



starting a business

# Crowd-funding and crowd-sourcing

## Increasing competitiveness

**Could crowd-funding and crowd-sourcing provide viable options for start-up firms looking to take on established competitors?**

**S**tarting a new business is fraught with difficulty and many don't survive long after their launch. One of the main challenges is how to be competitive in an established market. How can a new business hope to be as good as or better than its competitors — particularly when those competitors have established brands

and can access large budgets and cost-cutting economies of scale?

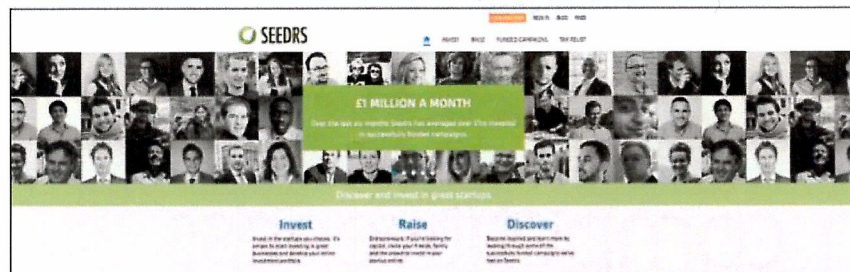
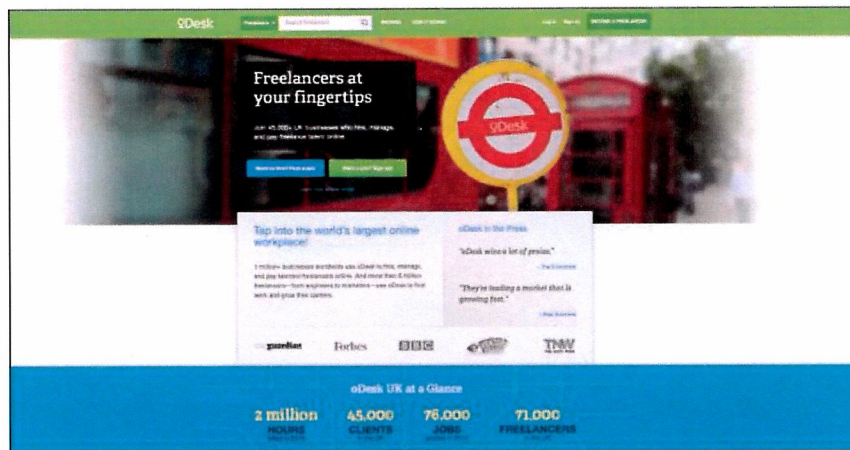
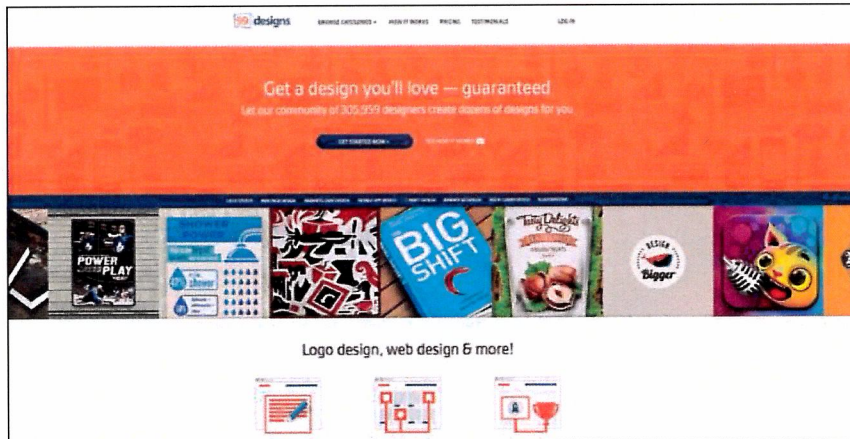
Online crowd-funding and crowd-sourcing is now providing young companies with an opportunity to access resources that were previously only available to established ones. In so doing, start-up companies are now, more than ever before, able to find their competitive advantage.

### **Crowd-funding**

These days, traditional sources of start-up capital for businesses are proving tricky to obtain. Banks aren't lending, venture capitalists don't tend to go for start-ups and with the recession storm still swirling established angel networks are reluctant to

part with their money. It is unsurprising to read that business start-up rates remain lower than they were before 2008.

Could crowd-funding provide an answer? Crowd-funding allows individual investors to pledge money online to support a business or project. Investors can pledge as little as £10 in return for a small stake or non-financial reward. Pledges from individual investors (sometimes totalling in their thousands) are pooled together until they meet the target set by the firm itself. Most crowd-funding tends to be run on an all-or-nothing basis — the target must be reached if any money is to be received at all.



Online platforms can help new businesses raise finance

### Top platforms

Kickstarter, where an impressive 44% of projects reach their funding goals, is probably the best-known crowd-funding platform. UK-based businesses Crowdcube and Seedrs are also among the frontrunners.

Crowdcube has successfully funded over 100 small firms so far, with the help of over 60,000 registered investors. Since launching in 2011, it has raised £16 million for UK businesses and now routinely processes in excess of 1,000 investments per month, making it one of the biggest and most successful angel networks in Europe.

### Good for entrepreneurs

In 2013 online crowd-funding generated over \$3 billion worldwide. It is quickly becoming a credible alternative to the banks. The main advantages for first-time entrepreneurs are that nobody is being asked to put up their house as collateral for the money, and business owners are not forced to give away any equity. Kickstarter actually bans firms from offering equity or financial payments: instead firms are encouraged to offer rewards such as free samples or discounted products to investors. Crowdcube and Seedrs are much more equity based.

The speed at which a firm raises its money (or not) can provide an honest reflection of how a business is likely to fare in the market. Meeting the target in days would suggest that there are a lot of potential customers who like the idea of what you are doing, while failing to meet the target sends an even clearer message.

### Crowd-sourcing

Crowd-sourcing is distinguished from outsourcing in that the work comes from undefined members of the public (usually an online community) rather than being commissioned from a specific group. Such work can include anything from market research to product development ideas or even usability testing.

### 99designs

As with crowd-funding, online platforms that facilitate crowd-sourcing are popping up everywhere. For example, 99designs.com asks firms with logo or design project needs to set up a contest with them. Companies submit a brief and determine a fee for the contest winner (minimum is around \$150) then sit back and watch the crowd go to work.

Since its founding in 2008 in Melbourne, Australia, 99designs has hosted more than 250,000 design contests for customers and has paid out in excess of US\$62 million to its design community. It is not difficult to see why this is an attractive solution for many companies, since it enables them to source (often expensive) graphic design work quickly and affordably. This saving can be transferred into lower prices, increasing the competitiveness of young companies.

### oDesk

Perhaps even more ambitiously, oDesk offers a crowd-sourcing solution to businesses with operational needs. Businesses can hire online freelancers for any type of work that can be done in front of a computer, such as:

- project management
- customer support
- marketing
- design
- legal services

Access to a large, global pool of skilled contractors is especially useful for small businesses, since they often have limited resources and struggle to find such

specialist skills quickly and within budget. Remote hiring trumps more traditional recruitment methods by allowing start-ups to keep their costs down and therefore remain competitive and grow.

**Tribesports**

Founded in 2011, Tribesports is a London-based company that provides an online social network for athletes. Users of Tribesports can join 'tribes' (similar to Facebook groups) based on their sporting interests, location and ability level.

In 2010 Tribesports' founders raised approximately £250,000 in start-up capital from angels, friends and family, followed by £1.73 million from angels and a strategic investor in December 2011. This money was used to focus on core product development, user growth and global expansion. By 2013 the site had around 200,000 users, with its revenue coming from selling advertising and an accompanying online store that encouraged users to log the equipment they own or are intending to buy, with the company taking an affiliate cut.

However, in 2013 Tribesports transformed its business model with an ambitious move to try and compete

in the \$250 billion global sportswear industry. This market is dominated by the well-known brands of Nike and Adidas, which have some of the biggest marketing budgets around and can afford to pay hundreds of millions in celebrity endorsements. In taking them on, Tribesports is attempting to harness its 200,000-strong online community.

Through online surveys, users were asked to submit design ideas, specifications and training data that were used to aid the product design of a new line of sportswear. Online users generated everything from colours to technical features. To conduct this kind of market research in the traditional manner would have cost Tribesports hundreds of thousands of pounds — instead they effectively did it for free.

Tribesports calls its sportswear range, 'the world's first community-powered sports brand', a slogan that plays heavily on its crowd-sourcing methods. The users that provided the firm with their product ideas have essentially become co-designers. As the garments go into production and become available to buy, those same users will become co-marketers.

Customers hashtag Instagram and Twitter photos of their sportswear, and Tribesports uses a service called Olaptic to pull these photos into its product pages.

The Tribesports website is awash with members submitting photos of themselves clad in new kit and this will hopefully permeate into other social networks, thereby negating the need for further advertising costs.

By adopting these novel approaches and making large savings on design and marketing, Tribesports claims that it can provide the same quality sportswear as the leading manufacturers (they use the same factories) but at a price up to 40% lower than other brands. Achieving anything like this would make Tribesports incredibly competitive and the big players would have to take notice.

Tribesports initially used Kickstarter to fund its sportswear venture. The stated goal was to raise £30,000, which would finance the first run of clothes. This target was reached in 40 hours and eventually a total of £119,458 was raised.

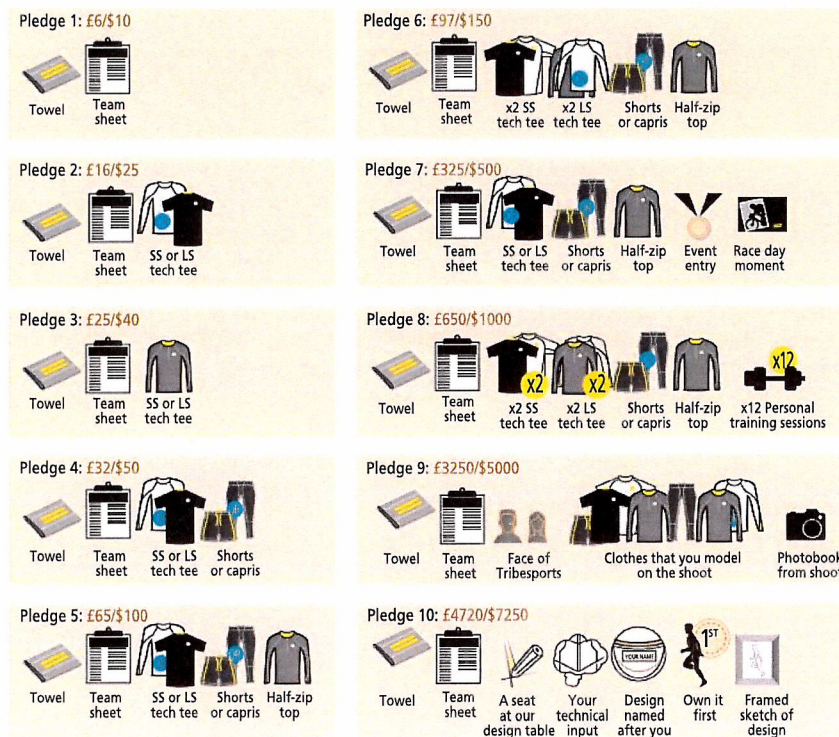
Having previously raised over \$3 million in investment from other means, it is arguable whether or not Tribesports actually needed the cash, but this extremely successful foray into crowd-funding had two other functions:

- it fitted in neatly with the 'community-powered' brand image and enabled customers to think of themselves as co-producers
- it provided the company with positive early-stage feedback. The social training site will always be central to the business model but the sportswear side seems to have achieved customer approval

**Conclusion**

Online crowd-funding and crowd-sourcing can be powerful tools for all businesses, but in particular young start-ups. Crowd-funding can provide access to finance that could be difficult to come by in today's gloomy economic climate, while crowd-sourcing can provide a vast range of much-needed services more cheaply and more quickly than traditional methods. It follows that new businesses that can use these methods effectively can begin to compete in more established markets.

George Vlachonikolis is a business teacher at d'Overbroeck's College, Oxford.



**Figure 1** How Tribesports rewarded its Kickstarter pledges

