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External Goal Setting in Reward-Based Crowdfunding

*Inventor, Marathoner, Sprinter and Extreme
Sprinter*

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AIM OF THE THESIS

Given limited prior research on goal setting in crowdfunding, in this study we will look at how external goals are set in RBCF. We aim to do so by drawing on literature on external goal levels and achievement, backer dynamics and private/public good, the research questions address and explore the existence of a strategy that deliberately sets the external goal substantially lower than the internal goal, in order to reach the external funding goal faster, and gain advantages by being seen as a success story.

We want to see if there is evidence for this phenomenon, and if so, try to explain what reasoning lies behind such strategies. We specifically want to do so by answering the following research questions:

RQA:

How do private good-type crowdfunding projects set external goals?

- RQ1: Are there external goals that are substantially lower than internal goals?
- RQ2: How are external goals determined?
- RQ3: What are the founders' reasons for setting the external goal lower than the internal goal?
- RQ4: Based on their external goal setting approach, how can private good-type crowdfunding projects be grouped and what are the common traits within each group?

A. PREFACE

This paper was written as a master thesis within the School of Entrepreneurship, associated with the Department of Industrial Economics and Technology Management, at the Norwegian University of Science and Technology (NTNU).

We would like to express our gratitude to Ph. D. candidate Vivek Sinha, our supervisor, for valuable comments, suggestions and critique throughout this semester, as well as for the excellent foundation provided from the same cooperation during the preliminary study leading up to this master thesis. The input provided during the process of planning and performing research, and writing this report, has been of great value.

We would also like to express our gratitude towards the case companies (founders) that participated in our case study, despite having very busy schedules. Their first hand experiences and knowledge were vital for this thesis. Finally, professors and fellow students at NTNU have been of great help, as well as our wonderfully talented and tolerant colleague Steinar Bukve Witsø in the startup Amok Equipment AS.

B.1 ABSTRACT

Having discovered a gap between existing literature on crowdfunding and what was actually happening on crowdfunding platforms, we conducted a multiple case study on ten Kickstarter projects with physical consumer products to shed light on the topic.

Based on our findings, we define and explicitly acknowledge external and internal goals in crowdfunding as two separate goals within the term funding goal, which has previously been used in literature.

We identify four different groups based on the attributes and mindsets that affect the founders' reasoning when choosing the external goals; *Inventor*, *Marathoner*, *Sprinter* and *Extreme Sprinter*.

Drawing on literature on external goal levels and achievement, backer dynamics and private/public good, we prove and describe the existence of a “sprint strategy” that deliberately sets the external goal substantially lower than the internal goal, in order to reach the external funding goal faster, thereby increasing *Kickstarter exposure*, *media attention*, *internal motivation* and promoting *backer consumerism*.

We disprove theories stating that potential backers are less likely to contribute once a project reaches its goal (Kuppuswamy and Bayus, 2013), proving the opposite, for a subsample on the same crowdfunding platform they used as data sample, Kickstarter. Thus implying that future research should consider constraining and narrowing its scope when studying reward-based crowdfunding.

We contribute to crowdfunding theory by acknowledging and defining external and internal goals, explaining reasoning in external goal setting, our categorization of founders based on their attributes, the provision of a founder's perspective in the reward-based crowdfunding space, the explicit acknowledgement of KS as an online marketplace, and the definition of private good-type projects.

In addition, our research can help entrepreneurial ventures set the correct external funding goal, and strategize accordingly, to increase their funding amounts and chances of success.

B.2 SAMMENDRAG

Etter å ha oppdaget et gap mellom eksisterende litteratur om folkefinansiering og hva som faktisk skjedde på folkefinansieringsplattformer, gjennomførte vi en multiple-case studie med ti prosjekter med fysiske konsumentprodukter fra Kickstarter for å belyse temaet.

Basert på vår funn definerer og anerkjenner vi *eksternt-* og *internt mål* innen folkefinansiering som to separate mål innen begrepet *funding goal*, som tidligere har vært brukt i litteraturen.

Vi identifiserer fire forskjellige grupper, basert på egenskapene og tankesettet som påvirker prosjekteiernes begrunnelse ved valg av *eksternt mål*; *Oppfinner*, *Maratonløper*, *Sprinter* og *Ekstrem Sprinter*.

Ved å se på litteratur om *external goal levels and achievement*, *backer dynamics* og *private/public good*, beviser vi og beskriver eksistensen av en “sprint strategi” som bevisst setter det eksterne målet betraktelig lavere enn det interne målet, for å kunne nå det eksterne målet raskere, og dermed øke synligheten på Kickstarter, medieoppmerksomheten, intern motivasjon og konsumeratferd hos *backers*.

Vi avkrefter teorier som påstår at potensielle *backers* er mindre tilbøyelige til å støtte et prosjekt når det har nådd målet (Kuppuswamy and Bayus, 2013), ved å bevise det motsatte, for en forsøksgruppe fra den samme folkefinansieringsplattformen de hentet sin forsøksgruppe fra, Kickstarter. Dermed antyder vi at fremtidig forskning bør vurdere å begrense og snevre inn fokusområdet når man studerer *reward-based crowdfunding*.

Vi bidrar til teorien innen folkefinansiering ved å anerkjenne og definere eksterne og interne mål, forklare begrunnelsen innen ekstern målsetting, vår kategorisering av prosjekteiere basert på deres egenskaper, fremleggelsen av en prosjekteiers perspektiv innen *reward-based crowdfunding*, anerkjennelsen av Kickstarter som en markeds plass på internett, og definisjonen av *private good-type project*.

I tillegg kan vår forskning hjelpe entreprenører med å sette korrekte eksterne mål, og legge strategien deretter, for å øke finansieringsbeløpet og sjansen for suksess.

C. SUMMARY

Purpose – In recent years, crowdfunding has emerged as a popular method to finance entrepreneurial ventures. Entrepreneurs appeal directly to the general public, e.g. the crowd, for help getting their innovative ideas off the ground.

Within the world of Reward-based crowdfunding (RBCF), the authors of “how to”-literature (practitioners) and the authors of theoretical RBCF literature (theoreticians) disagree on strategies for setting the external (i.e. public) funding goal. *Theoreticians* state that potential backers are less likely to contribute once a project reaches its goal and that crowdfunding projects fail by large amounts and succeed by small, while *practitioners* state that reaching the funding goal as fast as possible, to be seen as a success and to more securely pre-sell your product, generates success.

Research on the field has been very limited, and is also quickly outdated, as the world of RBCF is fast evolving. This study targets the contradicting statements of theoreticians and practitioners and uses a new approach to shed light on the topic of funding goal setting within RBCF, with the goal of providing valuable insights that could help entrepreneurial ventures raise capital through RBCF.

Theory – It is agreed that projects with lower external goals are more likely to reach that external goal. Some researchers argue that potential backers are less likely to contribute once a project reaches its goal, explaining this with crowding out and the goal gradient hypothesis. Thus recommending reaching the external goal at the end of your campaign.

Others claim that one should hit the external goal as fast as possible, and that reaching the goal fast brings more practical advantages than theoretical disadvantages.

After a thorough literature review we provide a definition of private good-type of RBCF projects, and suggest focusing research on these types of projects to shed light on the conflicting findings in current theory.

Private good-type project:

A RBCF project that involves pre-selling of a consumer product. There must be a physical product that is manufactured and delivered to each individual backer.

Research questions –We focus our research on the contradicting views on external goal setting within the field of crowdfunding. With the aim of developing a better understanding of how external goals are set in private good –type projects, we ask the following research questions:

RQA:

How do private good-type crowdfunding projects set external goals?

- RQ1:** Are there external goals that are substantially lower than internal goals?
- RQ2:** How are external goals determined?
- RQ3:** What are the founders' reasons for setting the external goal lower than the internal goal?
- RQ4:** Based on their external goal setting approach, how can private good-type crowdfunding projects be grouped and what are the common traits within each group?

Methodology/approach - The thesis is based on ten case studies of successfully launched projects within the Product Design subcategory on Kickstarter (KS). Semi-structured interviews were conducted with the founders using Skype. The multiple case study is confirmatory, in the sense that earlier theories are reviewed, and at the same time inductive due to unexpected findings that has not previously been explained in existing literature.

Findings – Our findings from the in-depth interviews with the ten founders, related to the research questions, are summarized below:

1. Founders set their external goals lower than their internal goals.
2. Founders use a bottom-up or top-down approach when determining their external goal.
3. Reasons for setting the external goal lower than the internal is either related to founders “playing it safe” or a strategy to get funded fast. There are four main reasons why getting funded fast is good:
 - a. KS exposure
 - b. Media attention
 - c. Internal motivation
 - d. Promoting backer consumerism
4. Looking at goal setting the founders can be grouped based on their mindset and approach to KS:
 - a. Inventor
 - b. Marathoner
 - c. Sprinter
 - d. Extreme Sprinter

In addition, we had an unexpected finding on a recent transition of Kickstarter as a platform for “inventor type projects” to an established retail marketplace with its own customer base and following. This might indicate a shift in RBCF, towards consumerism and traditional sales and marketing theory.

Originality/value - We contribute to crowdfunding theory by acknowledging and defining external and internal goals, explaining founders reasoning in external goal setting, our categorization of founders based on their attributes, the provision of a founder's perspective in the reward-based crowdfunding space, the explicit acknowledgement of KS as an online marketplace, and the definition of private good-type projects.

We disprove theories stating that potential backers are less likely to contribute once a project reaches its goal (Kuppuswamy and Bayus, 2013), proving the opposite, for a subsample on the

same crowdfunding platform they used as data sample, Kickstarter. Thus implying that future research should consider constraining and narrowing its scope when studying reward-based crowdfunding.

In addition, our research can help entrepreneurial ventures set the correct external funding goal, and strategize accordingly, to increase their funding amounts and chances of success.

Keywords – Crowdfunding, CF, reward-based crowdfunding, RBCF, private good-type project, goal setting strategies, funding goal, internal goal, external goal, Kickstarter, Inventor, Marathoner, Sprinter, Extreme Sprinter.

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1. INTRODUCTION

One of the most critical resources new ventures require for success is financing (Cosh, et al. 2009; Gompers and Lerner, 2004; Gorman and Sahlman, 1989; Kortum and Lerner, 2000). Given the difficulties that new ventures face in attracting financing from angel investors, banks and venture capital funds, some entrepreneurs are tapping into large online communities (Schwienbacher and Larralde 2012; Agrawal, et al. 2013). This relatively new form of informal venture financing, called crowdfunding, allows entrepreneurs to directly appeal to the general public, e.g. the crowd, for help getting their innovative ideas off the ground (Kuppusvamy and Bayus 2013). In recent years, crowdfunding has emerged as a popular method to finance entrepreneurial ventures (Qiu, 2013).

1.1 CROWDFUNDING

Crowdfunding represents a number of new and growing methods to finance entrepreneurial ventures. The earliest recorded use of the term *crowdfunding* was by Michael Sullivan, in 2006 (Castrataro, 2011). It has its roots in charitable donations, but it is now used to support projects as diverse as record albums, design objects, books, ecology trips, scientific research, veteran's causes, equity and college tuition. Since then it has been defined as:

“The efforts by entrepreneurial individuals and groups—cultural, social, and for-profit—to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries.”

- Mollick, 2014

Entrepreneurial ventures use crowdfunding to fund, validate and market projects in a nascent phase; maybe even before any other establishing efforts is made (Duggal and Sassoon, 2015). Brabham (2008) and Kleemann et al. (2008) (in Qiu, 2013) posited that the development of Web 2.0 was essential for the crowdsourcing¹ movement. Web 2.0 is characterized by the development of social networks and user-generated content: large networks of people who may share common interests can easily and openly share information. Before Web 2.0 the transaction cost of acquiring funding through large crowds were in most cases too high.

To understand how crowdfunding works it is important to understand who the stakeholders in the crowdfunding space are, and their respective influence on the practice. Baulieu and Sarker (2015) identified *crowdfunding platforms (CFPs)*, *founders*, *backers*, *traditional capital markets* and *laws & regulations* as stakeholders. The CFPs provide the technology allowing founders to expose their projects to crowds, to communicate with (potential) backers, and to integrate third

¹ Crowdfunding can be viewed as a subset of crowdsourcing (Duggal and Sassoon, 2015).

party payment. *Founders* post their idea on a crowdfunding website to receive funding. *Backers* contribute monetarily and/or through the use of social media and their own personal networks by spreading the word about a project. *Traditional Capital Markets* are those who more traditionally fulfill the role of providing capital to founders, including Business Angels, VC funds, investors and banks. *Laws and Regulations* control the environment so it is safe and fair for all stakeholders.

Massolution, a unique research, advisory and implementation firm that specializes in crowdsourcing solutions for private, public and social enterprises, has estimated the total funding volumes for CFPs in 2015 to \$34.4Bn worldwide, doubling every year since its inception². They categorize all crowdfunding platforms (CFPs) in 6 categories; *equity-based*, *royalty-based*, *lending-based*, *reward-based*, *donation-based* and *hybrid forms*.

The reward-based category is the largest crowdfunding category in terms of number of CFPs. Reward-based crowdfunding (RBCF) has been the more popular form of crowdfunding for entrepreneurial small ventures in Europe and North America for the last 5 years, driven by actors such as Kickstarter (KS) and IndieGoGo, both in media and in the creation of new ventures³. As a result, we chose to focus on RBCF in this thesis.

In RBCF, backers receive a reward for backing a project. This can include being credited in a movie, give creative input to a product under development, or meeting the founders of the project. Alternately, the backers are treated as early customers; given access to the products at an earlier date, discounted price, or with some other special benefit. This pre-selling of products to early customers is a common feature of those crowdfunding projects that more traditionally resemble entrepreneurial ventures, such as projects producing novel software, hardware, or consumer products (Kuppuswamy and Bayus, 2013).

1.2 FUNDING GOALS: INTERNAL AND EXTERNAL

Goal setting, or valuation, is key to raising funds in venture financing in general (Lerner et al., 2012), therefore by extension this is relevant in RBCF as well. As emphasized in “how to”-guides (e.g. de Witt, 2012), setting appropriate funding goals is paramount to having a successful project (Kuppuswamy and Bayus, 2013). A thorough review of literature (Haslum, 2015) on

² Total funding volumes for CFPs per year; 2010: \$0.8Bn, 2011: \$1.4Bn, 2012: \$2.5Bn, 2013: \$6.1Bn, 2014: \$16.2Bn, 2015: \$34.4Bn (Massolution, 2013, 2015).

³ <http://www.crowdfundinsider.com/the-ultimate-crowdfunding-guide/> [Accessed December 14, 2015]
<http://crowdfunding.about.com/od/Crowdfunding-definitions/fl/What-is-rewards-based-crowdfunding.htm> [Accessed December 14, 2015]
<http://thecrowdfundmarketing.com/reward-based-crowdfunding/> [Accessed December 14, 2015]

crowdfunding found that in spite of the importance of the issue, this topic is not discussed in detail in RBCF literature.

Based on the limited literature on funding goal setting in RBCF, projects trying to raise large amounts of funds, encounter a paradox. Mollick (2014) finds that projects with large goals are less likely to be funded, however, it is also found that once a project reaches its funding goal, it is less likely to be further backed (Kuppuswamy and Bayus, 2013; Burtch et al., 2013), implying that setting a lower goal might lead to achieving lesser funding than possible. There are conflicting views on how to solve this paradox.

Practitioners (the authors of practical “how to” guides in crowdfunding) suggest that reaching the funding goal as fast as possible, to be seen as a success and to more securely pre-sell your product, generates success in raising further funds. Whereas, theoreticians (the authors of theoretical RBCF literature) suggest that potential backers are less likely to contribute once a project reaches its goal and that crowdfunding projects fail by large amounts and succeed by small.

In this paper we shed light on this issue by studying how founders of projects actually go about setting their funding goals. These contradicting schools of thought required a definition of what a funding goal is. Following our preliminary research, we assume that a founder has an *internal goal* (what the founder really thinks he should or could get) and an *external goal* (the goal that is presented to the public). One could argue that both the external and the internal goal comprise the “total” funding goal. In this paper, to follow established theory, we will use the term *external goal* where others have used *funding goal*. Following the practitioners’ logic, a founder would set the external goal lower than their internal goal, expecting the quick achievement of this lower goal to generate ‘buzz’ and more funding. Following the theoreticians’ logic, a founder would set the external goal as close to their internal goal as possible, knowing that once the external goal is reached, more funding is not very likely.

1.3 RESEARCH QUESTIONS

Given limited prior research (as described above) on goal setting in crowdfunding, in this study we look at how external goals are set in RBCF.

Drawing on literature on external goal levels and achievement, backer dynamics and private/public good, the research questions address and explore the existence of a strategy that deliberately sets the external goal substantially lower than the internal goal, in order to reach the external funding goal faster, and gain advantages by being seen as a success story.

We wanted to see if there was evidence for this phenomenon, and if so, try to explain what reasoning lay behind such strategies. We specifically wanted to do so by answering the following research questions:

RQA:

How do private good-type crowdfunding projects set external goals?

RQ1: Are there external goals that are substantially lower than internal goals?

RQ2: How are external goals determined?

RQ3: What are the founders' reasons for setting the external goal lower than the internal goal?

RQ4: Based on their external goal setting approach, how can private good-type crowdfunding projects be grouped and what are the common traits within each group?

CF is a very large landscape, and with limited and conflicting theory on the topic, we had to narrow our scope to be able to answer our research questions. We focused on the largest and most popular platform within RBCF: Kickstarter. Within that platform we looked at the two most relevant and important categories for consumer goods, and selected a sample group we considered to be the most important and relevant in an entrepreneurial point of view (scoping is explained in detail in the methods chapter).

A qualitative multiple case study on ten successfully launched projects was performed. We present findings on internal vs. external goal setting that opposes some of the existing theory on the field, and have practical implications on how ventures strategize goal setting in crowdfunding. The research also adds to the knowledge of how CF theories are being built, and gives a fresh view on this fast evolving topic. We also give indications on how goal setting theory, within CF, might be studied in the future.

1.4 DEFINITIONS AND TERMINOLOGY

In Table 1.4 below, we have defined some of the most frequently used terms in this paper. Some have been described in text thus far, while other definitions have yet to be presented.

Term	Short	Formula or equivalent	Description
Project	-	Campaign	Term used for describing a crowdfunding campaign or project. On KS, a project has a “creator” which is referred to as “founder” in this paper
Founder	-	Project owner, creator.	Person or company who stand as the owner of the project. A founder can have more than one project, but a project can only have one founder (as far as KS is concerned)
External goal	GE	<i>KS Funding goal / public goal</i>	What is usually referred to as “funding goal” in previous literature (which can be confusing, since the external or public goal is not necessarily the founder’s “true” goal)
Internal goal	GI	<i>“Real goal” “Realistic goal”</i>	The founder’s “true goal”. When looking for the internal goal, we asked questions similar to “what did you really think you would raise?” and “Was there a different amount that you really were aiming at?”
Minimum Order Quantity	MOQ	<i>* “Internal MOQ” see footnote 12, Section 4.3</i>	An amount, either in terms of money or number of products or material, which a founder has to order for a manufacturer to accept the order.
Goal ratio	RG	GI / GE	Goal ratio compares a founder’s internal and external goal, and can be seen as a ratio used strategically to increase the total funding in CF. <i>If a founder needs to raise \$100k to cover MOQ, but thinks he will be able to raise \$200k, and sets the external goal at \$50k - his goal ratio is \$200k / \$50k = 4.</i>
Funds raised	FR	Actual amount raised (\$)	The total amount of funds, in dollars, that the founder raised in the duration of the project.
Funding ratio	RF	FR / GE	A factor describing the public success of the Project. The same number as the funding percentage shown on e.g. KS (the “funding bar”)

Table 1.4 Definitions and Terminology

2. THEORY

This chapter presents relevant concepts within crowdfunding literature and other theory relevant to answer the research questions. To present *external goal setting determinants* in RBCF and commonalities in related strategies we have structured the literature using three levels: (1) external goal levels, (2) external goal achievement, and lastly (3) backer dynamics over time and funding ratio.

There are two main models for RBCF platforms (RBCFPs); All-or-Nothing (AoN) and Keep-it-All (KiA). In an AoN model the backers are not charged if the project is not able to successfully raise the external goal. In a KiA model the founders can keep all the money they raise, no matter if the external goal is reached or not. Thus external goal setting is less critical on KiA platforms than on AoN platforms. Kickstarter, the largest crowdfunding platform, is an AoN-RBCFP, while IndieGoGo (the second largest RBCFP) lets the founder decide whether to use an AoN- or a KiA-model.

2.1 EXTERNAL GOAL LEVELS

In literature it is generally agreed that projects with lower external goals are more likely to reach that external goal (Mollick, 2014; Kuppusvamy and Bayus, 2013; Barbi and Bigelli, 2015; Marom and Sade, 2013; Robertson and Wooster, 2015; Frydrych and Bock, 2014). Barbi and Bigelli (2015) calculates the probability of raising requested funds for different levels of the external goal; starting at 75.7% for a goal below 100 USD, and reaching 16.8% for goals exceeding 50K USD.

In a study of female founded projects, Marom et al. (2014) and Mohammedi and Shafizadeh (2015) find that female risk aversion is present in the crowdfunding space, resulting in female founders setting lower external goals and that these female led projects have a higher chance of reaching their external goal (Marom et al., 2014; Mohammedi and Shafizadeh, 2015).

This is interesting since it appears that the safety or humbleness of a project, which is communicated by having a female founder, is perceived as a quality signal and has a positive effect on project contributions. In addition to the actual level of the external goals, there may be other factors, such as perceived risk, that also influence the success in achieving funding success. The same effect is seen in the comparison between AoN and KiA CFPs. It is agreed that an AoN model signal reduced risk to the crowd, thereby enabling the entrepreneurial firms to set higher goals on AoN CFPs, raise more money, and be more likely to reach their stated goals, than on KiA CFPs (Belleflamme and Lambert, 2014; Cumming et al., 2014).

2.2 EXTERNAL GOAL ACHIEVEMENT

It is agreed that quality signals (such as preparedness, narrative, language, others' contribution decisions, personal characteristics, creditworthiness, social networks and social norms) are positively affecting success, where success is defined as reaching the external goal (Mollick, 2013b; Kuppusvamy and Bayus, 2103; Beier and Wagner, 2014; Robertson and Wooster, 2015; Frydrych and Bock, 2014). In this sense, backers act like VC's or other traditional sources of capital, evaluating the quality of the product, the team, and the likelihood of success.

It is agreed that marketing (e.g. peer to peer advertising efforts, traditional advertising, press attention and online advertising) and social activity (e.g. community engagement, communication with backers, project updates and activity on social media) has a direct impact on success (Burtch et al., 2013a; Mollick, 2013b; Kuppusvamy and Bayus, 2103; Barbi and Bigelli, 2015; Qiu, 2013).

Social and relational factors have significant influence on funding outcomes in absence of financial returns, even more so than tangible rewards (Carr, 2014). Qiu (2013) shows that a backer contributes to a project in two ways: Financial contribution and advertising contribution. Advertising contribution is not rewarded; Qiu (2013) argues that it should be.

2.3 BACKER DYNAMICS

Backers on KS back founders in return for a reward. Their motive can be altruistic (backing the cause or the founder), or it can be selfish (doing a good deal by committing early). As in traditional fundraising, backers are looking for quality signals when backing a project or venture.

In crowdfunding, quality signals are further magnified through a Matthew Effect (Merton, 1957) that multiplies the impact of project quality. This is explained by others' contribution decisions being a quality signal, self-reinforcing quality signal. CFPs are built around the social concept that high quality projects attract backers who will further promote the project to other potential backers, or external media, thus increasing the momentum of the project (Burtch et al., 2013).

2.3.1 Herding

The Matthew Effect can be further explained by herding. Herd behavior describes how individuals in a group can act collectively without centralized direction. Herding implies that a project by getting some attention will attract more attention, attracting the herd. Several data support herding in crowdfunded projects (Inbar and Barzilay, 2014; Robertson and Wooster, 2015; Zhang and Liu 2012).

Female backers (Marom et al., 2014), and platform-centered and category diverged⁴ members (Inbar and Barzilay, 2014) are less prone to herding than their counterparts. Also, for project and category centered users, there is a peak in herding just after launch and after goal reach. Social media can also be a powerful tool in perpetuating herd behavior. Its immeasurable amount of user-generated content serves as a platform for opinion leaders to take the stage and influence purchase decisions, and recommendations from peers and evidence of positive online experience all serve to help consumers make purchasing decisions.

However the herding is not everlasting, and has peaks. It is agreed that the backing activity will peak in the beginning and the end of the project (Kuppusvamy and Bayus, 2014; Inbar and Barzilay, 2014). Common theories to back up arguments in this area are herding, altruism, goal-gradient hypothesis and crowding out.

2.3.2 Project support over time, and funding ratio

The two most used ways to show the completion level of a project is time left and funding ratio, in this section we will present theory concerning project support over time, and funding ratio⁵. These are important as they give an indication of whether the project will be realized or not.

A notable feature of KS, as opposed to some other AoN-platforms, is that it allows backers to pledge after the external goal has been reached. This results in some projects raising a multiple of their external goal.

Projects that reach their external goal, tend to do so by relatively small margins (Mollick, 2014; Kuppusvamy and Bayus, 2013). Crowding-out and the goal gradient hypothesis are used to explain that a project loses its attractiveness as it reaches the external goal (Kuppusvamy and Bayus, 2103; Burtch et al., 2013; Inbar and Barzilay, 2014) hence being backed by fewer backers. As a project approaches its external goal, the perceived importance of each added backer is argued to decrease. Hence leading to fewer backers feeling the urge to back a certain project when it is closer to its external goal. Common theories to back up arguments in this area are herding, altruism, goal-gradient hypothesis and crowding out.

The goal gradient hypothesis states that motivation to reach a goal increases monotonically with proximity to the desired end state (Hull 1932). On KS, Kuppuswamy and Bayus (2013) describe a U-shaped pattern of project support over time; the initial excitement around a new project is quickly followed by a sharp drop in support and a prominent lull in activity until the last week of

⁴ Inbar and Barzilay (2014) studies how different centered members on Kickstarter act on and affect projects, categorizing the members in four groups; project-centered, category-centered, platform-centered and category-diverged. Category-diverged members support the most projects, followed by platform-centered, then category-centered and lastly project-centered members.

⁵ On KS four metrics are shown for each project; funding ratio, funds raised, amount of backers and time left (See Appendix 1).

the funding cycle. Practitioners call this U-shape phenomenon the Bathtub Effect or Bathtub Curve. Kuppuswamy and Bayus (2013) show evidence for a U-shaped pattern of project support over time being persistent for projects on Kickstarter across category and success. They explain their findings as a “diffusion of responsibility effect” and support this idea with Deadline effect, Kickstarter Fatigue, Goal gradient (Hull, 1932), impact of contribution, U-shaped pattern (de Witt 2012), correlated with “Kickstarter Effect” and shared goals of a group.

Kuppuswamy and Bayus (2013) further argue that potential backers are less likely to contribute once a project reaches its goal. Burtch et al. (2013) back their theory. Still, in total, more money is actually raised by successful projects, than money requested (external goals) summed all together (Mollick, 2013; Marom and Sade, 2013; Barbi and Bigelli, 2015; Marom and Sade, 2013; Robertson and Wooster, 2015). Barbi and Bigelli (2015) show that the average external goal for successful projects was \$16K while they in average raise \$50K USD (data from Kickstarter projects until 2013). For unsuccessful projects however, the average external goal is \$31K and the average raise is \$3K. Resulting in a funding ratio for successful projects at 3.1, and 0.1 for unsuccessful ones. Design projects tend to have the highest funding ratio; in a study by Marom et al. (2014) male-led design projects had a funding ratio of 14.5, while in Mollick’s (2013b) study the average funding ratio was 2.4 for design projects.

2.4 Private good-type project

From the preliminary research it was suggested that future external goal research should focus on projects with private good. The pre-selling of products to early customers is a common feature of those crowdfunding projects that more traditionally resemble entrepreneurial ventures, such as projects producing novel software, hardware, or consumer products (Mollick, 2014). Successful projects with a private good type of reward, fitting the pre-selling projects, are more likely to exceed the goal by a wider margin than those with a public good type of reward (Qiu, 2013).

For such future research we provide a definition of private good-type of RBCF projects, named *Private good-type project*.

Private good-type project:

A RBCF project that involves pre-selling of a consumer product. There must be a physical product that is manufactured and delivered to each individual backer.

3. METHOD

We used the multiple case study as our research method, interviewing 10 case founders over Skype for an average duration of about 25 minutes.

In this chapter we will first explain why we selected the multiple case study method. After that we present the method we used to narrow our scope from 8924 projects on KS, down to a sample group of 177. At last we explain how we contacted, interviewed and analyzed the case companies.

3.1 MULTIPLE CASE STUDY

We wanted to do an exploratory study on the new phenomenon of RBCF, where existing theory is sparse; using a research question that has not previously been used in research.

Glaser and Strauss (1967) and Eisenhardt (1989) suggest using the multiple-case inductive study for this type of research. Compared with a single-case design, the multiple-case study approach is considered to have important analytical benefits (Yin 2009). The replication logic used here sees multiple cases as a series of experiments, and each case can be used to confirm, or not confirm, the inferences drawn from others. This differs from pooled or sampling logic suitable for statistical studies, where each observation is considered part of a larger sample (Ibid.).

Instead of applying a single-case study that offers insight into one particular example, the multiple-case approach provide broader empirical richness and may produce generalizable and accurate theoretical insights grounded in the data (Eisenhardt 1989; Brown and Eisenhardt 1997). The multiple case study is also considered helpful in generating sensitive, confidential or consequential data (Rouse and Daellenbach 1999). Which strengthens our study, since it is doing exactly this.

This led us to decide on using the multiple case study as our research method. We wanted to talk to more than one founder, as we had briefly looked at many hundred projects in our prior research, and found that they were often very different (in terms of the reward, funding ratio, external goal and overall presentation of the project). If we were to contribute with any generalizable insights, we would have to talk to multiple founders.

Since we also considered data on internal goal and company strategies as sensitive data, we had concerns about collecting these through questionnaires or surveys - an approach we did consider early on. Surveys would also present us with the challenge of preparing a set of questions that would be relevant and understandable to each unique founder. Without the flexibility of an interview, we feared we would miss out on a lot of the context and mindset of each founder,

which we saw as crucial. To discuss our findings, we needed to understand the case subject, and see the data he provided in light of his context.

After choosing the multiple case study we made an initial definition of research questions, to allow us to focus and not be overwhelmed by the amount of data (Eisenhardt 1989 p. 536). In order to describe the typical characteristics of the phenomenon of RBCF with a rich and holistic account, we combined descriptive RQs with questions that try to understand the case subject (Andersen 2013).

3.2 SCOPING

This section explains how we narrowed our scope from RBCF in general to a small sample group within a sub category on KS. The scoping process is described in four steps that were followed more or less chronologically.

3.2.1 Step 1 - Choosing KS

KS is the largest and most popular RBCFP today, and was considered as the best candidate for our research. In addition, KS is an AoN platform, where (as explained in the theory chapter) external goal setting has a larger importance than on KiA platforms or combined platforms, such as Indiegogo; the potential downside is much larger for an entrepreneur on KS, where he could end up reaching 99% of his goal at the end of the project and not receiving anything, while on Indiegogo he could receive the 99% regardless.

KS has also seen an incredible growth in the recent years, strengthening its position as the leading platform and giving us an incentive to contribute with updated research. See Appendix 2 for details in KS growth.

3.2.2 Step 2 - Selecting the categories Design and Technology:

KS had 15 project categories when we conducted our research (*art, comics, crafts, dance, design, fashion, film & video, food, games, journalism, music, photography, publishing, technology, theater*). Below are two graphs that show the relative importance of the 15 categories, in terms of total funds raised and number of projects.

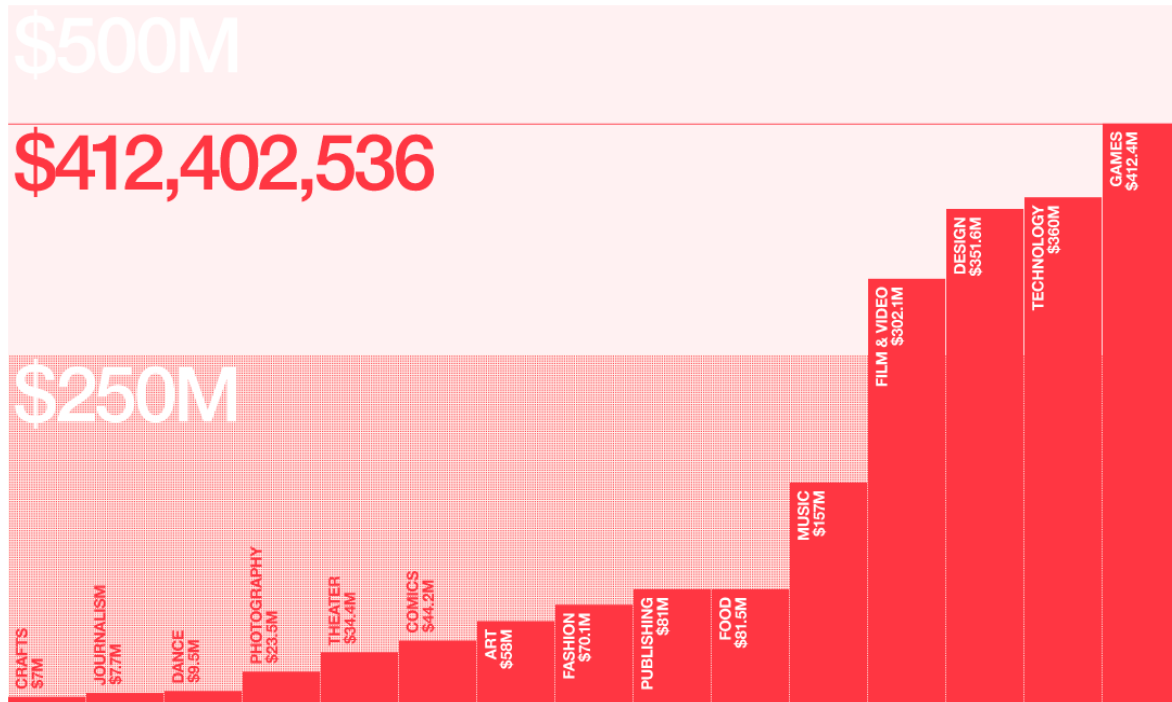


Fig. 3.2.2.1 Total funds raised on KS within each category, per 11th Oct 2015.

The four largest categories in terms of funds raised were *Games*, *Technology*, *Design* and *Film & Video*.

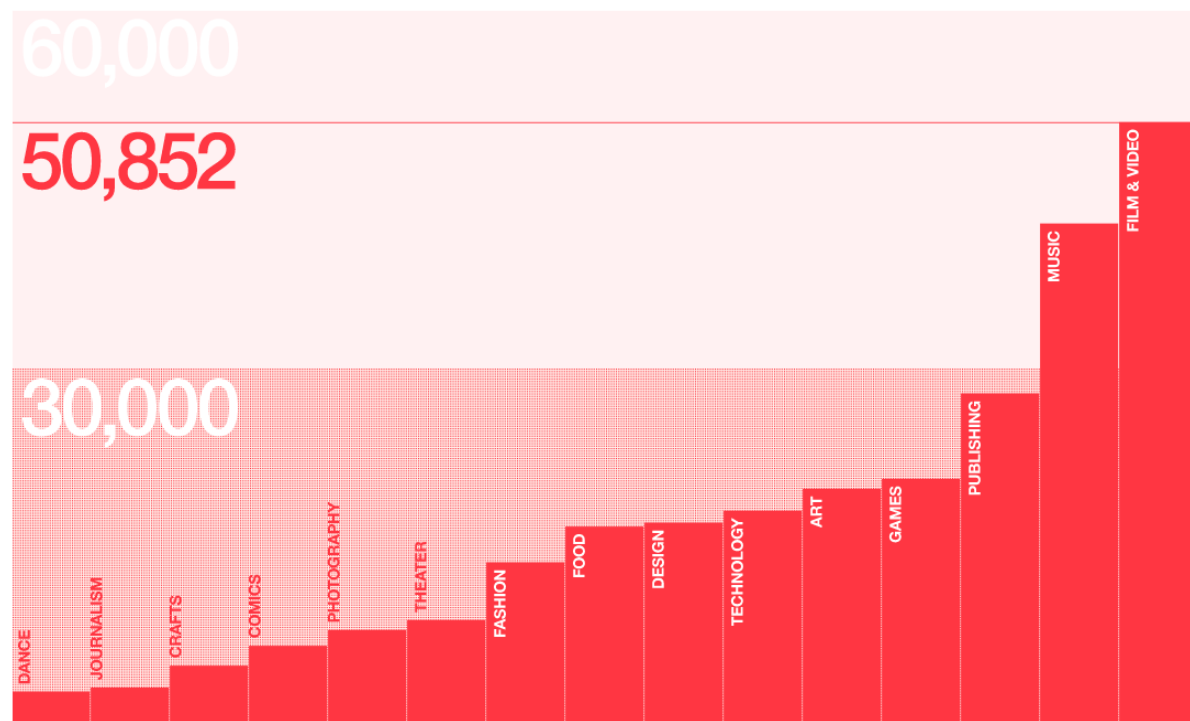


Fig. 3.2.2.2 Number of successful projects within each KS category, per 11th Oct 2015.

The more creative/artistic categories (in lack of a better word) like *Film & Video*, *Music* and *Publishing* had the highest number of projects, while *Games*, *Design* and *Technology* had far fewer projects.

Comparing the two graphs and looking at both raised funds and number of projects, it is reasonable to say that Games, Technology and Design were the major categories in terms of funds raised per project (i.e. more money raised on fewer projects). This is likely due to much higher costs in production and delivery of backer rewards for consumer good hardware. An artist can write music, software or a book and distributing it online to backers at low cost, while the inventors of the Pebble smart watch, a private hardware product, would be looking at large production startup costs, and shipping and handling costs across international borders. As such, it makes sense that more money is raised per project in hardware-type projects. The Games category consisted of either board games or software - here it was assumed that the complexity and development time was, on average, higher than for e.g. Music or Film & Video, explaining the high amounts of funds raised per project.

To focus our research effort and limit our scope, we excluded the Games category during this step in the scoping process, as the board games were considered too niche for our research. The increase in the use of Open Source and possibilities to replicate software, made it hard to define a uniform sample of software that is purely a private good. Technology and Design were mostly hardware that fit better to our focus on entrepreneurial ventures with private good. These two categories were then looked at in detail in the next step.

3.2.3 Step 3 - Quantitative analysis of sub categories within Design and Technology

At the time of data collection, the KS database contained all the projects launched on KS, both successful and unsuccessful⁶. The database consisted of more than 260,000 launched projects⁷. These projects were publicly available through the KS platform as individual web pages.

Below, we explain four sub-steps (a, b, c, d) within step three of the scoping

a) Collected data from all successful Design and Technology projects on KS

Within the categories *Technology* and *Design*, we collected data points from each successful project since the start of KS to January 21, 2016. We chose to exclude unsuccessful projects, as we wanted to talk to those that had "broken the code" rather than those who had failed. Founders

⁶ "How long does a project remain on Kickstarter?"

Forever! Projects are not closed or taken down, they remain on site for reference and transparency.

For the same reasons, projects cannot be deleted, even if they were canceled or unsuccessful. Please note that deleting your Kickstarter account will not delete your project."

<https://www.kickstarter.com/help/faq/creator+questions> [Accessed May 11, 2016]

⁷ On October 11, 2015, the KS community pledged its two billionth dollar, and KS made an infographic page. <https://www.kickstarter.com/2billion> [Accessed May 11, 2016]

of unsuccessful projects were also considered harder to approach and extract information from. This scoping certainly limits our research, but was deemed necessary considering our time. For future research it could be interesting to talk to founders of unsuccessful projects, to get their perspective on external goal setting.

The data was structured in an Excel sheet by using an Extract Transform Load algorithm⁸. The data points collected from each project are shown in Appendix 3. This data set consisted of 10,049 successful KS *Technology* and *Design* projects. We counted all the projects up until October 11, 2015, and compared this number with KS's own data until that date (Fig 3.2.2.2 in section 3.2.2 "scoping"). Our data set was missing 50 projects, a deviation of 0,56% (see Appendix 4), which we thought was acceptable. The deviation might be explained by inaccuracies in the data collection, or the removal of some successful projects by KS (reasons for this could be scams, unlawful or later banned products, IPR breaches etc.).

b) Excluded 2016 data and non-USD currencies

We excluded projects that were difficult to compare with the rest of the sample. Projects sampled from 2016 were limited to the period January 1st - January 21st, and were excluded, as they were not representative for the whole year. Project funding was difficult to compare between different currencies, and fluctuating currency exchange rates might cause problems. On this basis all projects that did not have USD as their native currency were excluded. During this step 1125 (11.2%) of the projects were removed and the sample group was reduced to 8924 projects.

c) Excluded data from 2009-2011

The total funds raised and amount of projects per year, for this initial sample group of 8924 projects, is shown in the figure below.

⁸ This job was outsourced to a third party through Upwork (see Appendix 3).

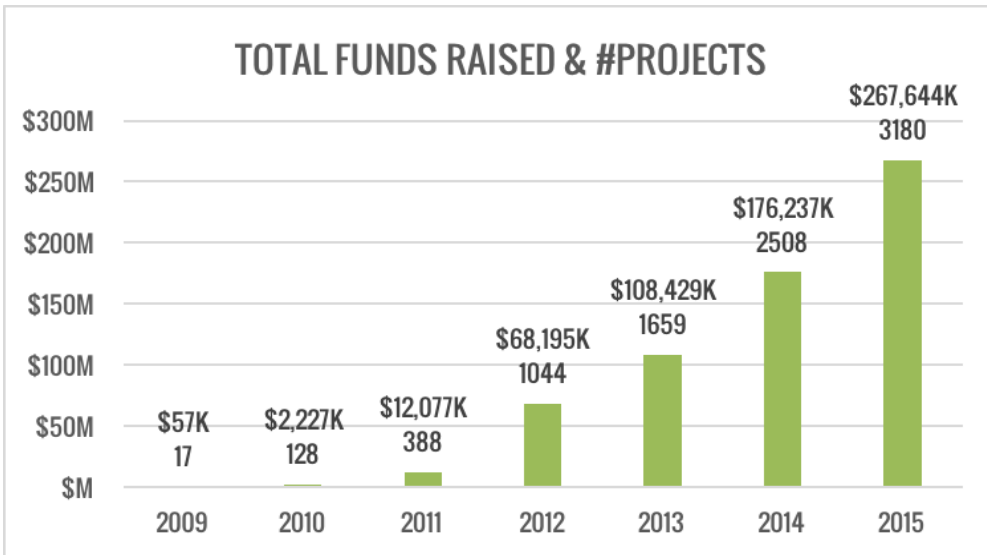


Fig. 3.2.3.1 Amount raised by Design and Technology projects on KS per year and amount of projects

As we can see, there has been a steady growth of total raised funds as well as number of projects successfully launched each year. These findings are in accordance with KS’s own growth data (see Appendix 2).

To look at how projects within the two categories have developed through the years, we produced a graph showing both the average and the median of funds raised per project.

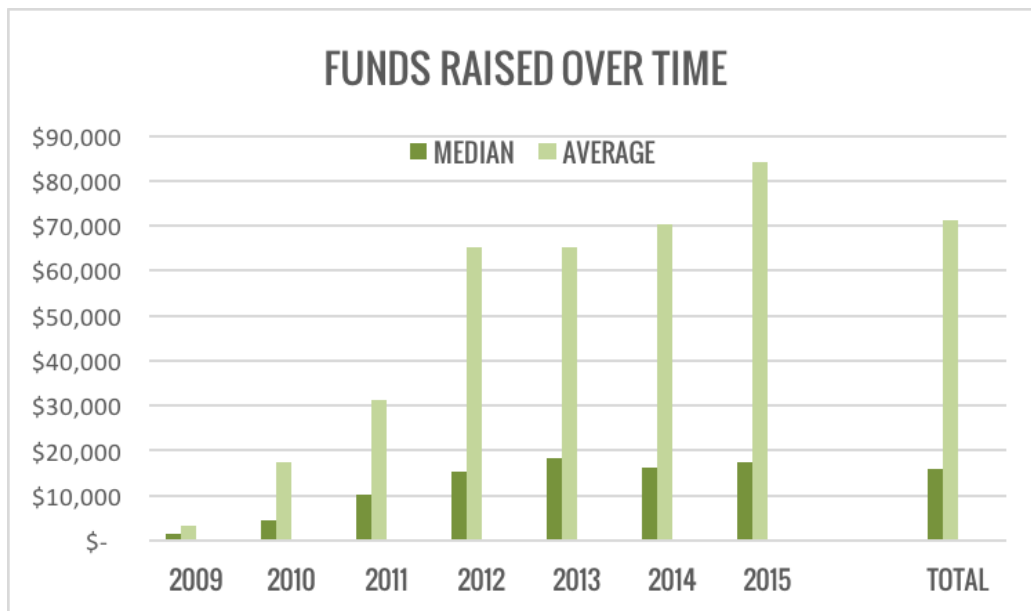


Fig. 3.2.3.2 Average and median amount raised by Technology and Design projects on KS per year

We saw that the average was much higher than the median. This told us that there was a very uneven distribution of projects around the median, something that was also clearly visible in our Excel sheet; a few projects with high amounts raised were raising the average above the median.

Looking at the data from these two figures, it was clear that data from the three first years (2009, 2010, 2011) were not as stable as data from the last four years, and also contained very few projects. All these years were excluded based on this reasoning.

We felt that the data from 2012-2015 showed that KS had matured and stabilized in terms of funding amounts, while still growing steadily. In terms of funding goal strategies however, it was our view that KS had been evolving so fast that data older than 1-2 years might already be outdated. The space of RBCF literature is also fast evolving, and it is important for theoretical literature to constantly follow the developments occurring in the space to not be outdated (Haslum, 2015)

We were also concerned that it would be harder to get in touch with founders of older projects (less likely that they were still working on the project) and that their memories and experiences might have changed over time.

As a consequence of these factors, we chose to exclude 2012-2014 and only look at the most recent data from 2015.

d) Focused on entrepreneurial ventures

We used the *private good type projects* definition (see Section 2.4) to make sure that the rest of the qualitative analysis would target a relevant sample group.

We looked for traits that were similar to those of entrepreneurial ventures. Following Mollick (2013) we excluded all projects with external goals of less than \$5,000. This was to ensure that the projects had somewhat of an ambition, and avoid extreme outliers in our sample. External goals lower than \$5,000 were also considered as an indicator of projects with less likelihood of hardware goods that had to be manufactured and delivered to each backer.

When KS projects raise more than \$100,000 they become interesting to investors (Laituri, 2015). Gompers (1995) classify all seed and startup investments as early rounds and put them in the range \$290K-\$2.4M. Based on this, we set the bar at \$100,000 and excluded all projects that had raised less than this.

3.2.4 Step 4 - Evaluated subcategories to arrive at final sample group

After applying all the previous scoping parameters, we compared all the subcategories within the two categories *Technology* and *Design*.

The most distinguishing variable was the number of projects within each subcategory, shown in the graph below, which could be seen as one way of measuring the relative “importance” of the subcategory⁹.

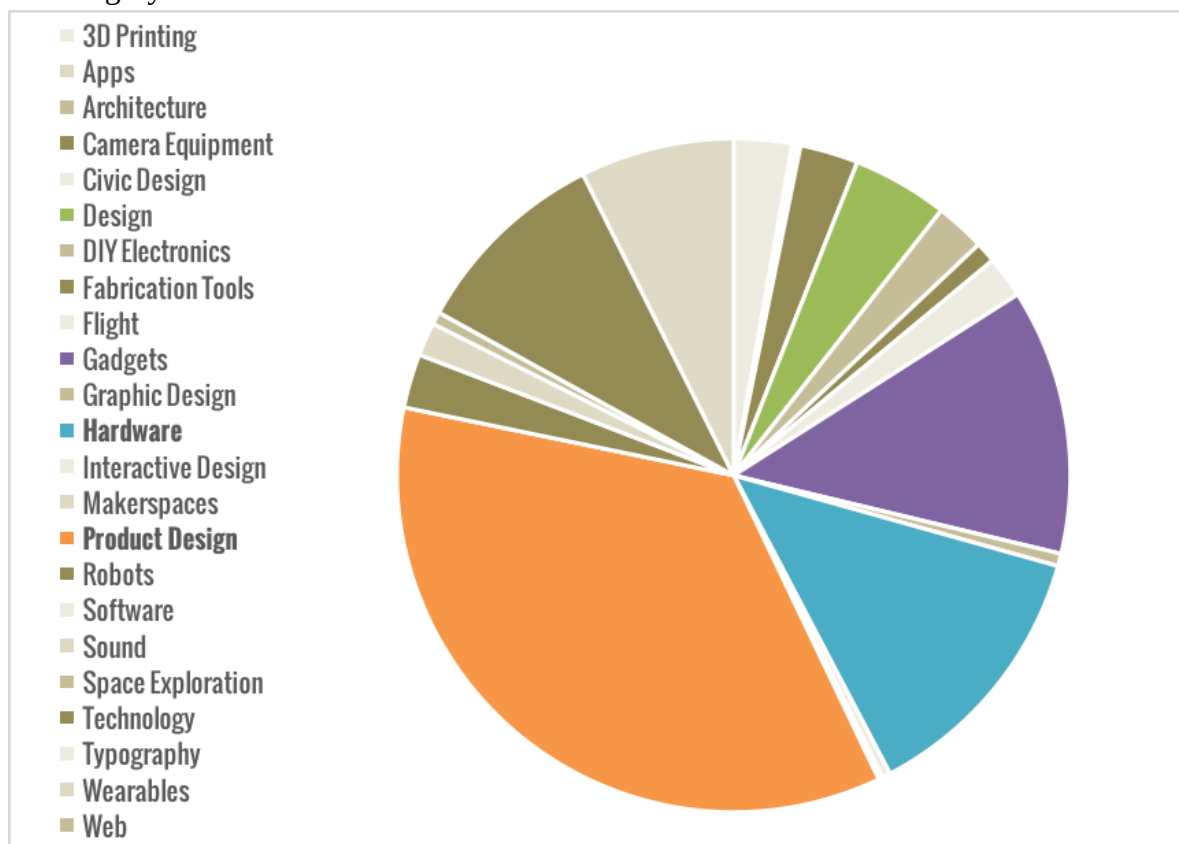


Fig 3.2.4.1 Count of projects with external goal \leq \$5K and funding raised \leq \$100K per subcategory in 2015. Totally there is 501 projects. Details of the colored sectors follows:

- (1) the orange sector, *Product Design*, of 177 projects equals 35%;
- (2) the blue sector, *Hardware*, of 65 projects equals 13%;
- (3) the purple sector, *Gadgets*, of 64 projects equals 13%;
- (6) green sector, *Design*, of 23 projects equals 5%.

We see that the subcategory *Product Design* (within *Design*) had the most projects by far, followed by *Hardware* (within *Technology*) and *Gadgets* (within *Technology*). We looked at a large number of projects within these three subcategories, and concluded that they all fit our definition of *private good type projects* (see Section 2.4). These were thus our three main candidates for sample groups.

⁹ As opposed to *categories*, the *subcategories* are more homogeneous and comparable. Measuring relative importance by number of projects could be seen as fair for subcategories *Gadgets* and *Hardware*. While the same would not be fair if comparing the category *Film & Video* to *Technology* (apples and oranges).

We then analyzed the Funding ratio, \mathbf{RF} , for all the subcategories. The average and median values are compared in the graph below:

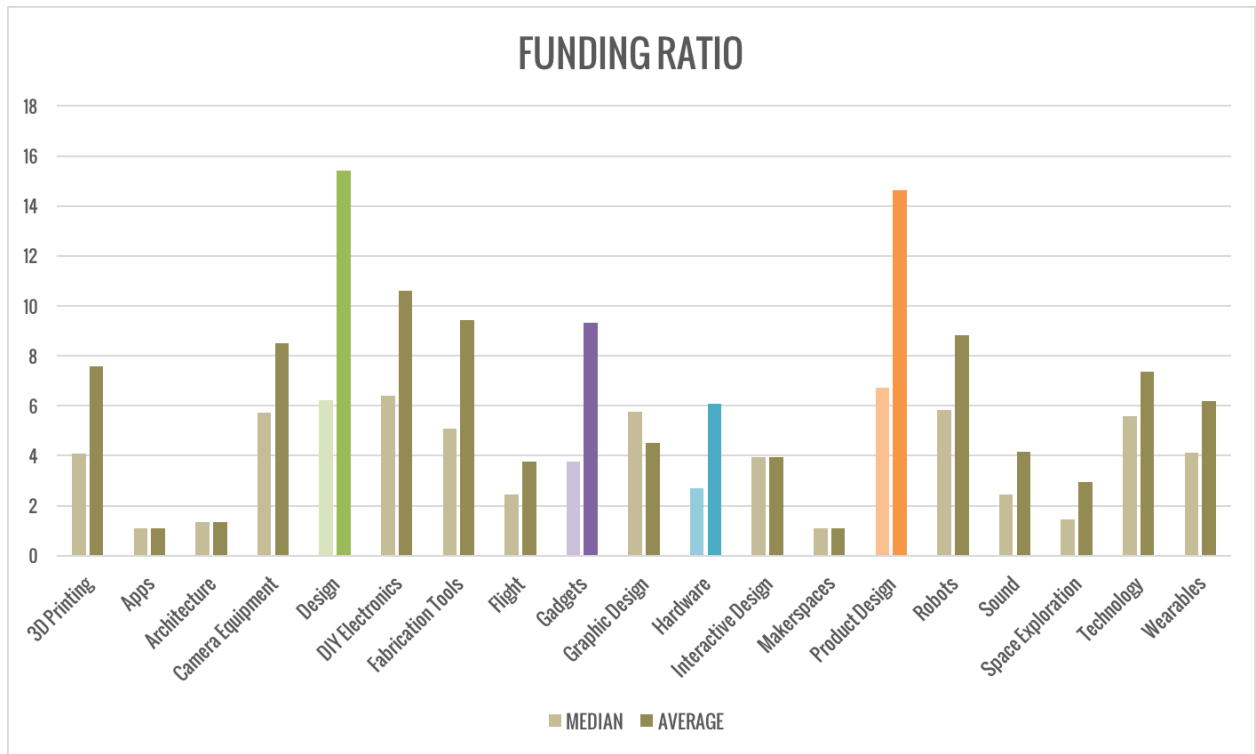


Fig 3.2.4.2 Average and median funding ratio (RF) per subcategory in 2015, for projects with external goal \leq \$5K and funding raised \leq \$100K. The green sector, *Design*, and the orange sector, *Product Design*, have the highest funding ratio, 15.43 and 14.64 respectively.

Besides being the subcategory with the most projects in this sample, *Product Design* also had the 2nd highest funding ratio (\mathbf{RF}) - 50% above average for the whole sample. The subcategory with the highest funding ratio was *Design*, which we considered to be a “left-over” subcategory that had very few projects (as seen in Fig 3.2.4.1).

We assumed that subcategories with high funding ratios could indicate larger difference between external and internal goals, as well as more conscious (or “extreme”) goal setting strategies.

Based on these factors, and with the goal of preferably having a final sample group comprised of only one subcategory (avoiding having to consider and evaluate possible differences between two or more groups) - we chose to conduct our qualitative research solely on the *Product Design* subcategory within the *Design* category. Resulting in a final sample group of 177 projects.

3.3 PERFORMING THE MULTIPLE CASE STUDY

In this section we explain how we proceeded with the multiple case study after having decided on our final sample group.

3.3.1 Selecting the cases

Based on analysis it was clear that the sample group was not uniform. To answer RQs regarding multiples of the external goal it made sense to sort the 177 project ascending after Funding ratio (R_F). This distribution was then divided into ten tiers of as equal size as possible (the last three tiers having 17 projects, while the first seven had 18), first group having the lowest R_F , last group having the highest R_F . Within each tier, each project was then randomly given a priority number, using a randomizer algorithm in Excel - resulting in a draft list. Such a distribution and drafting was done to ensure that the qualitative study would consist of a representative sample of subjects, and to avoid bias on our part in selecting the cases. This strategy worked, and the findings in section 4 are based on interviews with founders representing all ten of these tiers.

3.3.2 Contacting the case companies

We assumed early on, that it might be hard to get replies from the candidates, as we could see on the “Project update” pages on KS that a lot of the projects had not yet completed delivery of their rewards to the backers, and many seemed very busy. As a consequence, we initially contacted the first three founders on the draft list within each tier. We would then wait a few days, and contact two more candidates within each tier where no one had replied positively.

As soon as the first candidate within a tier had replied positively, he would get priority, and we would try to arrange an interview, while postponing further invitations within that tier, and putting other subsequent responders (having already been contacted) on hold.

The candidates were contacted via email where possible (each founder had a public profile, usually with links to websites containing emails), if not we opted for the message function within KS. They were sent an introductory letter explaining the purpose of the study. In the initial message the founders were asked if they would participate in Skype interview within the next two weeks.

In order to get 10 companies to participate in the study, we ended up contacting 86 companies, of which 23 responded to our first message. 8 companies politely said declined the invitation, reason being that they were too busy at the moment. 5 replied after their tier slot had been filled.

We assume that the response rate was so low due to many of the founders being extremely busy (supported by those founders that replied back and said this). In addition many of the e-mail addresses we contacted were generic company address, such as “info@company.com”,

“sales@company.com” and “post@company.com” - likely resulting in the invitation not reaching the correct founder all the time, and also losing the “personal touch” a direct e-mail would give.

In the weeks after all the case companies had been confirmed (and some interviews having been completed) there were five late responders who offered to be apart of the study, and these received a polite no, as other candidates had then filled the slot.

Data was collected through a Skype interview with the founder¹⁰. In cases where it seemed unclear who was in charge, or the person in charge of the CF project was unavailable, we asked to interview the CEO, as they are considered to have the most direct experience and internal insight of the firm's history and strategies. CEOs were found to be suitable informants because of their first-hand knowledge about the venture's operations (McCartan-Quinn and Carson 2003, Barringer, Jones et al. 2005).

3.3.3 Interview protocol

The semi-structured interview is characterized by flexibility as questions are asked in an order depending on the flow of the conversation, and this opens up a possibility for identifying new and interesting themes (Yin 2009, Saunders, Lewis et al. 2012). The inductive design also allows openness to whatever would emerge from the data.

We started the case interviews with a semi-structured questionnaire aimed at getting comparable and good information regarding the first two research questions, namely information regarding the founder's reasoning and thoughts on external and internal goals. Following Eisenhardt (1989) we then asked open ended questions where theory or hypothesis was not to guide the data collection. This last part of the interview was aimed at giving us background information and additional insights unique to each founder.

The quality of data collected from a semi-structured interview depends on the degree of reliability, generalizability and validity, in addition to forms of bias (Saunders et al., 2012). The following measures, suggested by Saunders et al. (2012) and adapted to this context, were taken:

- Background information on the project and company/founder was researched to increase knowledge about the context.
- Clear communication of information over email before the interview, where the purpose of the interview and study was explained and the structure of the interview was described.

¹⁰ One “founder” was represented by a team of two people, the others were solo.

- All founders agreed to the audio being recorded, and to the information being used for this master thesis. We explained that if anything were to be published, we would anonymize the data. The founders are therefore anonymized in this paper.
- Further follow up questions were only used to elaborate on specific issues when needed for the replication logic.

Following Yin (2009) the interviews were led by the same researcher¹¹, gaining experience and knowledge along the way, and making it easier to compare the cases and ask more elaborate and relevant questions impromptu.

Qualitative analysis usually involves the researcher interpreting the empirical data, whether it is what interviewees say, what the online resources consist of, or what the researcher has observed (Tjora, 2011; Kvale, 1996). Online resources can often provide detailed descriptions of past events, which can compensate for the selective memory and retelling that an interview in retrospect is characterized by (Tjora, 2011). Unlike a survey, the analysis of qualitative data takes place whilst collecting the data. This helped us to refine our questions and allow new areas of interest to develop during the interviews. This process is known as both sequential and interim analysis (Pope, 2000).

3.3.4 Data coding

The recorded interviews were replayed and listened to by both researchers in two iterations. We sat down and discussed our impressions and interpretations and included these in the field notes. This was done to ensure that the data was correctly interpreted. In cases where the researchers were uncertain about an answer or lacked information, follow-up emails were sent to the interviewee to clarify the issue.

Cross-sectional based and categorical classification of data was used for the purpose of data reduction and filtering out the essentials from the extensive amount of information (Johannessen et al., 2008). The relevant information was then structured into a matrix with the cases and interviewees on one axis and categories and sub themes on the other. This data set served as a foundation for the analysis of this thesis.

The semi-structured first part of each interview gave the first and most easily identifiable categories, such as “external goal”, “internal goal”, and “goal setting”. This was expected, as we had asked the same questions, and also focused mainly on these topics early on in the interview.

For both the open-ended part of the interview and the semi-structured, we conducted screening and categorizing of keywords into a manageable amount, and respondent statements and overall meaning were coded under each attribute. For validation purposes, each co-researcher carried out

¹¹ Haug performed all interviews except one, where Haslum had to step in due to the founder’s time slot.

the same tasks and attributes were compared until concurrence was reached. This process resulted in a list of 21 keywords:

1. Purpose	11. PR
2. Approach	12. Email-lists
3. Market validation	13. Ads
4. Effort	14. Consultants
5. Time	15. Fulfillment
6. KS algorithm	16. Dependency
7. Conversion rate	17. Manufacturing
8. Rewards	18. MOQ
9. Experience	19. Cash flow
10. Marketing	20. Pre-sale
	21. Growth

These keywords constituted the foundation which would then be used to create 6 variables; (1) *Ambition*, (2) *Investment*, (3) *KS insight*, (4) *Sales and marketing effort*, (5) *Risk*.

The variables were created so that they could be rated high, medium or low for each project. An important note is that the founders were rated within the isolated sample of the founders; in other words, if all ten founders had low ambition relative to a KS norm, then the ones with the highest ambition of the ten would still receive a rating of high (we mention this, but feel that the case projects were representable of typical KS projects in general, in our experience).

(6) *KS purpose* was added as a variable but this variable was rated by characteristics mentioning.

We used these six variables to structure the projects in a table.

KS purpose (Cash flow, pre-sale, marketing, market validation, growth)

Ambition (Purpose, approach, market validation)	Low - Medium - High
Investment (Effort, time, budget)	Low - Medium - High
KS insight (KS algorithm, conversion rate, rewards, experience)	Low - Medium - High
Sales and marketing effort (PR, email-lists, ads, consultants)	Low - Medium - High
Risk (fulfillment, dependency, manufacturing, MOQ)	Low - Medium - High

Table 3.3.4 Identifying each project.

3.3.5 Cross-comparing the cases

When identifying each project each variable (1-5) was rated High/Medium/Low, and then characteristics of the 6th variable was given.

For example, within the category “**Sales and marketing effort**” the quote:

“I kind of thought that... we were supposed to get a little more media coverage at one point, then it didn’t end up happening. So I ended up having to use my own network more than I expected to.”

from case 1 contributed to their score of “**Low**”, whereas the quote:

“We also hired an agency to consult us, but we just did like 6 or 7 hours with them. And I hired and experienced PR agency that deals with crowdfunding campaigns on Indiegogo and KS in [location]. And also a PR-agency that didn’t do much in [location], so I mean, they didn’t do too much help in things like driving traffic and presales, they did more brand strategy and positioning, rather than create sales. And we also, on the last stages of the campaign, the last third, we engaged with a Facebook promotion company that has an algorithm for KS though Facebook, and they did drive a lot of sales to us. So we did kind of strategies and plan it with various entities and also, and also, jumped, no not jumped, but moved from different, as we proceeded with the campaign.”

from case 9 contributed towards that case being given the score “**High**”.

The scoring of the cases was based on in vivo coding and our overall impression after the interview, as such; the details of our reasoning are not presented in the text. If one were to read all the transcribed interviews and compare them to our table, Table 4.6, presented later in the thesis, the reasoning should be fair and reproducible.

The cases were then grouped based on the RQs and goal setting, as well as their score on the six variables. Common traits from each group was gathered and evaluated to each other. In this process, third party information was used to compare the groups and evaluate and discuss each relevant trait.

3.4 ANONYMIZING

To protect the interests of our sources, and to ensure a freer flowing and open conversation with the case founders, we chose to anonymize the information. All names of founders, companies, products, cities and so on, were replaced by a generic term within brackets. In some places, we simply removed parts of the descriptive information if it did not change the context.

As an example, if we would have interviewed the CEO of the Coca Cola company, and he said:

“We dislike how Pepsi always markets that Pepsi supposedly beats Coca Cola in blind tasting tests”, it would look like this:

CEO of Company 1 said “We dislike how [competing company] always markets that [competing product] supposedly beats [our product] in blind tests” (note that “taste tests” was changed to “tests” here)

All numbers such as funding amounts, external goal, and reward prices have been rounded off and/or turned into ranges where necessary.

3.5 VALIDITY AND RELIABILITY

Case studies trust that the researcher makes every effort to ensure high levels of *construct*-, *internal*- and *external* validity, as well as reliability. A case study protocol is used to document the procedures of a case, so that the work can be repeated (Yin, 2014). Yin's (2009) foundation for conducting case studies has been used as a guide for increasing the legitimacy of this study.

3.5.1 Construct validity

Construct validity refers to the degree the operational definition of a concept actually reflect the true theoretical meaning of a concept. In the social sciences, which have a lot of subjectivity to concepts, construct validity is particularly important. Two steps to ensure a high level of construct validity are to; (1) define the concepts that you wish to study, and (2) identify operational measures that match these concepts (Ibid.). The concepts to be studied was defined at the beginning of the research, setting the foundation for the RQs, further the theory section introduces the collective consensus in the literature on CF. Yin (2009) further supports the direct involvement of key people and the use of multiple sources of data to increase the construct validity.

3.5.2 Internal validity

Sound techniques for analyzing data were introduced to increase internal validity (Yin 2009). Internal validity is a means to minimize systematic error and “bias”. All interviews were recorded and transcribed immediately after the interview. Following Yin (2009), we identified patterns in each case, and then matched them with the patterns of all the other cases to identify similarities and differences. This also helped increase the reliability of the study. Reliability refers to the degree to which a study can be replicated at a later date (Creswell 2009) coming up with the same conclusions as the earlier study, in addition to its focus on reducing errors and bias (Yin 2009). The steps of this study are described in detail in this method chapter, ensuring the repeatability of this research, thus increasing the study's reliability (Ibid.).

3.5.3 External validity

The interviewees are also considered to be a source of potential error and bias. In cross-sectional studies the subject might provide answers they deem to be socially acceptable. This potential recall bias and selective attrition must be taken into account. Secondary data was examined to confirm the CEO's information, including websites and online articles.

3.6 LIMITATIONS

In addition to reliability and validity aspects, there are some important limitations of our research that need to be taken into account.

In terms of our research method; the main limitations are related to our scoping, where we have looked at a very small sample group within KS. We also limited our research to only successful KS projects; not getting the “other side of the story” from founders that had not succeeded in reaching their goals. Of the final sample group, the high number of contacted case candidates can also be seen as a limitation. It is possible that a certain type of founder was more likely to accept the invitation, while others declined. That being said, we feel that the method we used was a good choice in light of the exploratory nature of our study.

Other limitations related to case studies include those of time and money, the amount of description, analysis and summary provided, as well as the role of the investigator (Yin 2009). As we conducted this research over one intense semester, while simultaneously working full time at our startup company, we had limited time on our hands. Neither of us had any experience with case studies, interviews or qualitative data analysis either. As such, these factors must be considered as limiting to the research.

4. FINDINGS

In this section we present the findings from all the 10 case interviews under different key points.

4.1 How the founders approached the external goal setting

When asking about how the founder decided on his external goal, it became apparent that all the cases followed one of two approaches to the problem, either a top-down- or a bottom-up approach. In both cases the founder arrived at a number that was then used as a reference point or “basis” for calculating the external goal.

Top-down approach

A top-down approach, using an internal goal, where the founder estimated how much he *thought* he could get, was used by 4 out of 10 founders (case 1, 3, 4, 8), as a starting point for deciding on their external goal.

Uhm, I think it was just a matter of thinking about how many [products] we might sell. Cause the [products] they are a bit more expensive. [...] So.. just like a reachable number...

- Founder 1

“So we sort of set the goal at half or less of what we thought we might get.”

- Founder 3

“We wanted to put up for 500 or 1000 [products] so... I guess. We didn’t want to set it too high so we would fail. We wanted to set it low so that we were more confident that we would reach our goal.”

- Founder 8

An interesting finding here is that all of these four founders could essentially deliver the product without problem to a very small amount of backers. Two of these companies were already selling the product in the market and had recurring production. One company had produced an almost identical product for a long time, and had a manufacturing partner that had no MOQ requirement. The last company had a large MOQ and tooling costs to cover, but they had already invested in those, and would produce regardless of how the KS project went (i.e. they did not depend on backers pledges to meet manufacturing cost).

As such they were free to set their goal at any value, basically, and they all turned to an estimate of a reachable or reasonable goal as a starting point.

Bottom-up approach

A bottom-up approach, often based on a minimum order quantity (MOQ) or similar cost associated with delivering the reward to backers, was used by the remaining 6 out of 10 founders (case 2, 5, 6, 7, 9, 10).

“So 50 000\$ was more or less what we needed to satisfy our minimum orders with the factory. It was how much we needed to actually do the project.”

- Founder 2

“We did a lot of research before deciding on that goal, about what would cost to startup, the production cost, what to expect from KS. And we want, whenever we set a goal on KS we set up to produce the bare bones to set something up and rocking. And anything over and above that really only goes back to the product and allows us to put more products out.”

- Founder 7

“The initial amount to choose from was either, you know, in order to go to factory, you need a MOQ, which would be about [amount of material] which leads to 1000 units. 1000 units cost, in the cost that we wanted to do. 250 000\$ without the tooling. [...] Either we’re going to go to 250 000\$ or we’re going with half of it, 125 000\$, as a goal, and we went with 125 000\$ as a goal since we wanted to crush the goal within hours, which we did after 6 hours”

- Founder 9

An interesting finding here was that the MOQ amount was in many cases not necessarily a “true number” that was representable of actual costs, it was more a starting point for “what would sound like a reasonable number to to public?” and in all cases where MOQ were pointed to for the external goal, the founders chose the lowest possible MOQ (often deducting tooling cost or some costs that the public would not typically think/know about). Out of the six founder's using the bottom-up approach, three set their external goal lower than this number, taking a calculated risk:

“I mean, the 125 000\$ is a real number, but it’s not a real number. Do you understand what I’m saying? The 125 000\$ was a number that we chose that is the safest number to.. the lowest safest number to go with, however, it’s not a real number that we could do something with...”

- Founder 9

4.2 FINDINGS ON INTERNAL GOAL

In the previous section, we explained that 4 out of 10 founders used a strategy based on an internal goal for deciding on their external goal. However, this does not mean that internal goals were not present in the other six cases.

Naturally, all founders had internal goals for their projects, but not all had specific dollar amounts that they aimed for. Some were happy just to “get the product out there” and stated that they didn’t have a specific goal, and that they would be happy just to reach their external goal. That *could* mean that their internal goal was the same as their external, but then at the same time, these founders also said that they wanted to play it safe and reach their goal fast. Thus they must have had an internal goal that was larger, but one that they might not be so conscious about, or used actively. It could also be that they did not feel comfortable with the idea of not being happy with getting what they asked for (i.e. being seen as greedy).

Case	1	2	3	4	5	6	7	8	9	10
Internal goal [\$]	150k	100k	100k+	100 - 200k	45k	30k	100k	24k	5M	\$5M

Table 4.2 Internal goal

The table above shows our interpretation of the internal goals that were present in each case. In the next section, we will compare these goals with external goals and other parameters.

4.3 COMPARING EXTERNAL GOALS TO INTERNAL GOALS

In the table below, we compare the ten cases, to show differences in external and internal goal, as well as MOQ. We also note the goal ratio, R_G.

Case	1	2	3	4	5	6	7	8	9	10
Internal goal [\$]	150k	100k	100k+	100 - 200k	45k	30k	100k	24k*	5M	5M
MOQ [\$]	0*	50k	0*	0*	15k	20k	15k	1k*	250k	2M ¹²
External goal [\$]	100k	50k	50k	50k	15k	15k	15k	12k	125k	100k
Goal ratio (R _G)	1,5	2	2+	2-4	3	2	6,67	2	40	50
Funding raised (FR)	106k	112k	117k	193k	100k	115k	145k	172k	3.3M**	4.9M**

Table 4.3 Comparing goals

****raised more after project end, on prolonging of project, reaching internal goal.**

Looking at the table above, it is clear that all the founders set their external goal lower than their internal. 6 out of 10 had a goal ratio of 2-4. Only one company had a lower goal ratio, at 1,5. The three remaining founder's stood out with their goal ratios of 6.67, 40 and 50 respectively. These were all cases where the founder's had very specific internal goals, and where there was a very detailed and thought-out strategy behind their goal setting and campaigns in general.

4.4 REASONS FOR SETTING EXTERNAL GOAL LOWER THAN INTERNAL GOAL OR MOQ

From the previous sections, it is clear that all the founders could be said to have internal goals, and to have set their external goal lower than this goal. This is true, regardless of whether the external goal was calculated through a top-down (internal goal) or bottom-up (MOQ) approach. And as described in section 4.1, half of the founder's that had a minimum amount they had to raise (MOQ) set their external goal lower than what they actually needed.

In this section, we present a structured explanation as to why the founder's we talked to decided to set their external goals lower. We link this to two main reasons; “getting funded fast is good” and “playing it safe”

¹² Founder 10 had placed an order with his manufacturer at the cost of \$2 million, *before* the project was launched, serving as an “internal MOQ” for the purpose of this paper. The “regular” MOQ is unknown, but likely in the \$50k-100k range from our experience with similar products.

4.4.1 Getting funded fast is good

... and a lower goal will get you there faster. This is essentially what it boils down to. Based on our interviews, we argue that there are four major factors that support this claim, namely KS exposure, media attention, internal motivation and promoting backer consumerism.

KS exposure

9 out of 10 founders brought up KS algorithms, front-page exposure, the “popular” category, or the importance of reaching your goal within a short time during the interview. The remaining founder did not speak of this specifically, but would likely have supported the idea, as he talked in length about the fact that KS had turned into a competitive retail marketplace.

“ I can’t remember exactly what it was, but I think one of the big ones was to try to raise 50% of your goal in the first week.”

- Founder 1, (on reading how-to-guides while preparing for the project)

“Once you get down like two or three pages... the campaign is more or less over for you. Truly hard to recover. [...] We’ve found that when we’re on the front page our traffic is 10-20 times as much as it is when it is down 3 or 4 pages. [...] It’s beating the Kickstarter algorithm... It’s kind of the most important thing I think, on Kickstarter. [...] I’ve heard other people say that it’s the opposite, that getting funded later on helps you, but in my experience I don’t think that’s accurate. I think the faster you get funded the better it makes you look to Kickstarter and the more they promote you.”

- Founder 2

We argue that this knowledge of how KS works was the main reason that caused the founders to set as low goals as possible. They seemed to equate (through their own experience or others advice) that lower goals means getting funded faster, leading to more traffic and attention on the KS platform.

Media attention

Most founders had some sort of strategy for spreading their project in media channels, but few had detailed knowledge of how journalists and popular bloggers selects who or what they would like to write about. As a consequence, some founders were surprised that some of their media requests never came through, and this was often mentioned as a big setback to their project.

“So we contacted the blog that helped us to do this (last successful campaign). So we contacted them and said: Hey you helped us with our first campaign, and the readers that obviously liked this post. Can you please post about this pen that we’re putting up. And none of them took it. ”

- Founder 8

Those founders who had more knowledge and experience with PR and media were quite clear on the value of reaching your goal fast, both to get the first media attention, but also to generate more “PR-events” as one founder called it. By setting the goal lower, he argued that you would have create more reasons for the media to write about you (i.e. “funded in hours!”, “500% funded”, “1000% funded” etc.)

“50% of the bloggers wouldn’t write on non funded projects. Even if they’re very cool. So a lot of bloggers would write, even if we had set... for example our goal at 1 million dollars, eventually we would be covered.... I’m saying that if we would set the goal at 1 million dollars, so it would take not one day or few hours, it would take a few days, or weeks, to get to that goal. We would miss a lot of the, we would probably miss a lot of the... uhm... traffic that we got driven because of the earliest publications that we could get. [...] the more PR-event that you create, the more coverage, because what happens is bloggers and writers and websites and the people who are ambassadors and bought.. and who are excited about the product, but the mass of the hundreds of thousands of people are mostly interested in telling some news. And even if you have the best features, once it is covered by one blog, it’s not news anymore, and no one will write it.”

- Founder 9

Internal motivation

Although not mentioned specifically in most interviews, many of the founders that had experienced reaching their goal quickly talks about how this gave a positive boost for the team in some way.

“The fact that we beat our goal significantly WAS very satisfying, and uhm, the fact that we went past our goal in the first couple of days. Was... did make us happy.”

- Founder 3

“Actually for us I feel really good and it’s really exciting when we get funded immediately, but I don’t know if that affects how we market it or how other people see it.”

- Founder 8

The founder that got funded at the very last stage of his project said this about the experience:

“Well, I definitely got nervous when I felt it really dropped off in the middle. I didn’t expect that, but the at the end, when everything flooded in, you know... you call it the bathtub effect... that was real. You know, that that really... was a true phenomenon... I

was really surprised. I didn't expect it. It was really demoralizing, and then the last week it really took off. It was really cool to see."

- Founder 1

Promoting backer consumerism

Most of the founders think backers are more likely to back the project if it is already funded, or if the project has a good momentum early on. They seemed to assume backers were mostly interested in getting a good deal on a reward, and that they would rather back a project when they already knew they would get the reward.

"I think absolutely it's better to set it at half a point of what you think you're going to get. I think it's... first of all I think it has an effect on people that pledge as well. I think they like to be part of a successful campaign. If they know that they were the last person who just barely got you over the goal, they would be less confident that you would reach your goals than if you blow past it and have twice as much as your goal. I think that would make... I think... the people who pledge, more confident as well."

- Founder 3

"When your KS is showing at 100% funded, 150% funded, 200% funded, to other people. It makes people to take notice, more than "whoop, you're almost there!" at 85% funded - it definitely helps drive momentum."

- Founder 7

Of all the founders, only one came from a different (opposing) standpoint, using an altruism logic to explain the backers mindset:

"I realize that I have a buddy launching a KS campaign. And he had a goal of 10K or something, and I was like "He's gonna hit that. No problem. I was like, I check back on that." You know... pledge something at some point, but you know there was no urgency. It was like, I mean 10K - whatever. And I never got around to, and wonder when there's some people with lower goals they're like: "Oh yeah this guy's got it, I don't need to support 'em". [...] when people are looking they're like: "Oh man that person is 90% of their \$75K goal!" And I think regardless of the KS algorithm and what they do, just when people look and think: It will look better. A better success story to them."

- Founder 4

4.4.2 Playing it safe

As Kickstarter is a AoN platform, where you have to reach your external goal before the end of the project, it forces the founder to consider the chances of failing to reach his goal. As a result,

some founders explained to us that they had set their goal lower than their starting point, in order to “play it safe”.

“You know, I thought for us \$100,000 was selling it short... and low. I didn’t realize \$100,000 was going to be as hard to get to as it was. So, maybe if I redid it now, knowing that \$100,000 was as hard to get as it was, maybe I would set it lower. “

- Founder 1

“We were scared to set it a lot higher. We knew that we probably safely double it, but it was still a little scary you know. “

- Founder 4

4.5 WOULD ANY OF THE FOUNDERS HAVE CHANGED THEIR EXTERNAL GOAL, IN HINDSIGHT?

Most of the founders would not have changed their external goal if they could go back in time, but there is indication that they would have set the goal lower if the MOQ costs had been lower, indicating that they preferred keeping the goal low.

A few founders were asked if they think they would have managed to raise the same amount, or even a lower amount, if their external goal had been a lot higher (close to the funding amount they had actually achieved). All of these founders said they would either not have made it at all, or would have had to work a lot harder to achieve the same amount.

When asked about his thoughts, in hindsight, about setting the external goal higher, one founder that had raised \$115 000 nicely summed up most of our findings:

Researcher: *If you had set your goal at a different amount, for example \$50K or \$100K, do you think you would have raised \$115k [founder’s funding amount], or do you think that the \$15K-goal that you reached fast was substantially in order to actually succeed at all?*

Founder: *Actually I think, if I had asked for 100K we would have failed. That I am 100% sure.*

Researcher: *That’s interesting. Why do you say that? What’s the reasoning behind?*

Founder: *I think it is based on multiple things. So first, like we did our campaign, and 90% of the campaign, we had succeeded basically. So people come and say: “Wow, this*

thing is happening, for sure". And people, when they know they are paying for a product they are going to get for sure, it is very different than when they are not sure whether it's going to work or not. That's one thing.

The second thing I think is the KS algorithm. It push success more to the top. Like you have the 20 campaigns, that are most popular. And you want to be in those campaigns. The first page on KS. And so, it's not based on how much you have raised, I don't think, I think it's based on. I don't remember exact. Someone told me. It's not the value now, it's the basically if you get many % over your goal, I think the system thinks higher of you. So I absolutely think that \$50k we maybe make it, at \$100k there's no way.

4.6 COMPARISON OF THE CASES

After evaluating and rating the given ratable variables¹³ for each individual case, the cases was put together in a table (Table 4.6) in a manner so that the cases having the lowest rating was to the right and the cases with the highest rating was to the left.

<i>Case</i>	5 - dpx	8 - ptB	1 - DB	4 - FlyC	3 - iFet	6 - TUO	2 - K&H	7 - BaF	9 - GRO	10 - EM
Ambition	L	L	M	M	M	M	M	M	H	H
Investment	L	L	M	M	M	M	M	M	H	H
KS insight	M	M	L	L	M	M	H	H	H	H
S&M effort	L	L	L	M	L	M	M	M	H	H
Risk	L	L	L	L	M	M	M	M	H	H
KS purpose	SP, MV	SP	PS, Cf	PS, Cf	MV	MV	CA, G, Cf, MV	MV, PS, Cf	Ma, G	Ma, G, PS, MV*
	Group 1		Group 2		Group 3				Group 4	

Table 4.6 Comparison of the cases

Legend: H=High, M=Medium, L=Low

KS purpose Legend: SP=Side project, Cf=Cash flow, PS=Pre-sale, Ma=Marketing, MV=Market validation, MR=Market research, G=Growth, CA=Customer acquisition)

From the table, the cases were grouped on basis of common traits. For each group we also found different mindsets complementing each groups identifying traits. The different groups and mindsets were:

- Group 1 - Inventor: Case 5 and Case 8
- Group 2 - Marathoner: Case 1 and Case 4
- Group 3 - Sprinter: Case 3, Case 6, Case 2, and Case 7
- Group 4 - Extreme Sprinter: Case 9 and Case 10

Group 1 was found not to fit with the RQs and the rest of the cases, so they will be excluded from some of the comparisons. This was an obvious find, as we were looking for cases that were

¹³ (1) Ambition, (2) Investment, (3) KS insight, (4) Sales and marketing effort, (5) Risk

different from what KS defines as a founder and from what some earlier literature is targeting. We knew about these cases already, the positive part was that we found 8 cases that were very interesting to analyze further. The findings leading to our fourfold grouping are described in the following subsections.

Group 1 - Inventor

The two lowest rated companies, case 5 and case 8, are clearly standing out. By further analyzing the two cases it became obvious that they distinguished themselves by being more a side project than a committed initiative.

“I think, a good decision on my part to keep it out of our normal business and our market. People who knew who we were probably wasn’t even aware of this...”

- Founder 5

“We were just messing around. Like we had other work, and KS was just a side thing that we thought was something great that we were doing.”¹⁴

- Founder 8

The mindset of the *Inventors* was more about self-realization and idealistic ideas than about getting an entrepreneurial venture up and running.

“I made it my personal goal to see if I could make a [product], in the [country], from scratch, design a [product], from scratch. Make it the highest possible quality, make it innovative and also make a profit. So that was the goal I set up. [...] so essentially it’s only a 100 of each product. So it’s very exclusive. Meaning if you’re some collector that wants something that’s unusual. You know that there were only a 100 of them.”

- Founder 5

“So I think a lot of people now just go there, like shopping at the website. Which is NOT great... but people fund stuff so..”

- Founder 8

To simplify this research, the two cases was put in a separate group and separated from the rest of the cases. The two *Inventors* are both pre-selling a consumer good, but their mindset is highly affecting all they say and do. They are highly focused on the inventive aspects of the product and the idealistic idea of inventing and selling good equipment to good people. Therefore it was also

¹⁴ Here the founder was talking about the previous project. The founder had learnt a lot since then, but was still giving the impression of still being messing around. This founder had a very strong and playful mindset, and this was sort of the product; the personality and spirit.

hard to extract info from these founders about their strategies, internal goals, external goals and agendas. This genuine approach to KS is what KS is promoting and trying to attract and sell, still this approach does not fit completely for the rest of the cases.

Group 4 - Extreme Sprinter

The other two cases that stand out from the rest are case 9 and case 10. They are both showing highly committed initiatives. Both cases is high-profile cases involving large amounts of money, mostly based on large wager on their case becoming something really successful rather than the need for just realizing it. They are using KS as a tool to raise a lot of money, they both had internal goals of \$5M, and they ask for a lot less, \$125K and \$100K respectively. These two cases focus on the pre-sale and launch of a new product and are appealing to private good backer dynamics. They have both a high level of KS insight and they do what they can to exploit this insight to their advantage.

“What you have to do through the campaign, and this is something we’ve learned through looking at a lot of other campaign and from our previous campaign, which was a pilot campaign just to see how a KS campaign goes [...] that, you have to create a lot of KS... A lot of PR events during the campaign, so when you plan a campaign, what you want to do is to create a path of KS... of PR-occasions, of PR-announcements, and PR-events.”

- Founder 9

“It is honestly because of people’s misunderstanding of what Kickstarter is. And it’s not just a misunderstanding. Kickstarter is... it’s not been around long enough to have the knowledge that it is a legitimate sales and marketing platform.”

- Founder 10

These two founders are also very conscious on how e-commerce works and how to drive traffic to their project:

“We calculated what we need basically, in order to create the amount of exposures, to get the 5 million dollars... What the... the cause for that was that we... Uhhh... calculated how many people from Kickstarter would buy a product in this amount of money, and then how much people that are looking, or hearing about the product, know and go... will go to KS and will purchase... and we did a, you know, we multiply everything. Eventually we reached the number of 55 million double exposures.”

- Founder 9

Another feature in this group is that they take high risks. Their external goal is so low that they not can deliver if they not exceed their goal by a certain multiple, and their prior investments are of a substantial size.

“Yeah, we invested almost two times the \$125,000... [interpreted as “in the KS project”] [...] That means.. that means that you are... that we had anyways. As a company, we had to raise more money, but we didn’t want to raise more money before we knew that there was a demand and a success for this kind of product.”

- Founder 9

“To be completely honest, the goal is no longer representative of what our actual goal is. We had a project, because of the bet that we placed on manufacturing, we ordered a lot of [products] - such that if we didn’t sell at least \$2M worth of [products] we would have been in financial dire straights.”

- Founder 10

This risk is a calculated risk and a part of a bigger game. The invested time, effort and money are predicted to increase in value with a high probability of success.

“We are going through the entire range of sourcing to get money, through funds, private investors, venture capitals, and of course through sales, traditional and non-traditional channels... For the investors we’ve reached the milestones that we want to go, and we’ll open a round soon. For the... the... sales partners, we investigated a few going to market strategies, eventually we decided we will be mostly online, and most of the retails and the others are still waiting for a product, so we’ll have to have a product before we can go to retail and...”

- Founder 9

“We’re gonna make this product no matter what. OK? ... No matter what. And there’s absolutely no incentive for us to say \$2M. Because if we get \$1.9M in pledges then we .. ah ... don’t get it.

[...] Well it’s the most powerful thing [the success story telling] we can point. Well it’s the the most validating, you know accolade, that we have.

[...] So we do as much as we can with respect to design and manufacturing before we launch our product. In this case we also did a fair bit of marketing on forehand. Get people excited.”

- Founder 10

Group 2 - Marathoner

In opposition to the mindset and arguments used by founders in Group 4, Group 2 is favoring public good backer dynamics. Both founders believe that a higher external goal would attract more backers; they believe that altruism will be a driving backer dynamic.

“It [a lower goal] would probably look bad. [...] It would look odd for a company to put out a request for that. It would look pretty weak.”

- Founder 1

“Yeah, you know when you are hitting a higher goal you become a little more visible to KS and KS followers, so that as well. [...] And I think regardless of the KS algorithm and what they do, just when people look and think: It will look better. A better success story to them.”

- Founder 4

The two *Marathoner* cases are both using KS mostly as a pre-sale channel, or to boost sales, to increase their cash flow. So when entering the KS platform they are using a top-down approach. They are not using KS as any market validation tool, they already know what they want to make. Even though the *Marathoners* are aiming for relatively high goals, \$100K-\$200K, and they want to reach out to a large crowd, they do not actively reach out to new potential customers in the same extent as the *Extreme Sprinters*. The customer acquisition is much more based on existing relations and the founder's own social network.

“It's kind of hard to sell [the product] online. But I figured KS might be a good way to just get that attention, and I think people get excited about KS campaigns. [...] you know at the back of my mind I thought maybe this would be something the whole country could get excited about it, you know...”

- Founder 1

“I would say 65% had been in contact with us prior to, whether it was related to KS or they shot us a message, you know.”

- Founder 4

The *Marathoners* are also the ones in our case study with the least amount of KS insight, it's the first project for both of them on KS¹⁵. They were also the ones that seemed to have the least insight to how the engine KS works, not mentioning the KS lingo words. They would probably not agree much with the other founders, but would be happy to take one another's advice.

¹⁵ All the other cases had more than one (1-4) previous projects in the belt.

Group 3 - Sprinter

This group is the least uniform group; still the founders in this group have many of the same attributes as the *Extreme Sprinters*. They have different, but a significant, level of KS insight and, in different levels, they exploit this insight to their advantage.

“If I know I can cover the last 20% of funding by myself I will make it lower [the external goal]. Because I think it is easier to cover smaller goal, and as I said you want to cover it as quickly as possible.

[...] we ask for \$15K, but then this thing snowball and we end up at 115. And we got like \$10K outside. You are not asking for too much, people likes it, everything clicks in, and then you end up way higher.”

- Founder 6

“We’ve found that when we’re on the front page our traffic is 10-20 times as much as it is when it is down 3 or 4 pages.

[...] Yeah, it’s beating the Kickstarter algorithm... It’s kind of the most important thing I think, on Kickstarter [talking about advertised campaigns].”

- Founder 2

They are all conscious that lower external goals that are obtained early are positive for a project. The mindset here is mainly to set the external goal as low as possible. This mindset is backed up by their statements on how an early success affects the projects funding.

“I think it’s important to. If you look at almost any campaign... the first three or four or five days are the most important days of the whole campaign, and I think it’s important to achieve your goal in that first week. We made sure that we had friends send out notes to their contacts and so on... We did some co-branding.”

- Founder 3

“We thought if we could raise 5-6K out of those 15 on the first day then the campaign would be considered most likely successful.”

- Founder 6

Common for the Sprinters is that they are looking for new customers and that they want to use their project as a market validation for future work.

“So it [KS] is better than marketing panels or trying to do market research based on a lot of different techniques. It’s a real time real life kind of validation of the idea. I like the fact that they require a prototype, which means you’re not just out there with an idea fishing around. You’re actually... you made a commitment, you’ve made the development to a

certain point, and... so it's sort of the ideal validation that traditionally in big companies, you do that... and I did it for years... You do that by understanding the marketplace real well... and having other products out there, and understanding what the real customer needs are. In this case for a small company, you don't have that experience. Kickstarter is a very economical way to get a validation of your idea and product at the prototype stage."

- Founder 3

"We sent it [the project, prior to launch] out to our email list of thousands of people, tens of thousands of people."

- Founder 7

4.7 SUMMARY OF FINDINGS

To sum up the findings there are 4 main points;

1. Founders set their external goals lower than their internal goals.
2. Founders use a bottom-up or top-down approach when determining their external goal.
3. Reasons for setting the external goal lower than the internal is either related to founders "playing it safe" or a strategy to get funded fast. There are four main reasons why getting funded fast is good:
 - a. KS exposure
 - b. Media attention
 - c. Internal motivation
 - d. Promoting backer consumerism
4. Looking at goal setting the founders can be grouped based on their mindset and approach to KS:
 - a. Inventor
 - b. Marathoner
 - c. Sprinter
 - d. Extreme Sprinter

4.7.2 Four Mindsets

The 10 cases can be grouped into 4 different mindsets. See Table 4.7.2 below.

	Inventor strategy	Marathoner strategy	Sprinter strategy	Extreme Sprinter strategy
General idea	I am an inventor and I need this much to make this awesome project come alive.	We want to set a high but reasonable goal and gather followers that will cheer and help us all the way. At the finish line we will have just made it, which means we choose a correct goal.	Let's set an easy goal and sprint to the 100% within a short time. We gain extra momentum through being seen as success story. This will allow us to sprint even faster, and reach our true goal at 300- or higher.	Set a goal the backer can relate to. The real goal is way, way too high to be justified in the short span of attention you get on this platform / planet.
Based on	KS mission: <i>"Our mission is to help bring creative project to life."</i>	Existing literature and theory - <i>"Theoreticians"</i> . <i>Altruism and "collective effort"</i> .	Successful projects, experts (the doers) - <i>"Practitioners"</i> .	Sprinter Strategy in a combination with other means to raise funds and how to beat other KS projects.
External goal (G_E)	Set it at exactly what you need to make this project come true.	Aim high but reasonable.	Aim low and easy.	Set it LOW, the real one is too difficult to justify in the short time of attention you're given.
Goal ratio (R_G)	1.0 Also similar to MOQ.	0,1-1,5	3 or more.	10 or more.
Mindset at 100%	We made it.	We made it! Time to pop the champagne!	Now it begins! Launch the press releases and stretch goals. All hands on deck!	Should be reached "before" the launch, a plan is already set
Success if project ends at 100%?	Yes, fantastic that people wanted this product, and that we can now make it happen.	Yes.	Not really.	Not at all! Now we are in dire straits.
Problem if project ends at 100%?	No. We got the MOQ covered.	No! We got expenses and scenarios covered.	Possibly. We actually needed more than this.	Yes. We cannot deliver, and it is embarrassing. But we've done all our preparations to avoid this.
Why did you set the external goal lower than your internal?	I didn't. The MOQ, and the internal - and external goal are all the same. At least that is what I say.	To have some slack. Safety margin. Just wanted to be sure.	Wanted to reach 100% on day x. Marketing strategy. Wanted to reach Y times the amount in short time to get success story.	Our goal is to high for any backer to accept. We set something they can relate to and convince them from there. Also the success story is the most important tool that we have.

Table 4.7.2 Four Mindsets.

4.7.3 Kickstarter has turned into a retail marketplace

Something we did not set out to find, or ask questions about, was how the KS scene had evolved, and how the founders viewed the platform. It was very interesting to see that many of the founders brought up, at late stages in their interviews, something along the lines of “You know... KS is not really what it seems to be... it is a retail marketplace with its own followers now...”

“It was, everything was turned around, and basically almost nobody was making pledges coming in from blog traffic, and really high percentage, the majority of our pledges coming from people browsing KS. Just on the KS product search page looking at products essentially to buy. That was really interesting to see. We weren’t expecting it to be like that. [...] Actually yesterday was KS’s birthday. And we went to the birthday party and people there was saying: “Yeah, the amount on KS now is 11 times what it used to be” so like 5 years ago, we have a bunch of friends that launched the same time 5 years ago. And the amount of traffic they have on there, people just browsing, multiply by 11 times. So I think a lot of people now just go there, like shopping at the website. Which is not great, but people fund stuff so..”

- Founder 8

“We have a wonderful website, we sell to retailers all over the world, but all of those pale in comparison to how powerful KS is. And, so it’s not just A sales and marketing platform, it’s THE BEST sales and marketing platform. [...] And during that middle 50 days, we have a wonderful, steady revenue stream you know. I think it was \$25K a day, you know which is you know. Which is twice as big as our other direct sales channel. So it might not be the \$100K a day that we’re getting at the first 5 days and the last 5 days, but it’s still awesome you know.”

- Founder 10

“We also realized that the time has changed from our previous project and from the first days of Kickstarter. It’s very hard to raise money today, much more complicated. The projects are much more professional than before, and it’s not just an amateur platform, it’s a very professional platform, a lot of professional companies are... are there...”

- Founder 9

When we looked at the quantitative data collected during the scoping stage in our method, we found evidence that supports this. See graph below.

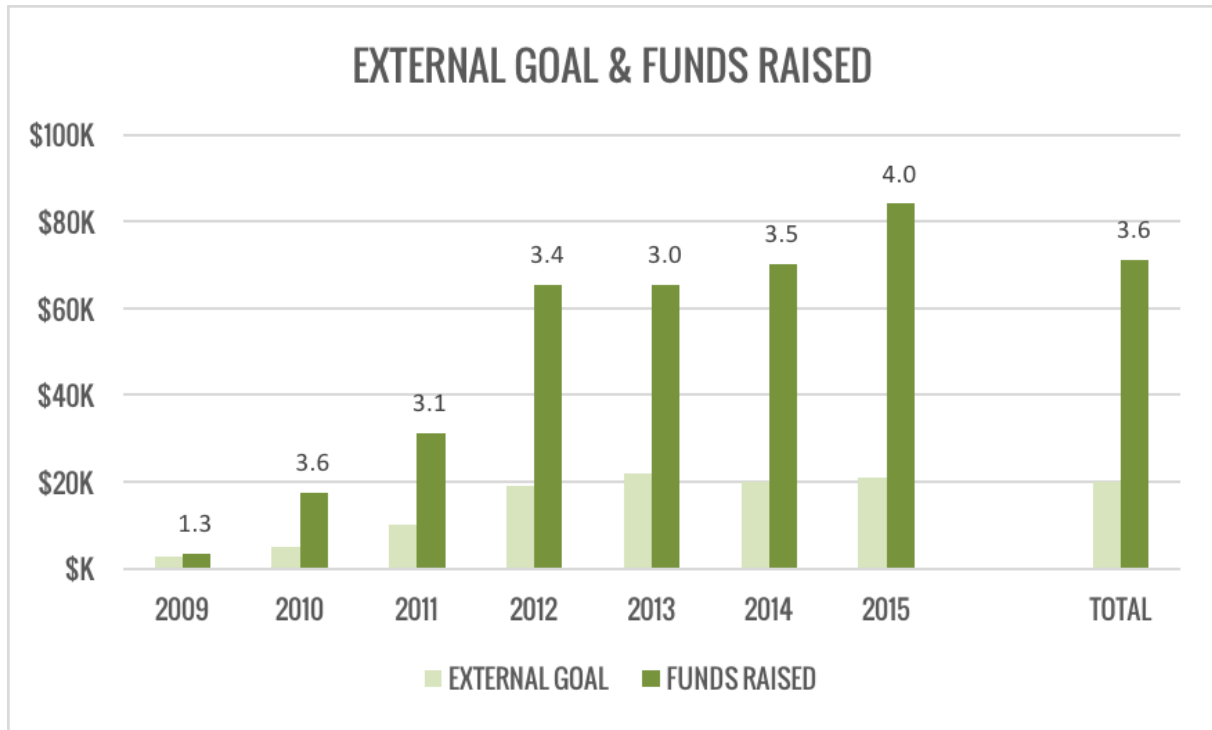


Figure 4.7.3 Average external goal, funds raised and funding ratio for all projects within Design and Technology on KS.

Figure 4.7.3 shows that projects’ average external goal and funding ratio has been growing since the KS inception. The growth of the external goals indicates that the project sizes, and thus ambition, has grown and then stabilized since 2012. The growth of funding ratio indicates that more backers back already successful projects. Together these two facts back the statement that KS is becoming an online marketplace and that it is attracting entrepreneurial ventures (companies and not directly “inventors”).

5. DISCUSSION

In this Chapter we will discuss the RQs in light of our findings, one by one, and then we will discuss the limitations of our research.

5.1 RQ1: Are there external goals that are substantially lower than internal goals?

Yes there are, and they do so with good reasons. 9 out of the 10 founders in our sample group set the external goal substantially lower than their internal goal, if one defines substantially lower as being half the internal goal, i.e. a Goal ratio of 2. All¹⁶ these 9 companies reached their internal goal¹⁷. These findings from the case studies correlate well to the quantitative preliminary analysis done in scoping, indicating that funding ratio is quite high.

Interestingly, this is different from what Kuppuswamy (2015) states; *Potential backers are less likely to contribute once a project reaches its goal*. This statement and the support of it in literature found on the topic was one of the core causes for choosing our RQs. By using Qiu's (2013) observation that Kuppuswamy's statement might not be true for projects offering a private good, we attacked these RQs. We are suggesting that the main reason for this finding is the population of the two papers. Kuppuswamy (2015) states that in light of his results, entrepreneurs may be tempted to artificially set low goals so as to ensure that their project will achieve its target, at the same time hoping that their project will exceed its low goal. Further he suggests that such a strategy however, may backfire, as potential backers are also much less likely to contribute to a project once it reaches its goal. If the project founder actually requires more funding than their goal to make their creative idea a reality, they may end up with insufficient funds.

This research has shown that the goal-gradient (Hull, 1932) does not exist exclusively, in the studied sample group it was found to be weak. There is evidence that some projects are inconsistent with the goal-gradient hypothesis. Actually whether looking at successful projects in the categories *Technology* and *Design* or the subcategory *Product Design*, setting minimum external goal at \$0 or \$5K; approximately 60% of the projects have a funding ratio of less than 2, while the long tail, exceeding their external goal by a factor of 2 or much larger, represents 40% of the projects (see Appendix 6).

This finding is a confirmation of Kuppuswamy's warning that entrepreneurs might be tempted to set too low goals. This will be further discussed in next Section.

¹⁶ See Table 4.3 in Section 4.3: The companies marked "***" raised more funding after on a prolonging of their project.

¹⁷ Or at least the internal goal range, see case 4 in Table 4.3 in Section 4.3.

5.2 RQ2: How are external goals determined?

External goals on KS are determined using either a (internal goal standpoint) top-down or a (cost standpoint) bottom-up approach arriving at a number that was then used as a reference point or “basis” for calculating the external goal. Both approaches were emphasizing that the external goal must be credible, both in a backer point of view and in a manager point of view. Thus, although not always defined, creating upper and lower limits for the external goal.

Further the founder’s strategy and perception of quality signals determine the external goal. All founders agree that it is important to express quality signals to achieve funding success. This is consistent with theory from Section 2.2 (Mollick, 2013b; Kuppusvamy and Bayus, 2103; Beier and Wagner, 2014; Robertson and Wooster, 2015; Frydrych and Bock, 2014). However, the founders are not agreeing on what these quality signals are. This will be discussed in the following Section 5.3. The commonalities between these different strategies will be discussed in Section 5.4.

5.3 RQ3: What are the founders’ reasons for setting the external goal lower than the internal goal?

When the founders are setting the external goal lower than the internal goal we argue that there are two major reasons; (1) getting funded fast and (2) to play it safe.

5.3.1 Getting funded fast

Getting funded fast is good, and a lower goal makes it easier. There are four major reasons to get funding fast, namely *KS exposure*, *Media attention*, *Internal motivation* and *Promoting backer consumerism*.

5.3.1.1 *KS exposure*

KS exposure is referring to visibility on the KS platform¹⁸, in other words how KS feature and curate the projects on the platform. 9 of the 10 founders mentioned KS algorithms, front page exposure, the “popular” category, or the importance of reaching your goal within a short time during the interview. To be featured by KS was considered very positive by the 9 founders.

¹⁸ KS sort their projects in 9 featurings*; (1) *Projects We Love*, (2) *Recommended for you*, (3) *Popular*, (4) *New*, (5) *Ending soon*, (6) *Magic*, (7) *Most Backed* and (8) *Most Funded*. The first four are featured on non-category-specific pages while the 6 latter are featured on the category-specific pages. Featuring 8 and 9 are also (actually mostly) showing already ended projects.

*One featurings may have different names e.g. *New* is here referred to as both the *New & Noteworthy* and the *Newest* featurings.

Kuppuswamy (2013) found evidence that the greater project support observed in the first and last week, the U-shape, does not seem to be due to higher project visibility associated with the *Recently Launched*¹⁹ and *Ending Soon* sorting options available with KS. If being featured in the *Recently Launched* or the *Ending Soon* category is not credited any effect it might be that the only featurings are those on the front page of KS. Qiu (2013) found that being featured on KS front page is associated with greatest positive effect in pledges when compared to other forms of advertising, such as word of mouth (WOM), media mentions and project updates.

The importance of KS exposure can best be seen in the light of KS being an online marketplace. With 54.4M total visits²⁰ daily, it is a pretty huge one too. As a comparison www.amazon.com has 2.1B total visits daily, meaning for every 39 visits on amazon there is one on KS. On a marketplace where visitors are browsing for products advertising efforts will have higher conversion rates than through more distant advertising efforts.

For an entrepreneur launching a project on KS, it therefore is very important to understand e-commerce as they essentially are getting their backers (or customers) through an online marketplace, competing with each other. In e-commerce metrics is one of the key tools. The metrics need to be actionable (Ries, 2011) e.g.: (1) Number of impressions, (2) Conversion rate, and (3) Average spend per person.

Even though KS is encouraging “creators” and inventors through its mission and communication, KS knows what the platform is turning into, at least within some of the subgroups, and are most likely enjoying these large, high-media-profile and recurring “customers”. Out of the 10 founders in our case studies 8 had done a previous project, it is likely that successful founders will repeat their business. Considering this it is unlikely that KS will change its business - running an online marketplace, in the near future.

As curators of the marketplace KS are controlling much of the KS traffic. A significant number of projects are repeatedly featured on the front page, raising the question of whether valuable advertising on the front page should be more evenly distributed between projects (Qiu, 2013). To be picked up by the curator is what the KS exposure, or beating the KS algorithm, is all about. Beating the KS algorithm, even if it means telling some white lies; if one of the curation criterias is popularity, then being funded early, by having a lower external goal, may tick off the popularity box. It is important to note here that this is a dynamic platform and that changes may occur in short or no notice.

¹⁹Now (May 25, 2016) called *New*.

²⁰ Total Visits: The sum of all desktop visits (non unique) to the analyzed domain, app or industry within the chosen time frame and segment (Website Traffic Sources, Geography, etc.). A “visit” refers to a visit that occurred within a 30-minute block of time. For example, if a user enters the same site multiple times within 30 minutes, it will be counted as one visit.

<https://www.similarweb.com/knowledgebase/glossary/total-visits/> [Accessed May 25, 2016]

In addition to getting internal traffic to your project you want to drive external traffic to your project. Media attention is such a method.

5.3.1.2 Media attention

Several guidebooks stress the importance of crafting an online marketing project and its importance in generating excitement and project support throughout the funding cycle (de Witt 2012; Steinberg 2012 in Kuppaswamy and Bayus, 2013). To generate excitement and project support social activity and marketing is found positively effective. To maintain media attention one need PR-events. Such an event can be that you reach your goal, surpass your goal by some multiple, do that again, raise a large amount etc.. Thus setting a lower external goal may provide more PR-events.

There is also cases where KS is used as a piece of a bigger puzzle, e.g. to demonstrate demand for a proposed product, then to seek funding from more traditional sources. The success in crowdfunding project creates legitimacy for additional funding. According to Mollick and Kuppaswamy (2014)'s survey, entrepreneurs who successfully get funding from crowdfunding platforms are more likely to get the high percentage of ongoing venture investment and the high level, over \$100,000, of revenue. Such a use of KS can be found in the early history of the venture Pebble Technology, which was initially rejected by VCs and then turned to crowdfunding. After its Kickstarter project, Pebble Technology was able to secure a large amount of VC funding. One of the cases in our study was also using KS as a mean, or complement, to obtain traditional funding.

The marketing literature explicitly addresses the firm's ability to screen for valuable projects by addressing consumers directly, in its subfield of market research, focusing on consumer surveys and product testing. Marketing research relies on voluntary, non-incentivized reporting by consumers. Consumers need to be given explicit incentives for revealing their information truthfully. Interestingly, current crowdfunding schemes provide such explicit incentives naturally. Hence making it a very (cost) effective method for screening valuable projects.

5.3.1.3 Internal motivation

For internal motivation purposes goal setting is important. It is also important to set goals that can be achieved and celebrated, thus arguing for setting lower rather than higher goals, and several milestones rather one goal in the horizon. Goal setting is first and foremost a discrepancy-creating process (Bandura 1989 in Locke and Latham, 2002). Motivation requires feed forward control in addition to feedback. After people attain the goal they have been pursuing, they generally set a higher goal for themselves. This adoption of higher goals creates rather than reduces motivation discrepancies to be mastered. Such behavior may be seen in the phenomenon *stretch goals* in

crowdfunding. Stretch goals are additional goals set above the minimum external goal. So once the first external goal is reached the project can continue on to the next goal, the next stretch goal.

KS is a very personal and public platform meaning that the founder puts himself out in the public, pleading for support, often on a personal level, as this is found to be more effective, especially in artistic projects (Marom and Sade, 2013). Social relationships can be used to overcome the problem of information asymmetry (Venkataraman, 1997). Information asymmetry will be further discussed in next subsection. When being so personal, your own reputation and self-esteem play a role in how you approach your project. This was also something we found in our case studies, that the founders were embarrassed to tell their own internal goals, in fear of sounding greedy or like a failure.

5.3.1.4 Promoting backer consumerism

When looking at backer consumerism, arguments to set lower external goals may be rooted in herding, the Matthew Effect, market validation as an accolade, and information asymmetry.

The backer dynamics are affected by other backers' previous contribution decisions, and these are seen as a quality signals that positively affect the success of a project. An accolade such as "Kickstarter's most funded ..." is highly valued in the marketing and communication of a project. And it will likely trigger a Matthew Effect, turning the project even more successful. However, this reasoning is in conflict with Kuppuswamy and Bayus' (2013) statement:

"These results do not strongly support the idea of a "Blockbuster Effect" in which a project with a large number of backers steals potential backers from other projects (Kickstarter, 2012)."

Our findings that point towards KS having evolved into a mature market place, is also relevant in the backer consumerism perspective. Laying the ground for further research and discussion.

Thinking of KS as an online marketplace it is easy to say that a funded project is signaling a lot less risk than an unfunded project (Aanjesen, 2015), as it is going to be executed when funded. Such behavior is rooted in information asymmetry, and this unbalance being more leveled as a project passes 100% funded. Jung et al. (2015) suggest that the problems of information asymmetry in such settings can be mitigated by the collective evaluation mechanisms enabled by the online community aspects of crowdfunding. Backers who contribute to projects that has already reached the initial goal may care about social information (e.g., who fund the projects, how others think of, and popularity of projects) more than information from entrepreneurs (Jung et al., 2015). Both the project being backed and the number of backers are affecting new backers contribution decisions.

Marom and Sade (2013) found that the entrepreneurs of technology projects tend to focus more on the horse (the business idea), whereas the entrepreneurs of the artistic projects focus relatively more on the entrepreneur (the jockey). Further they found that name mentions (of the founder himself on the project description page) are positively and statistically significant with the success of the project for the *Art* projects, as well with the level of success (funding raised compared to the external goal). In *Art* projects the backers are interested in the founder and hence need to know more about the founder to minimize the information asymmetry. Mollick and Nanda (2015) found strong congruence in the judgment of crowds and experts and they found that differences between projects that the crowd alone supported versus those supported by experts seemed to be in the style of project presentation.

Another feature of an already funded project is that it is providing pre-sale in a more formalized and known way. Thus minimizing the information asymmetry as the actors know the rules and procedures. Theory and practitioners has studied what prizing is optimal for pre-sale, but not for pre-sale in particular on RBCFPs. A discount is preferred as NPV and uncertainty are factors in such a purchase. The recommended discount is 20-50% (Arora, 2015; Lai et al., 2004), but this need to be further researched.

5.3.2 Playing it safe

In risky decision making such as budgeting a project it is common to use safety margins to overcome the risk. In theory of firms, the firms' risk can be identified with their margin of safety (Day et al., 1971). Also running a KS campaign the founder is forced to add margins as KS and credit card providers etc. will take 10% of the raised funds, and KS warns their project owners against unexpected expenses²¹.

Additionally, KS is an AoN platform, where you have to reach your external goal before the end of the project to actually get the funds you have raised.

Therefore, many founders set a safety margin on their external goal. Such an act is also connected with psychology and we found in our case studies that the founders stressing that they used a safety margin, also were the least experienced with KS and had least KS insight.

5.3.3 Discussion against setting a lower goal

Whether or not it is preferable to get to a pre-sale stage as fast as possible or not needs to be considered by the entrepreneur. The capacity to optimally implement discounts to pre-ordering customers (the backers) may be limited by the amount of capital the founder need to raise. Whenever this amount surpasses a threshold the price discrimination becomes excessive and the profitability of the reward-based crowdfunding is reduced. Therefore (Belleflamme et al., 2014)

²¹ <https://www.kickstarter.com/help/handbook/funding> [Accessed May 23, 2016]

recommends crowdfunding based on equity or other types of profit sharing for entrepreneurial projects needing larger amounts of capital. Since larger amounts help the entrepreneur induce more individuals to participate in the financing without affecting the fraction of profits he needs to give up to obtain financing. Here, community benefits are associated with the decision to finance the entrepreneurial project. Thus RBCF might not be the right fit for companies seeking money above \$300K as this fits into the traditional VC range (Gompers, 1995). Especially now as the JOBS Act (Jeng, 2012) is passed and effective, making equity-based crowdfunding (EBCF) a viable option in the US.

5.4 RQ4: Based on their external goal setting approach, how can private good-type crowdfunding projects be grouped and what are the common traits within each group?

Looking at goal setting we have grouped the case study projects based on the founders' mindset and approach to KS. Ending up at four groups we identified common traits within each group. The mindset and approach to KS was deeply connected to the founder's perception of KS.

The main difference between the groups was seen in the perspective on external goals. All the founders were agreeing that the external goal must be **credible**, making upper and lower limits for their external goal. The founders also agreed that it was important to express quality signals. However if it was signaling quality to be funded fast, have a huge goal, run pre-sale or run a more altruistic scheme was more debatable. There were 2 extremes; (1, *identified as Marathoner*) to set a high goal that collectively the founder and backers would work towards and reach at the end of the project duration, and (2, *identified as Extreme Sprinter*) to set a low goal that could be crushed as early as possible, preferably within hours.

Qiu (2013) states that conceptually, one should think of each crowdfunding project as consisting of two goods, namely (1) the funding goal (external goal), and (2) the reward. The former is a public good, while the latter could either be public or private. Defining our data sample we sought private good type projects and excluded projects that not were this from our sample group. Thus all the projects in our sample had a private good. By crushing the external goal early, the project's focus can be taken away from any public good thinking, and strictly focus on a private good strategy. While an unreached external goal will function as a public good.

Hornuf and Schvienbacher (2015) finds that high external goals, in equity-based crowdfunding, is seen as a quality and safety signal, resulting in higher probability for receiving support. How can this be translated to RBCF? One might see the same tendencies when comparing AoN CFPs and KiA CFPs. The increased safety provided to the backer in an AoN model compared to a KiA model, is also shown in an equity-based project with an AoN model and higher goal. The backer can rely on wisdom of the crowd (by contributing a small portion of the total external goal), and

the quality in a project with big ambitions. Higher external goal as a success factor may be found from the research by Marom et al. (2014), stating that female risk-aversion in RBCF leads to female-led projects, similar to another project on all other levels than being male-led, having higher external goals and, at the same time, higher success rate.

However there is another paradox for founders when using CFPs: The founders want to express quality signals to convince potential backers to back them, at the same time as they need to relate to the backer on a social level and not seem too professional. Carr (2014) points out that social and relational factors have significant influence on funding outcomes in absence of financial returns, even more so than tangible rewards. Some platforms only manage to attract low-quality projects because high-quality entrepreneurs anticipate that they will not be identified as such by the backers and will therefore fail to raise the capital that they need, known as the lemon effect.

These paradoxes are interpreted and solved differently by the different groups. The *Inventor* group is focusing their communication on social and relational factors, being personal in their communication. They are presenting themselves and their cause, differentiating their project from traditional entrepreneurial ventures, even though, in some cases, being one. Crowdfunding, is a very different setting for entrepreneurial fundraising and it is not obvious that quality need be an important determinant in funding. Critics of crowdfunding are addressing this issue. Bogost (2012) writes:

“We don’t really want the stuff. We’re paying for the sensation of a hypothetical idea, not the experience of a realized product. For the pleasure of desiring it. For the experience of watching it succeed beyond expectations or to fail dramatically.”

When Qiu (2013) discuss public good and private good in crowdfunding, he divides the backers’ altruism into pure altruism, and warm-glow altruism (Andreoni, 1990). Warm glow givers receive utility, in the form of the positive emotional feeling from helping others, from the act of giving (Andreoni, 1989). Qiu’s arguments are describing the sensation Bogost is addressing, which we have found to be present in *Inventor* projects. In this study we have focused on private good type of projects, thus not further analyzed the *Inventor* group. We did expect to find such a group, as it is more fitting with the core ideas of KS.

The intention of this research was to find proof of founders setting lower external goals than their internal. The archetype of such a group was identified as *Extreme Sprinter*. In addition to setting their goal very low compared to their internal goal (10% or less), they invest heavily in sales and marketing efforts. They want to reach their goal fast and keep the momentum throughout the whole project, even launching post-project fundraisers²². The activities of the *Extreme Sprinter*

²² There are several options to prolong the project;
InDemand

are discussed in Section 5.3. There is also a group similar to the *Extreme Sprinter*, but not as uniform in KS insight and in levels of which they exploit this insight to their advantage. This group was named *Sprinter*.

5.5 RQA: How do private good-type crowdfunding projects set external goals?

By answering our four RQs we answer the initial question of this paper.

First, acknowledging and proving the existence of external and internal goals, we were able to collect and compare the two, as discussed in Section 5.1, showing that there are external goals that are substantially lower than internal goals.

Second, the external goals are determined using either a (internal goal standpoint) top-down or a (cost standpoint) bottom-up approach arriving at a number that was then used as a reference point or “basis” for calculating the external goal.

Third, the founders’ reasons for setting the external goal lower than the internal goal are; (1) getting funded fast, and (2) to play it safe. Getting funded fast is good, and a lower goal makes it easier. There are four major reasons to get funding fast, namely *KS exposure*, *Media attention*, *Internal motivation* and *Promoting backer consumerism*.

At last we identified four different groups based on the attributes and mindsets that affect the founders’ reasoning when choosing the external goals; *Inventor*, *Marathoner*, *Sprinter* and *Extreme Sprinter*.

5.6 CONTRIBUTIONS AND IMPLICATIONS

Our findings can help develop knowledge on CF by the explicit acknowledgement and definition of external and internal goals, the mapping of reasoning in external goal setting and the recommendation of best practice, our categorization of founders based on their attributes, the provision of a founder’s perspective in the RBCF space, the explicit acknowledgement of KS as an online marketplace and the definition of private good-type project.

This paper defines and explicitly acknowledges external and internal goals in CF. The previously used term, funding goal, comprises both, but usually only meaning the external goal. By redefining the term, researchers are able to more accurately discuss and explain the phenomenon of goal setting in CF and discuss different levels of success. In CF literature today, success is

<https://go.indiegogo.com/blog/2015/01/introducing-indemand.html>

BackerKit

<https://www.backerkit.com/preorders#showcase>

defined as reaching the funding (external) goal. Such a definition does not hold true in all cases, as findings in our paper as well as high delivery delay (Mollick, 2014) and the use of preplanned stretch goals (Qiu, 2013) are clear indicators that “externally successful” projects are not necessarily “internally successful”. This paper and its preliminary research contributes to crowdfunding literature by categorizing it and defining, then proving and acknowledging the existence of, internal and external goals, as two distinctive parts within the general term funding goal.

We recommend founders of private good-type projects to set as low external goals as credibly possible. The founders should also consider the positive implications of setting lower external goals; *KS exposure*, *Media attention*, *Internal motivation* and *Promoting backer consumerism*. These implications should be exploited strategically in then planning and execution of their projects. The advantages of setting lower rather than higher goals are more numerous, and have a positive impact on funds raised.

By categorizing the founders by their attributes, we provide a new perspective to crowdfunding dynamics; the founder perspective. Using the founder perspective one can be useful in describing community impact on platform dynamics and performance in crowdfunding, similar to research on communities in the backer perspective such as Inbar and Barzilay (2014). This categorization may be particularly useful in describing another of our findings; that KS has turned into an online marketplace with its own followers.

That KS has turned into a market place may have implications on whom it attracts and how it continues to develop. Considering KS’ position one might argue that it will also impact other RBCFPs and maybe RBCF as a whole. This finding may be a final applicable argument against KS’ attempts to argue that it is immune to Blockbuster Effects (Kickstarter, 2012). We suggest that future research focus on the implications of KS turning into a marketplace and use a stakeholder perspective when doing so.

We disprove theories stating that potential backers are less likely to contribute once a project reaches its goal (Kuppuswamy and Bayus, 2013), proving the opposite, for a subsample on the same CFP they used as data sample. Thus implying that future research should consider constraining and even further narrow its scope when looking at RBCF. As mentioned earlier we provide both theoretical and practical tools for such constraining through our definition and use of external goal, internal goal and private good-type projects.

5.7 LIMITATIONS

As with all research, there are limitations to this study. We have made every effort to minimize these limitations. A number of methodological limitations have been assessed in Section 3.3, and

some remain to be addressed. The sample contains 10 KS projects from the Product Design subcategory that raised more than \$100K and had an external goal equal to or greater than \$5K, in 2015, in USD. With a limited number of cases it is necessary to treat conclusions and implications with care.

5.7.1 Validity and context limitation

The case projects in this paper are all fitting to our private good-type project definition, however 2 of the 10 case projects did not fit for this study of CF projects, looking at their external goal setting. This may be rooted in this study actively looking for external goals set lower than the internal. Such an approach may be strongly colored by its assumptions, explaining why the rest of the results were so fitting. The assumptions play a role and one have to be precautious in generalizing the findings beyond this context.

5.7.2 Statistical generalizability of the results

Case studies are criticized for the limited external validity in terms of statistical generalization. Statistical research studies if the findings can be generalized to from the sample to the universe. By viewing a case as an experiment, Yin (2009) suggests that we should look for analytical generalization by matching the cases against a theory rather than statistical generalization to a population. Discussing the data in relation to existing theory, as done in this paper, may increase the generalizability of the findings. Replication logic has also been used throughout the research to increase the chances of reproduction of similar results in future studies.

6. CONCLUSION

We found that there are external goals that are substantially lower than internal goals on KS. We found four different mindsets that affect the Founders' perception of quality signals and strategies, laying the grounds for their reasoning when choosing the external goals; *Inventor*, *Marathoner*, *Sprinter* and *Extreme Sprinter*. They use a top-down or bottom-up approach arriving at a number that was then used as a reference point or "basis" for calculating the external goal.

The *Inventors* are following the guidelines given by KS, suggesting that the project Founders calculate and set an external goal that is needed to make the project come true (still you need to add a margin as KS and credit card providers etc. will take 10% of the profit, and there might be unexpected expenses²³).

The *Marathoners* however are favoring altruistic backers and think that a high external goal gives the project legitimacy and attention, in addition to giving backers the urge to make the project come true and collectively help each other in making it a success.

The *Sprinters* have a significant level of KS insight and exploit this insight to their advantage. They are all conscious that lower external goals that are obtained early are positive for a project. The mindset here is mainly to set the external goal as low as possible.

The *Extreme Sprinters* have a high level of KS insight and they do what they can to exploit this insight to their advantage. Common traits in this group are: (1) Showing highly committed initiatives, involving large amounts of money, mostly based on large wager on their case becoming something really successful rather than the need for just realizing it. (2) The use KS as a tool to raise a lot of money, asking for a lot less. (3) A focus on the pre-sale and launch of a new product, appealing to private good backer dynamics.

The reasons for setting your external goal lower than your internal goal on an AoN CPF such as KS are mainly to; (1) get funded fast, and (2) play it safe. There are four major reasons to get funding fast, namely *KS exposure*, *Media attention*, *Internal motivation* and *Promoting backer consumerism*. While the main reason to play it safe is that on an AoN CPF such as KS you only keep the raised funds if you surpass 100% (if you raise 99% you get nothing).

We recommend founders of private good-type projects to set as low external goals as credibly possible. The founders should also consider the positive implications of setting lower external goals; *KS exposure*, *Media attention*, *Internal motivation* and *Promoting backer consumerism*.

²³ <https://www.kickstarter.com/help/handbook/funding> [Accessed May 23, 2016]

These implications should be exploited strategically in then planning and execution of their projects. The advantages of setting lower rather than higher goals are more numerous, and have a positive impact on funds raised.

We also add to literature by finding evidence, both quantitative and qualitative, that KS is becoming an online marketplace and that it is attracting entrepreneurial ventures (companies and not directly “inventors”). We find that *Sprinters* and *Extreme Sprinters* are aware of and taking advantage of this in ascending degree. Even if the *Marathoners* may not be aware of this phenomenon, they still might reap the rewards of it.

We suggest that further research compares the four groups identified in this paper and that the implications of KS turning into an online marketing, with its own followers, are further studied, using the founder perspective.

By categorizing the founders by their attributes, we provide a new perspective to crowdfunding dynamics; the founder perspective. Using the founder perspective one can be useful in describing community impact on platform dynamics and performance in crowdfunding, similar to research on communities in the backer perspective such as Inbar and Barzilay (2014). This categorization may be particularly useful in describing another of our findings; that KS has turned into an online marketplace with its own followers.

That KS has turned into a market place may have implications on who it attracts and how it continues to develop. Considering KS’ position one might argue that it will also impact other RBCFPs and maybe RBCF as a whole. This finding may be a final applicable argument against KS’ attempts to argue that it is immune to Blockbuster Effects (Kickstarter, 2012). We suggest that future research focus on the implications of KS turning into a marketplace and use a stakeholder perspective when doing so.

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APPENDICES CONTENT

APPENDIX 1: Kickstarter Project Example

APPENDIX 2: Kickstarter growth data and background info

APPENDIX 3: ETL job posting on Upwork

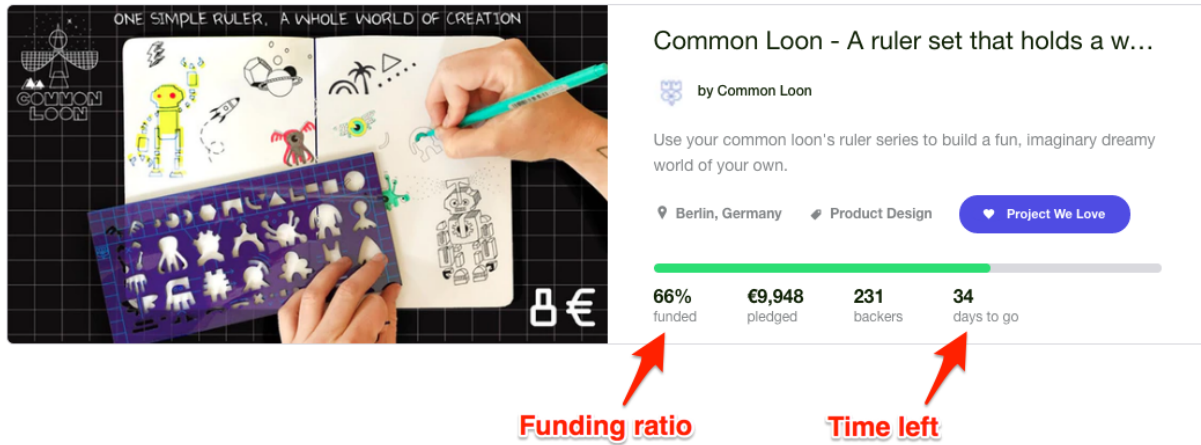
APPENDIX 4: Control count on October 11, 2015

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APPENDIX 1: Kickstarter Project Example

This section of a screenshot from www.kickstarter.com showing the metrics KS present for each project; funding ratio, funds raised, amount of backers and time left. The green bar shows how much of the project that is funded, in this case 66%.



Appendix screenshot - project support over time and funding ratio [Accessed May 27, 2016]

APPENDIX 2: Kickstarter growth data and background info

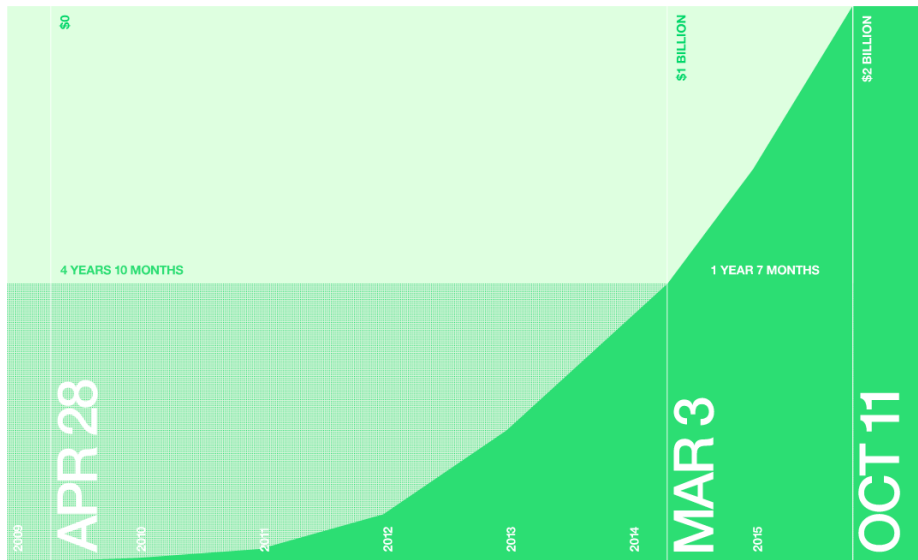
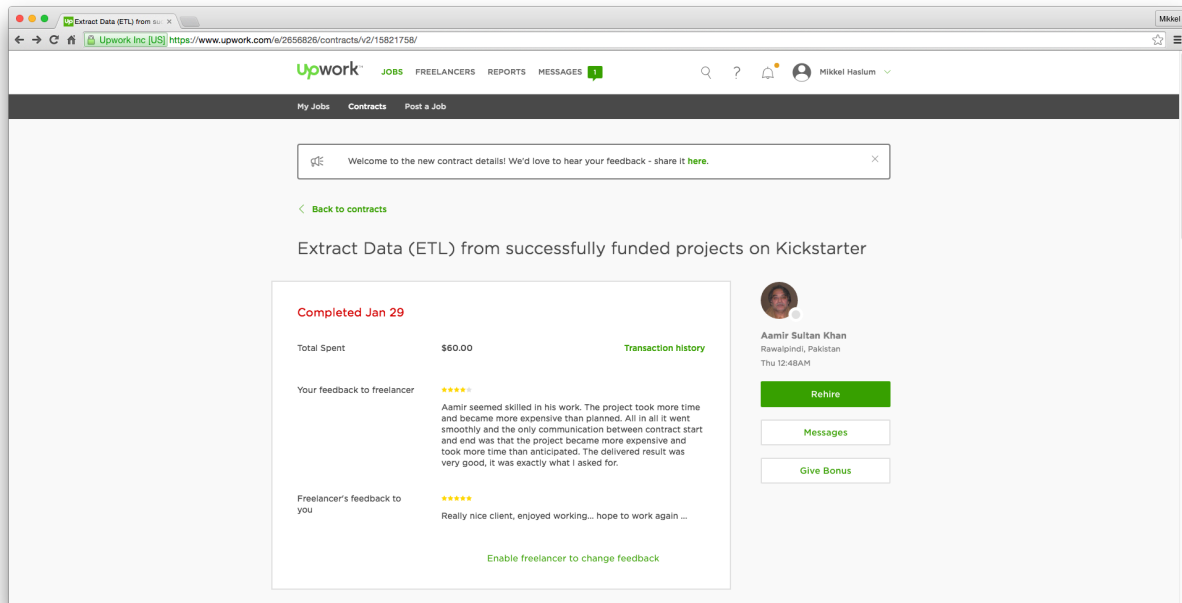


Fig A2 Timeline for Kickstarter reaching 1 and 2 billion dollars in total raised capital.

On October 11th 2015 Kickstarter reported that the cumulative amount of pledged funds on their site had exceeded 2 Billion USD (for all the 15 categories), collected from over 9.5 million backers (2.9 million repeat backers) who had made over 26 million pledges (Kickstarter, 2015). In 2012, 15 projects reached donations above 1 million USD, by March 2014 this number had grown to 58 projects topping 1 million USD, however by November 2015 140 projects had reached donations exceeding 1 million USD.

APPENDIX 3: ETL job posting on Upwork

Data points from each successful project since the beginning of KS to January 21, 2015, in the categories *Technology* and *Design* were structured in a excel sheet by using an Extract Transform Load algorithm. The data scraping of the KS database was outsourced to a freelancer on Upwork²⁴. The data points from each project is shown in the Job description below.



Job description:

Extract Data (ETL) from successfully funded projects on Kickstarter

The deliverable should be an excel sheet with the data (specified below and in the excel-file sent to you) filled out for the 10000+ projects on Kickstarter in the categories "Technology" and "Design" that has been successfully funded.

If the work could be delivered 28/01/2016 it would be very much appreciated, if not it can be delivered before 30/01/2016.

NB!

Since the job was posted some datapoints have been added (e.g. currency).

Since I sent you a message with an attached Excel-file another datapoint have been added (Category, it will either be Design or Technology).

Please see attached file (Upwork - for Aamir - ...).

²⁴Upwork is an e-lance site. It is a platform that connects freelancers and job providers.
www.upwork.com/about/

Summary:

A1: Project name

A2: Creator

A3: Category

A4: Subcategory

A5: Raise premium* *****

A6: Amount raised*****

A7: Funding goal*****

A8: Amount of backers

*Raise premium is calculated by dividing "A5: Amount raised" by "A6: Funding goal".

$A4 = A5/A6$

B1: Location

B2: Number of Updates

B3: Number of Comments

B4: Featured on Kickstarter**

B5.1.1 : Pledge levels and amount of backers on each pledge level***

B5.1.2

B5.x.1 (monetary value)

B5.x.2 (amount of backers)

**some projects are featured and have this info shown as here "Project We Love" some projects doesn't have this info because they're not featured

***e.g. B1.1.1=\$1, B1.1.2=93, B1.2.1=\$100, B1.2.2=8, will be one per pledge level of both the monetary value and the amount of backers to each pledge level

C1: How many times the term "stretch goal" is mentioned on project page

C1: How many times the term "stretch goal" is mentioned on updates page

D1: The end date of the project*****

*****on another web page, the "Updates" page you'll find the end date along with the quote "February 4, 2014 Successfully raised \$118,545 USD with 555 backers"

E1: Currency

*****Some of the data points were renamed during the research period:

Funding goal = External goal

Raise premium = Funding ratio

Amount raised = Funds raised

APPENDIX 4: Control count on October 11, 2015

To control our ETL algorithm we compared the gathered data until October 11th and compared to KS's own published data from that date, <https://www.kickstarter.com/2billion>.

Category:	Design	Technology	Total
# projects in our sample*	5449	3461	8910
# projects in KS's infographic	5483	3477	8960
deviation	0.62%	0.46%	0,56%

*Successful finished projects October 11, 2015, or earlier.

APPENDIX 5: PRACTITIONERS VIEW ON external goal

Quotes gathered on Mikkel Haslums sabbath year travelling around the US and Norway to learn about Kickstarter and retail markets, between May 2015 and November 2015.

“It is important to not set the goal too high, we missed there. “

- Aalberg Audio - Aleksander Torstensen, CEO and Co-Founder

“Find YOUR goal then divide it by 3, 4 or 5. That’s what you put on Kickstarter.”

- Fortified Bicycle - Slavan Menn, CEO & Co-Founder

“I have 8 successful campaigns, all funded in hours. That’s the success story I tell.”

“Once you raise 100,000 you’re interesting to Venture Capitalists so look out for that. Tim Ferris has a super article called: How to raise \$100,000.. write that down”

- <http://www.onehundred.co/> - Dave Laituri, CEO and Founder

“External vs internal funding goal. External goal is what you tell others you need, internal is what the team say they need to each other. The external should be 10K-50K USD. Internal should be at least 2X the official.

THE POWER OF THE BAR: you want to have it full (100%) after days or hours (8h-4d). Once it’s full you’ll be featured by Kickstarter themselves (make it low enoughà KS promotes the success stories). Everyone loves a success story. So your success should be low enough to take advantage of this.”

- Arora Project, Kabaccha Shoes – Krishan Arora, CEO and Founder

Kabaccha shoes requested 15K USD and spent 10K USD on video and 15K USD on marketing. They raised 417K USD. Arora Project has funded all their (5) projects within 24 hours.

“When 100% is reached people understand that this product is actually going to be produced and that they will receive the product if they pledge for it”

- Magination – Hanna Aanjesen, CMO

“You are free to set your funding goal to whatever you want. Just keep in mind how many people you will need to look at your project to get it funded. Even the “most funded” projects on Kickstarter have relatively small goals compared to what they were able to raise. Why be Reasonable? Of course you don’t necessarily have to play it safe. Craig Mod provides an interesting counterpoint to the “be reasonable” argument. “Our biggest mistake was that we set our financial goal too low. It’s inevitable that a Kickstarter project becomes less exciting and loses its ‘gambling’ element when the financial goal is met and there’s still time on the clock (just look at our funding graphs above for empirical evidence!). An ideal situation for any Kickstarter project is to define a financial goal that is high enough to just be met within the allotted time.” -

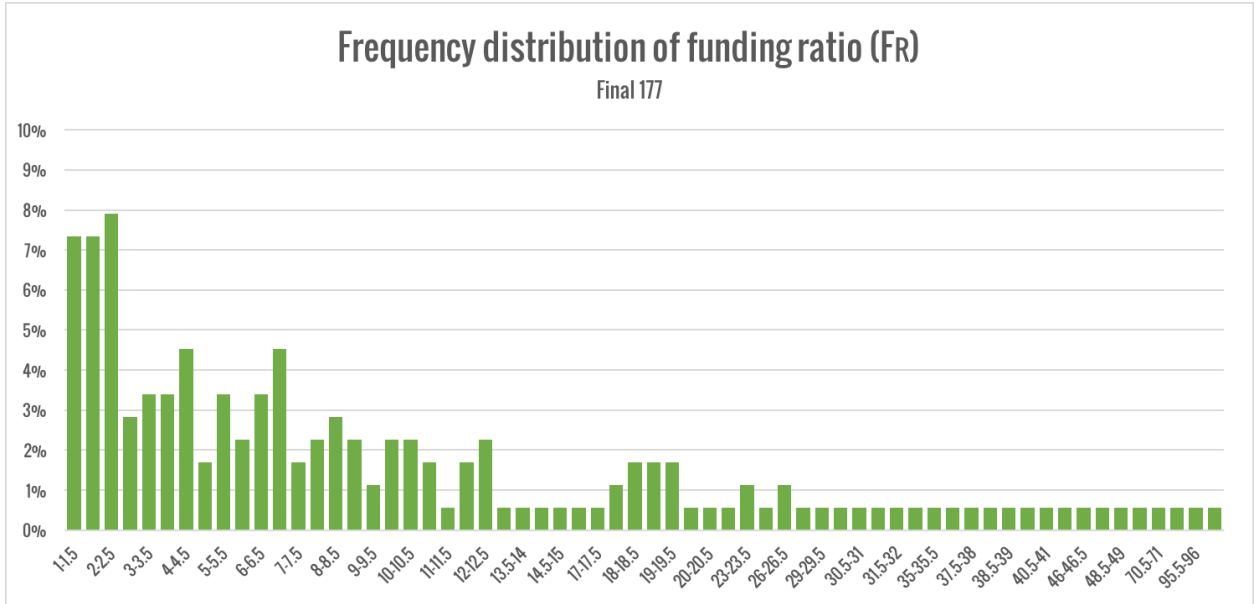
Craig Mod, Kickstartup Perhaps for's project, the goal was set too low, and it might have been able to get more backers. However, I just want to point out what I think is the key sentence in his entire post. "We took advantage of the vast contact lists we had built up while working in the design and art worlds over the past six years." - Craig Mod, Kickstartup To me, this demonstrates that Craig had a large existing audience before launching the Kickstarter project and therefore could have gone for more money.

Stretch goals can be particularly helpful for crowdfunding projects that have a relatively high funding goal for the completion of the entire project.

The credibility of a crowdfunding project is improved significantly when its funding target is achieved.

de Witt, N. (2012), A Kickstarter's Guide to Kickstarter,

<http://kickstarterguide.com/files/2012/07/A-Kickstarters-Guide.pdf> [Accessed November 15, 2012]



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