawal, Catalini, & Goldfarb, 2013; Belleflamme et al, 2014; Lehner, Grabmann, Ennsgraber, 2015; Mollick & Kuppuswamy, 2014).

One particular advantage crowdfunding provides to entrepreneurs is a venue to test its product, offering a “unique way to validate original ideas in front of a specifically targeted audience” (Belleflamme et al, 2014). What this means for the entrepreneur is that it allows their target market to try and evaluate the product. This provides crucial feedback to help the entrepreneur to decide whether the business concept is feasible and profitable.

Philippine Crowdfunding and the Bhave Model

Extant literature on the expanding role of consumers suggest that the Bhave process model of venture creation is inadequate in explaining nascent phenomena, particularly with ventures that spring out of crowdfunding. Crowdfunding is essentially a pre-selling scheme (Belleflame et al, 2014), where campaign backers pledge support to a project of their choosing. Essentially, the campaign backers are funding the production of the products, and wait for the products to be manufactured and delivered to them. Crowdfunding campaigns usually run between 4 and 8 weeks. During the campaign, project owners promote their projects and engage campaign backers through feedback solicitation.

In the Philippines, crowdfunding platforms like The Spark Project follow a keep-what-you-raise model. Unlike the Kickstarter or all-or-nothing model, it allows project owners to collect and keep all of the pledges that they raise, which allows project owners to proceed with the project with or without complete funding. Most project owners receive the full funding only after the campaign ends. In The Spark Project, however, project owners are given the leeway to accept the pledge payments at any point during or after the campaign.

Many projects that began as crowdfunding campaigns on The Spark Project have since become thriving businesses. However, many of these ventures cannot be accurately traced using the Bhave process model of venture creation, particularly in how Bhave's conceptual categories related to the three stages of the process. The experience of these Philippine ventures raises the question, which is the subject of this inquiry: how does crowdfunding affect the venture creation process?

Framework and Method

To understand the effects of crowdfunding in the venture creation process, the study traced the progress of entrepreneurial ventures that began as crowdfunding campaign projects in the Philippines. To provide focus, the study paid particular attention to three concepts in the Bhave process model of entrepreneurial venture creation in which crowdfunding may affect: (i.) business or product concept development, as identified during opportunity recognition, (ii.) commitment to physical creation, a necessary juncture that transitions the process from the opportunity stage to the technology and organization creation stage, and (iii.) linking to market, which conceptually resides in the exchange stage.

Figure 2 shows where these critical concepts reside in the Bhave venture creation model. Table 1, on the other hand, explains how these critical concepts are identified in the research.

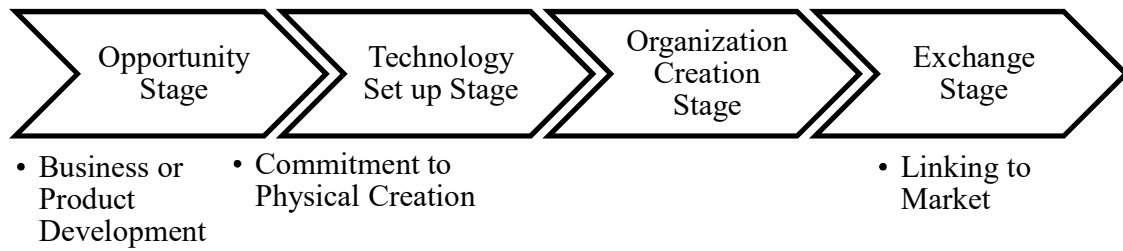


Figure 2. Critical Concepts in the Bhavé Venture Creation Model

Table 1
Operalization of the Critical Concepts

Bhavé Critical Concept	Focus of research
Business or product development	When was the concept for the business or product developed?
Commitment to physical creation	When did the project owner commit to the physical creation of the venture?
Linking to market	When did the project owner make the first sale?

This study used a qualitative, intensive multiple case-based approach to trace the progress of four Philippine-based entrepreneurial ventures that were initially launched as crowdfunding projects. The study employs a purposive sampling method using the following case selection criteria: (1) ventures launched through The Spark Project, a Philippine-based crowdfunding platform that focuses on creative entrepreneurship projects, (2) ventures that launched their crowdfunding campaign prior to January 2016 and have been in operation for more than one year, and (3) ventures that continue to operate as of this writing. The author performed four in-depth interviews with the founders of these ventures as guided by a detailed semi-structured interview guide. To ensure the trustworthiness of this research, the study combined Guba and Lincoln's (1994) quality framework with Yin's (2014) quality design tests.

Findings

Venture: Camera Bag Venture

This camera bag venture began in 2013, with the co-founder's need for a replacement camera bag that fit his profession and lifestyle, which was found lacking in the local Philippine market. Instead of ordering one abroad, the co-founders decided to design one themselves upon seeing the opportunity in one of the co-founder's industrial design training and their proximity to an area renowned for bag manufacturing.

After a meeting with The Spark Project, the co-founders decided to launch a crowdfunding campaign to finance the production of their line of camera bags. Their primary motivation was to see if there was a market of consumers who will buy their unique camera bags and to test whether their project would become a viable business venture. Prior to launching their crowdfunding campaign, both co-founders looked for possible bag manufacturers to produce 30 to 60 bags. They

also conducted an informal market research survey, reaching out to photographers in their close personal and professional networks to elicit feedback and insight. They also launched a Facebook Page, which they intended to use as to promote both the crowdfunding campaign and their bags.

The crowdfunding campaign exceeded their funding target. The co-founder attests that participating in crowdfunding provided them with market insight and feedback that they continue to use in their venture. The success of the campaign convinced the co-founders to establish their venture, and soon after obtained a bank loan to expand their operations.

The venture creation process for this business began when the co-founders recognized that there was an opportunity in making camera bags, which supports the Bhave model. Unlike the Bhave model, however, the commitment to physical venture creation, did not proceed immediately after opportunity recognition. It only became apparent closer to the end of the crowdfunding campaign when the co-founders were more confident about the market's reception of their camera bag concept. In fact, the linking to market, signalled by the first sale, occurred prior to the commitment to the physical venture creation.

Furthermore, crowdfunding changes the chronology of market exchange. In the Bhave model, it is implied that the sale makes the exchange between product, payment, and feedback simultaneous. In crowdfunding, project owners receive pledges and feedback first before any campaign backer receives any product. The linking to market, in this case, happens even before the co-founders made the commitment to create the physical venture.

Table 2
Venture Creation Process for Camera Bag Venture

Bhave Critical Concept	Focus of research
Business or product development	Co-founders conceptualized the camera bag during the opportunity stage
Commitment to physical creation	Supports the Bhave Model Co-founders committed to the physical creation of the venture after making the first sale, closer to the end of the crowdfunding campaign.
Linking to market	Diverges from the Bhave Model Co-founders made the first sale prior to the creation of the actual product. Diverges from the Bhave Model

Venture: Designer Wallet Venture

This designer wallet venture began because one of three co-founders, a serial entrepreneur, wanted to establish a product-based business, which he intended to launch through a crowdfunding

campaign. The opportunity came when he met the venture's other co-founder who had the know-how to produce leather goods.

The crowdfunding campaign was launched in August 2015. The co-founders took six months to design the product, find suppliers, and plan for the campaign. Like the co-founders of the camera bag venture, the co-founders of the designer wallet venture intended to use the crowdfunding campaign as a market test for their product—they wanted to see if the venture will be a feasible and profitable one. The co-founders were also motivated by funding.

Prior to the launch of the crowdfunding campaign, the co-founders organized a pre-campaign launch and invited members of their close personal and professional network to participate in a private backing event. This event aimed to showcase the wallet designs that they will be crowdfunding and encouraged invited guests to pledge even before the official campaign began.

The campaign itself raised over three times their funding target. The campaign provided the co-founders with market feedback, particularly with regard to design preferences. It also encouraged the co-founders to commit to creating the physical venture. Like the camera bag venture, the designer wallet venture followed this pattern: (1) product concept, (2) linking to market, and (3) commitment to venture.

Table 3
Venture Creation Process for Designer Wallet Venture

Bhave Critical Concept	Focus of research
Business or product development	Co-founders conceptualized the wallet during the opportunity stage
Commitment to physical creation	Supports the Bhave Model Co-founders committed to the physical creation of the venture after making the first sale, closer to the end of the crowdfunding campaign.
Linking to market	Diverges from the Bhave Model Co-founders made the first sale prior to the creation of the actual product. Diverges from the Bhave Model

Venture: Entrepreneurial Board Game Venture

The founder of the board game venture, a serial entrepreneur, initially intended his board game concept for personal use. However, after playing the board game with his professional partners, recognized that there was a market for his product. It took him more than a year of continual product testing and development before he decided to launch the board game through a

crowdfunding campaign. At this point, the founder already made the commitment to create a venture out of this game and considered crowdfunding as a fitting venue to launch the product.

Crowdfunding campaign preparations included sourcing suppliers and organizing offline events that encouraged would-be campaign backers to play and interact with the board game prototype. In the process, game players supplied feedback and insight, which the founder used to further develop the game. The crowdfunding campaign was launched in August 2015, and raised a little over its funding target. At the close of the campaign and once all backer rewards were fulfilled, the founder began preparations for the product's international launch through Kickstarter.

On the outset, it would seem that this venture follows Bhavé's venture creation process model: founder recognized an opportunity when he developed a product concept, then made a commitment to a venture, and finally, made the first sale through crowdfunding. However, it is important to note that the product concept itself evolved from its original conception throughout the entire crowdfunding campaign. The founder received the game's first feedback even before it made the commitment to establish a venture, and continued to receive feedback throughout the campaign. The founder admits that the final board game is very different from his original concept, and credits the community that played the game for the final product. The community of backers played an important role in the development of the product. The chronology of these events and the timing of feedback is different from the Bhavé model.

Table 4
Venture Creation Process for Board Game Venture

Bhavé Critical Concept	Focus of research
Business or product development	Founder conceptualized the board game prior to the crowdfunding campaign (during the opportunity stage); however, the product concept itself evolved during the campaign once the founder received feedback from those who played the boardgame during the offline events.
Commitment to physical creation	Diverges from the Bhavé Model Founders committed to the physical creation of the venture before making the first sale.
Linking to market	Supports the Bhavé Model Co-founders made the first sale prior to the creation of the actual product. Diverges from the Bhavé Model

Venture: River Cleaning Venture

Unlike the first three stages, the river cleaning venture was already an established business prior to launching its crowdfunding campaign. The founder, however, acknowledges that prior to the campaign, venture did not have a profitable revenue model that could sustain the business in the long run. The founder's motivation to crowdfund was to raise funding to jumpstart the business and to raise market exposure. While the August 2015 campaign did not raise its target funding, the

venture was able to receive market insight and consumer feedback that allowed the venture to develop a feasible revenue model.

The venture followed the Bhave model of venture creation. Prior to crowdfunding, the founder saw an opportunity to use microbial technology to clean rivers and committed to creating a physical venture. However, the venture lacked a profitable revenue model concept, which compelled the founder to crowdfund a project to revitalize the business. In the process, campaign backer feedback and experiences during the project provided crucial information that allowed the founder to develop a feasible and sustainable revenue model.

Table 5
Venture Creation Process for River Cleaning Venture

Bhave Critical Concept	Focus of research
Business or product development	Founder conceptualized the practical use for microbial technology during the opportunity stage; however, after receiving crucial information during crowdfunding campaign, the founder reassessed the business model based on backer feedback.
Commitment to physical creation	Diverges from the Bhave Model Founder committed to the physical creation of the venture prior to the crowdfunding campaign.
Linking to market	Supports the Bhave Model Co-founders made the first sale prior to the creation of the actual product.
	Diverges from the Bhave Model

Discussion

In all of the four cases discussed above, crowdfunding affects the chronology of stages in the venture creation process. In the Bhave model, the commitment to physical venture creation is considered as the transition point from opportunity stage into the technological set-up and organization creation stage. However, in the first two cases, founders committed to the physical venture creation closer to the end of the crowdfunding campaign, when the co-founders were confident that there is a market that will buy their products. The two cases, in particular, regarded their respective crowdfunding campaigns as live market tests, which allow them to get product feedback and ascertain whether their project could be developed into a profitable venture.

Prior to committing, the project is treated as a one-time production of a small batch of goods, which minimizes the risk associated with establishing a business. Founders also need not invest a large amount of money to run the project, since campaign backer pledges finance the production of goods. Further minimizing the risk of associated to venture creation are business

trends that allow ventures to manufacture products without investing heavily in technological set-up or organization creation in order to produce their product. In particular, outsourcing made it possible for venture founders to subcontract production to third parties that have the technological know-how and equipment to manufacture their product according to their specifications. Crowdfunding and current business trends, then, allow founders to conduct low-risk market experiments and delay committing to a business venture.

Crowdfunding also changes the process of product development. In the Bhave model, product development and creation is solely associated with the producer and resides only in the supply side. However, as the last two cases have shown, campaign backers, or consumers, are heavily involved in the product development particularly in as far as feedback becomes an important ingredient in the process.

Crowdfunding also advances the linking to market, which, in the Bhave model, only occurs when the venture makes its first sale. Furthermore, the exchange goes beyond product and payment. In crowdfunding, product feedback is also exchanged, particularly during the campaign, which makes the campaign backer or consumer part of the business and product development process. Crowdfunding has shown that the demand and supply link can be advanced even during product and business conceptualization, while the expanding role of consumers has been blurring the boundary that separates supply and demand.

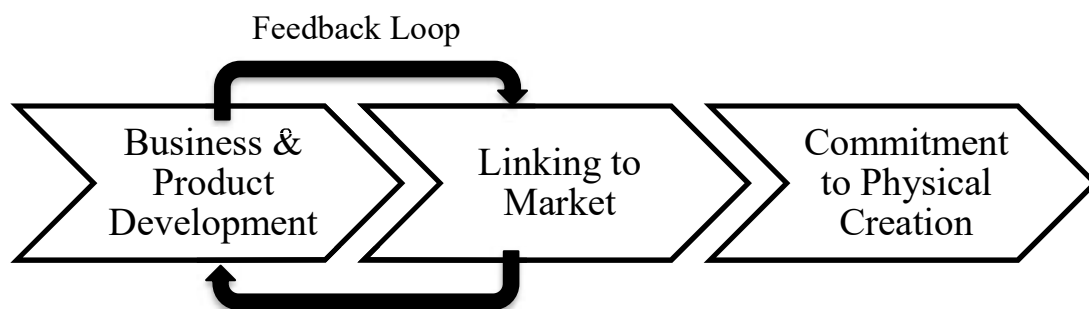


Figure 3. Simplified Venture Creation Process for Crowdfunding

Conclusion

Crowdfunding has changed the way demand and supply actors interact, thereby modifying the venture creation process in every stage. The crucial factor is feedback exchange, which, through crowdfunding, may be given by consumers even as far back as the product and business conceptualization stage. It also alters product development, which allows venture founders to create a product that consumers want. Combined with current business trends, such as outsourcing, crowdfunding allows potential entrepreneurs to conduct live market tests and delay committing to the physical creation of venture. Crowdfunding blurs the boundary that separates the demand and supply sides by expanding the role of the consumer—as a co-producer and as an investor.

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