

# Executive Summary

## Entrepreneurship and Crowdfunding

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## **Executive Summary**

Young firms characterize access to financial means often as problematic in early development stages. Although those businesses have access to support from various public programs, the small volume of the German venture capital market is an issue of ongoing debates. Since 2011, founders in Germany are able to raise the required capital to realize their concepts via crowdinvesting. So far not much is known about the developments in this market. To our knowledge this study is the first that simultaneously analyzes motives, financial backgrounds and the performance of the funded startups. In total, we examine 163 funding rounds of 145 businesses that launched their campaigns between 2011 and 2014.

### **Entrepreneurs decide to use crowdinvesting voluntarily**

The majority of the funded ventures had access to other financial sources when the crowdinvesting campaign was launched. Despite the possible set of alternatives, firms decided in favor of the open call to attract investors. The decision therefore seems to be voluntary. The main motive was, besides gathering the required financial means, a marketing effect. Furthermore, crowdinvesting is especially suited for innovative high-growth companies seeking capital for an upcoming market entrance. It is increasingly less important for businesses operating at earlier life-cycle stages.

### **Entrepreneurs are satisfied with the results**

Within the analyzed timeframe, nine out of ten campaigns were launched successfully. Besides the inflow of financial capital, businesses assessed the realization of marketing effects and access to networks as positive. The financial and non-financial outcomes of crowdinvesting are in line with their expectations. Hence, 85% of the interviewed entrepreneurs did not regret their decision and would use crowdinvesting again to raise the needed capital.

### **Crowdinvesting harmonizes with other financial sources**

At the time of the campaign-launch five out of six ventures already had a committed business angel or venture capital investor. Also in the aftermath of the campaign, half of the businesses received a follow-up funding by such investors. Our findings, moreover, suggest that the crowds willingness to invest, increased with the funders own financial commitment. The crowd thus seems to interpret entrepreneurial commitment as a signal of the businesses quality.

### **Performance: Ventures fail to reach their forecasts - failure rate below German average**

Until the end of our investigated period in May 2015, 17.1 % of the crowdfunded ventures exited the market. This share is considerably low, when compared to market exit in Germany. We contribute this finding to the decisive advantage of firms by the remarkable amounts of capital they raise from crowdfunding. From an investor's perspective, 10 % of the invested capital was lost so far due to market exit of funded firms. Furthermore, our results suggest that entrepreneurs were overconfident at the time of the campaign launch. Hence, the majority of the financed businesses failed to reach their targets regarding turnover and profits.

### **The legal frame was not clear**

Crowdfunding in Germany had no specific legal frame until June 2015. The setting was therefore determined by more general regulations from the German bank, capital and trade law. Specific regulations to protect individual (non-institutional) investors in crowdfunding were shaped in July 2015. We support the already planned evaluation of changes in the legal environment in 2016. A special focus might be on the question whether the regulatory frame increases acceptance of crowdfunding within the financial landscape.

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