

Failing Forward: Unsuccessful Crowdfunding Campaigns Can Strengthen Your Venture

Regan Stevenson

Jared Allen (Texas Tech University)

Tang Wang (University of South Florida)

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Crowdfunding is a powerful tool for nascent entrepreneurs seeking to raise money for their ventures. But many entrepreneurs don't realize that popular crowdfunding platforms such as Kickstarter might also provide valuable feedback on their product offering before the product is commercialized. This feedback can help them be more successful in the long run, even if the crowdfunding effort is a failure.

We recently published an article in the *Journal of Business Venturing*, entitled, "Failed but validated? The effect of market validation on persistence and performance after a crowdfunding failure." It's based on research in which we looked at two forms of feedback entrepreneurs often seek: market feedback, which is obtained from the prospective or existing customers of a product; and expert feedback, which is obtained from people with deep knowledge of the technologies or markets associated with a product. In our research, Study 1 was an experiment in which experts were described generically, while Study 2 used archival data from actual crowdfunding campaigns, including feedback from actual crowdfunding experts. We found that feedback from potential customers is especially valuable for entrepreneurs seeking to persist with their products after failing to raise funding for their ventures. We also found that feedback from experts can validate such feedback. However, customer feedback is ultimately a more important predictor of future commercial success than experts' feedback.

BACKGROUND OF THE STUDIES

Most studies on crowdfunding failure focus on factors that predict the success of the campaign. Roughly 60% of entrepreneurs utilizing crowdfunding campaigns fail to achieve funding for their ventures. Despite these odds, many entrepreneurs have learned to embrace failure as a pathway to receiving feedback from

customers and industry experts. This feedback can give them the confidence to persist with their products and to make the appropriate changes necessary for future commercial success. For example, Bill Gates once stated "Once you embrace unpleasant news [failure] not as negative but as evidence of a need for change, you aren't defeated by it. You're learning from it." (Gates, 2000, p. 155).

One example to better understand the distinction between market and expert feedback is to look at the iPhone. Apple seeks market feedback through user experience testing, in which Apple conducts usability tests with a select group of individuals to better understand the market demand for the iPhone. Apple executives observe users interacting with the device, noting their feedback, preferences, and challenges. This feedback helps Apple refine the iPhone's design and interface to optimize user satisfaction in the marketplace. Likewise, technology experts often provide in-depth reviews of the iPhone, evaluating its hardware, software, camera capabilities, performance, and user experience. Reviews from respected publications like CNET, TechCrunch, or The Verge provide expert analysis and comparisons with competing smartphones.

OUR RESEARCH

We conducted two studies: a controlled experiment with 125 entrepreneurs, and a field study of Kickstarter crowdfunding campaigns across four years. Kickstarter is a rewards-based crowdfunding site, which means entrepreneurs provide rewards (e.g. free product) for individuals who invest in their venture. Through these studies, we sought to find out how feedback affects the persistence of entrepreneurs who fail to raise the funding they need. We also wanted to understand if this feedback would be predictive of future commercial success for those entrepreneurs who persist with their



products.

Our contention was that positive feedback from potential customers would function as a source of social proof that would instill the belief that, despite experiencing a crowdfunding failure, they (the entrepreneurs) had what it takes to persist toward eventual success with their entrepreneurial endeavors. We found strong evidence that customer feedback, which we called “market validation information,” did indeed encourage entrepreneurs’ persistence after crowdfunding failure.

We also found that positive feedback from experts further encouraged entrepreneurs to persist with their products when it was accompanied by market validation information. However, positive feedback from experts alone, without the market validation, was not a strong predictor of persistence.

What Happens Next?

So, crowdfunding failure has occurred and some entrepreneurs persist with their products despite this failure, but what happens next? We took a long-term approach and revisited these failures four years later. Specifically, we merged our initial database of crowdfunding failures with another data source (Amazon.com) and found that those ventures that had strong market validation information during their failure episode were more likely to be experiencing commercial success years later. We compared this group with other entrepreneurs who received positive expert feedback and determined that market validation was about 71% stronger than expert feedback in predicting subsequent commercial success.

Taken together, our findings offer novel insights into the value of crowdfunding campaigns beyond financial rewards, and encourage entrepreneurs to seek feedback, even when crowdfunding attempts are not successful.

THE TAKEAWAY

Our research provides several lessons for new entrepreneurs.

Consider crowdfunding as an opportunity to test your ideas.

Entrepreneurs encounter various disruptions or

setbacks during the course of their work, including crowdfunding failure. Our study suggests that receiving some forms of feedback can encourage entrepreneurs to persist even when an outright funding failure occurs. If such benefits can be derived from crowdfunding failures, entrepreneurs could be encouraged to consider crowdfunding as a viable first step when testing their venture ideas, despite the high failure rates.

If at first you don’t succeed, try again.

While persistence is important to navigating the difficulties inherent in entrepreneurship, the ultimate goal of entrepreneurship is to create and grow a successful venture. This requires learning and improvement during the course of product development and launch.

One of the most popular Kickstarter campaigns helped launch Spark Core: a chip, created by Zach Supalla, that attaches to products and appliances to make them Internet-connective. That campaign raised an impressive \$568,000. What made this success especially impressive was that less than seven months earlier, Supalla had launched a failed Kickstarter campaign for a similar product (Spark Socket) that missed its funding goals by nearly \$125,000. Despite this failure, Supalla was inspired enough from the support he received in his initial campaign to persist long enough to eventually achieve funding success.

Supalla’s experience illustrates a key takeaway from our study: that early-stage entrepreneurs can find confidence in the feedback they receive from customers and the market, which can encourage them to persist with their ventures even if their crowdfunding attempt fails.

Prioritize market feedback over expert feedback when bringing a product to market.

We not only tracked failed crowdfunding projects and assessed whether entrepreneurs persisted with their products after failure, we also objectively assessed the performance of such products (once commercialized) by tracking how well (or not) the products sold on Amazon.com. We found that market validation is more important than expert validation. This might seem counterintuitive, given that experts are thought to possess highly valuable knowledge and should have strong insights into the future potential of a product. However, because experts have extensive experience

within a particular domain, they often struggle to put aside the knowledge they possess when predicting future outcomes, such as future commercialization success.

For example, the expert investors on the show Shark Tank have declined to invest in several ventures that eventually became a huge success, such as the companies Ring and Kodiak Cakes. Ultimately, longer-term successful commercialization depends on actual customers finding value in the use of a given product. Because market validation in the crowdfunding setting is generally represented by a collective set of potential product users, market validation garnered during an initial launch may predict future success. Our results suggest that early-stage entrepreneurs might benefit more if they prioritize feedback coming from customers and the market (relative to experts). While expert validation can encourage entrepreneurs to persist with their venture, it has a weaker link with subsequent commercial success.

References

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