Entrepreneur & Innovation Exchange
Published online at EIX.org on August 15 2017
DOI: 10.17919/X9DM3J

How Crowdfunding Success Can Turn Into a Business Problem

Eden Blair (Bradley University)
Tanya Marcum (Bradley University)

KEYWORDS: Management of Companies & Enterprises, Finance, Startups, Entrepreneurship.

Raising far more than expected can create fulfillment, logistics and legal problems that overwhelm a young venture.

What's better than fully funding your crowdfunding campaign? You might think it's raising far more than you requested. Turns out, having too much of a good thing creates unexpected, complex problems that can cause significant legal and strategic issues for the creator, as these real stories demonstrate:

- Erik Chevalier's The Forking Path Co. sought $35,000 from backers to create a board game and actually raised $122,000. Instead of providing the backers with copies of the game or pewter game figurines as promised, Chevalier used the funds for personal expenses. This case was eventually settled with the Federal Trade Commission. Chevalier agreed to refrain from misrepresentations in the future and was ordered to pay $111,793.71.
- In 2012, creator Andy Muldowney's portable thermal printer, the mPrinter, hoped to raise only $10,000 but received $88,018 from 706 backers. However, Muldowney did not deliver the rewarded printers and canceled the project in 2015. He did not offer a refund. Many of his backers have filed claims with the FTC.
- Jennifer Hintz' FibroFibers Kickstarter campaign received $26,068 after originally requesting $15,000. She could not deliver the hand-dyed skeins of yarn she had promised to investors. Her business has since closed.
- The Coolest Cooler, which raised over $13 million after requesting only $50,000, was so successful that it led to supply shortages and delays. While it did eventually deliver on all of its rewards, investors waited far longer than expected. The creators did, however, keep investors informed about the delays and their progress on sending out the rewards.

How over-funding can backfire

Most creators optimistically believe that they can meet the goals stated in their campaign, and add stretch goals when they receive more funding, but evidence shows that projects with the least and the most funding are the least likely to meet their goals. Over-funding can actually prevent you from starting your project, for one or more of the following reasons:

- More funding leads to a greater number of rewards that must be fulfilled, which takes time and resources away from the project itself. This is particularly true for handmade items that do not benefit from economies of scale.
- Highly funded projects are more complex. Unlike a smaller project that can be easily handled by a solo entrepreneur, overly funded projects often require sophisticated supply chains and logistics -- well beyond what was expected.
- Projects that far exceed their goal are met with more scrutiny from backers and possibly media outlets. A backer who may forgive a delayed project with modest funding may be livid when the same project received four times what it required and misses deadlines.
- Due to greater immediate needs in higher funded projects, creators may use funds for purposes not related to the stated project, thinking that the original purposes will ultimately benefit from these uses.

Entrepreneurs are by nature optimistic creatures. They

Copyright © 2017 The Authors. Entrepreneur & Innovation Exchange is published at EIX.org. This is an open access article under the terms of the Creative Commons Attribution-NoDerivs License, which permits use and distribution in any medium, provided the original work is properly cited and no modifications or adaptations are made. View EIX.org Authorship Terms at https://eix.org/terms

often bite off more than they can chew. But, failing to meet the goals stated in a crowdfunding campaign can ultimately doom the venture. Backers can work together to file legal action and report the failed project to the FTC or a state Attorney General's office. They can also work with industry professionals to put the creator on "unreliable" lists or ban them from trade shows and other marketing and sales opportunities. The entire venture could fail.

Advice for creators

We encourage creators to think through what they'll do if their project is over-funded. Can you budget for it? If you receive more funding than expected, can you realistically meet your commitments to your backers? Carefully consider what this means in terms of logistics - supplies, manufacturing, and shipping - and whether you can fulfill the additional rewards. Make sure you can afford to offer refunds to disgruntled backers if things don't go as planned.

- Make most rewards easy to scale if you need to supply more than expected -- such as digital downloads of patterns, videos or artwork; or mass produced tee-shirts, totes and postcards. For anything that is handmade, put a cap on the number of rewards you are willing to give out and set a premium on these products. This can be a challenge when your project is a handmade item, so make these limited edition and encourage others to buy from your store when the project is completed.
- Communicate effectively with your backers. Most backers will be reasonable if you are honest about delays. Show proof of what you have accomplished and be clear on how you plan to get the rewards out to everyone.
- Do not use any of the funds for anything but the stated purpose, especially not for personal expenses.
- Consider budgeting for a third-party fulfillment business. This will make sure you can focus on getting your project done while they deal with logistics.

Click here(https://eiexchange.com/content/141-when-kickstarter-campaigns-dont-deliver-a-case-study-of-phenom-fabrics?search=Phenom%20Fabrics) for our case study about crowdfunding gone wrong.

Copyright © 2017 Eden Blair, Tanya Marcum, Published by Entrepreneur & Innovation Exchange
EIX.org (2017)
DOI: 10.17919/X9DM3J