

THE ROLE OF CROWDFUNDING PLATFORMS IN FINANCING STARTUPS IN POLAND: A CASE STUDY OF WSPIERAM.TO

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Purpose: The main purpose of the article is to examine and understand the specific role that crowdfunding platforms play in financing startups in Poland, using the case study of *wspieram.to*. The article also aims to shed light on the benefits and challenges of using crowdfunding platforms.

Design/methodology/approach: The article uses the prevailing literature as well as analysis and evaluation of documents, reports, and the website of crowdfunding platform – *wspieram.to*. The analysis was conducted in 2023.

Findings: The obtained results will help to indicate the role of crowdfunding platforms in financing start-ups in Poland on the example *wspieram.to*.

Research limitations/implications: The results cannot be generalized, but can form a basis for further deliberations. They shed certain light on the role of crowdfunding platforms in financing startups in Poland.

Originality/value: Studies have shown the role of crowdfunding platforms in financing startups in Poland. This article is mainly aimed at people who plan to start a business. Information on the role of crowdfunding platforms in funding can be valuable for them, helping them to understand what opportunities such platforms offer and how they can use them to raise funds to develop their business.

Keywords: crowdfunding, start-up, entrepreneurship.

Category of the paper: Case study.

1. Introduction

In a fast-paced business environment, the development of startups and innovative projects has become crucial to driving progress and socio-economic change. One of the biggest challenges faced by those looking to start a business is securing the right early-stage funding. Traditional methods of financing, such as bank loans or credit, can be difficult for many startups, especially those without a market history. In this context, the emergence of crowdfunding platforms represents a disruptive change for startup funding. Crowdfunding is

a process in which creators of projects with different themes, such as business, raise capital by engaging a large number of people who donate small amounts of money in exchange for shares in the project or other rewards. This process is done through crowdfunding platforms. Crowdfunding platforms make it easy and convenient to connect project proponents with potential investors, offering direct access to community capital. Crowdfunding platforms are an innovative tool that allows entrepreneurs to raise funds from a wide range of investors, usually via the internet. The main objective of this article is to show the role of crowdfunding platforms in the context of financing start-ups using the example of *wspieram.to*. *Wspieram.to* is a rapidly growing crowdfunding platform that enables entrepreneurs, creative projects and community organisations to raise funds from a community of investors. A case study of the *wspieram.to* website will provide a better understanding of the mechanisms of crowdfunding platforms and their potential in supporting the development of business projects.

2. Literature review

Crowdfunding is defined as the practice of raising funds for a project or venture through contributions from a large number of individuals, typically via an online platform (Belleflamme et al., 2014). It encompasses diverse forms such as reward-based, equity-based, lending-based, and donation-based crowdfunding. Crowdfunding refers to 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). Crowdfunding is considered by many entrepreneurial, innovative and small and medium-size firms as an attractive tool for raising funds compared with other financing sources such as bank loans, for example, that usually have more requirements and conditions.

Crowdfunding is also seen as an innovative funding method that involves raising funds via the internet for both philanthropic and commercial projects (Rymarczyk, 2019). Crowdfunding has democratised access to capital, enabling entrepreneurs to bypass traditional funding channels and gain financial support from a global audience (Cumming, 2014). It stands for financing tasks, ideas, or a project via an open invitation to participate in a fundraiser, mainly over the Internet (web 2.0), so that the founders can donate, pre-purchase products, lend, or invest, guided by individual belief in a given offer, the initiator's promise, and/or an expectation of return on capital (Hossain et al., 2017). Crowdfunding, as a type of crowdorganising, includes “spot transactions, short-term relations, demand-based pricing, heterogeneous demand, and reputations established through feedback mechanism” (Powell, 2017). It has drastically changed the entrepreneurship and entrepreneurial finance ecosystem (Miglo, 2021).

Online crowdfunding portals play an important role in crowdfunding, through which it is possible to finance a project. In the case of a business project, funding will be available for: setting up or developing a new business, launching a new product or service, modernising fixed assets, e.g. purchasing new machinery and equipment, etc. A crowdfunding platform is a digital solution made available online to an open audience by a crowdfunding service provider for crowdfunding collections (KNF, 2022). The term crowdfunding platform can also refer either to the organization or to the website that brings together companies seeking investment and investors with funds to invest (Miglo, 2021). Internet-enabled crowdfunding platforms play the role of a common trusted system and induce fundraisers (creators/campaigners) and funders (backers/supporters) to join forces in an alliance that facilitates the interaction between them (Shneor, Vik, 2020). In today's digital world, crowdfunding platforms allow direct interaction between project developers and potential investors, helping to increase the availability of capital and promote a variety of initiatives.

It is also worth adding that the development of crowdfunding in Poland was also affected by the Covid-19 pandemic. The pandemic has been a challenge for companies that had to show flexibility and adapt to the constantly changing situation in order to continue to provide services and sell products. Many companies from industries such as gastronomy, tourism, culture and entertainment, or the automotive trade faced financial difficulties in the years 2020-2021 resulting from a lower demand for their products and services. The difficult economic situation forced them to search for financial support with the help of alternative financial tools, e.g., crowdfunding (Leoński, 2022).

At least several crowdfunding models can be distinguished in the literature. The most commonly mentioned models include: donation crowdfunding, equity-based crowdfunding, reward-based crowdfunding, lending-based crowdfunding, pre-sales crowdfunding, subscription-based crowdfunding. In Poland, the most popular crowdfunding models are donation crowdfunding and reward-based crowdfunding, which is stewarded by the *wspieram.to* platform.

3. The *wspieram.to* platform and its contribution to funding startups

The origins of crowdfunding in Poland can be traced back to 2011, as the first crowdfunding platform in Poland, *PolakPotrafi.pl*, was founded in the same year, as was the crowdfunding platform *Wspieram.to*, which was chosen for the study due to the fact that it has a tab dedicated to startups. In addition, the platform posts aggregated data on funded projects from all categories. *Wspieram.to* is part of the Crowdfunding Poland Group, an association of top Polish platforms offering tools for crowd funding, fundraising, subscription and sports funding, as well

as a platform for comprehensive education in crowdfunding and a thriving creative agency specialising in creations based on the cooperation of brands with the crowd 2.0.

The Polish donation and sponsorship crowdfunding market is dominated by a few platforms, although more crowdfunding sites are emerging all the time. According to the report of the Association of Financial Companies, in Poland "Donation and sponsorship crowdfunding in Poland", only two crowdfunding platforms: Siepomaga.pl, Zrzutka.pl. hold almost 87% of the market looking at the amounts raised between 2008 and 2022. However, it should be noted that they do not have dedicated tabs for business projects and focus mainly on charitable projects. The support.to platform is ranked 6th with a 1% share. Figure 1 shows the leaders of the crowdfunding market in Poland and through it a business project can be financed.

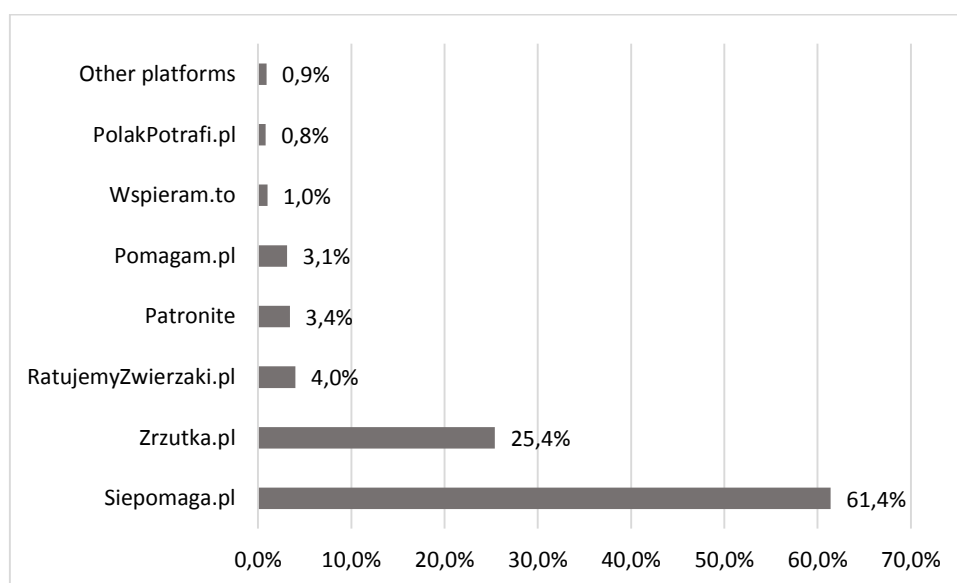


Figure 1. Leaders of the crowdfunding market in Poland by amount paid.

Source: Own elaboration based on Trzebiński (2023).

The main aim of Wspieram.to is to enable projects that might not find support in the traditional financial system. The service provides an opportunity for both young creatives who are just starting out and experienced entrepreneurs, artists, content creators and not-for-profit organisations to raise the necessary funds to develop their activities. The creator of the project sets up a crowdfunding campaign on the Wspieram.to platform, describing the details of his project, the financial goals and the rewards and benefits it offers to those who decide to support its implementation. The community has the opportunity to contribute any amount of money to support the project. There is also the option to choose one of the rewards offered by the creator, which often include exclusive content, products or invitations to events. Wspieram.to is committed to transparency and security. The platform provides information on what goals have been achieved, how much money has been raised and what projects have been completed with the support of the community. All transactions are secure and protected by the payment system.

Campaigns on Wspieram.to mainly operate on an all-or-nothing basis. It relies on the idea having to raise the entire pre-determined amount needed for the creator to receive the money. When a project does not receive full funding before the end of time, contributions are returned to the backers' balance accounts, from where they can freely dispose of them to support further creative projects. It should be noted, however, that some of the crowdfunding campaigns in the startup category were implemented in a 'flexible funding' model. In this case, the project proponent sets a financial target, but if he or she fails to meet it 100% can still get the money raised. However, if it finds that the amount is not sufficient to meet its obligations to contributors it can easily return it to them. Donors are protected by a contract signed by them committing the project developer to deliver the specified prizes on time. All clear and safe.

Wspieram.to uses a rewards-based crowdfunding model. In this case, as the name suggests, donors receive a reward from the organiser of a particular collection in return for their contributions. Usually, these prizes are non-financial in nature and are all sorts of items related to the project for which the collection was organised, they could be mugs with the logo, books, CDs, a meeting with the creator of the collection, etc.).

When analysing the wspieram.to platform, it is worth taking a closer look at the data for the startup category. Table 1 shows the most important information related to the business projects on the surveyed platform.

Table 1.

Statistics of the startups category on the platform wspieram.to

Crowdfundig campaigns	143
Successful crowdfunding campaigns	71
Unsuccessful crowdfunding campaigns	72
Percentage of funding obtained (successful campaigns)	16%
Average number of supporters of a successful campaign	60,48
Average payment size	51,75 PLN
The most successful campaign	68 616 PLN

Source: Wspieram.to (2023).

It is worth noting that just over 50% of business projects were unsuccessful. A number of factors can contribute to a lack of success, including poorly planned or timed campaigns, a lack of marketing activities associated with a crowdfunding campaign or a lack of a good business plan.

The originator of a crowdfunding collection must be heavily involved in the venture and its promotion. A lot of time has to be spent preparing the campaign and the product description, with no guarantee that the project will find interest in the public. This is because there is strong competition among the projects offered on crowdfunding portals. Originators try to encourage potential funders by various means and it is largely up to their creativity to find willing participants (Kędzińska-Szczepaniak, 2016).

It is good to outline that the sheer number of crowdfunding campaigns in the startup category is small, given that the platform has been organising crowdfunding collections since 2011. The reasons for this state of affairs can be found in the low popularity of crowdfunding

platforms as a source of business financing among those wishing to set up a business. Another reason may be the large number and competition among other crowdfunding platforms.

Another point worth noting is the low percentage of funding that achieved successful collections, it was only 16%. The average number of people supporting successful campaigns was 60,48, with an average contribution of PLN 51,75. In the case of the most successful crowdfunding campaign, the initiator of the collection raised PLN 68616, which is not a large amount either.

4. Advantages of crowdfunding

Crowdfunding is a relatively easy and low-risk way to raise capital for a company. Unlike traditional methods such as bank loans or credits, no collateral or equity is required. If the crowdfunding campaign is unsuccessful, the initiator of the collection will not be liable for any debt. In the case of crowdfunding, you do not have to incur high costs, e.g. commissions or other fees.

Crowdfunding can be a good way to test a product or service that is the subject of an online fundraiser. If the online community is willing to invest in the business, this could be a good sign for the initiator of the online collection. This may mean that there is a demand for what the developer of a particular business project is offering. If a campaign on a crowdfunding platform is successful, it will mean that there is a potential market for the product or service.

The biggest advantages of online platforms include (Liebert, 2017):

1. Quick fundraising to finance a project.
2. Facilitating the implementation of project works.
3. Enabling the implementation of a new product on the market.
4. Product concept development.
5. Positive impact on marketing.
6. Acquiring additional business partners.
7. Acquiring additional (non-financial) resources.
8. More effectively creating project documentation.

Crowdfunding is a great way to solve some of the significant problems often faced by young entrepreneurs and originators. It reverses the standard model, in which costs and risks are incurred after the start of production. This allows to validate the market and idea at an early stage, thus saving time and money to build a product for which there could be no demand. Platformy umożliwiają zebranie opinii na temat naszego pomysłu i jego dopracowanie przed startem (Chojnacki, 2021).

Considering advantages of crowdfunding from the perspective of the platform *wspieram.to* its openness to different types of projects should be considered. Irrespective of the sector or the area, each entrepreneur has a chance to report their idea and convince the community to support it. *Wspieram.to* platform also assures tools and support for the entrepreneurs in conducting crowdfunding campaigns. The instructions, advice and examples of the best practices help startups in effectively promoting their projects and attracting investors. The *Wspieram.to* platform constitutes therefore valuable tool for the entrepreneurs, who wish to transform their visions into reality and gain support from the community.

It seems that business projects are not popular among the crowdfunding platforms. A certain shade on the degree of popularity of crowdfunding in Poland, as a source of startup financing, is cast by the report „Polskie startupy 2022” (Dziewit, 2022). Among the startups asked from which sources of capital they had a chance to use, the most, as many as 69% show their own resources. A significant role on the Polish market is played by the VC national funds, the capital of which was used by 29% of the startups surveyed and also domestic business angels, who supported 22% of startups, whereas 21% of respondents showed financing obtained from the National Center of Research and Development. In this place it should be emphasized that as low as only 4 % of the startups surveyed used crowdfunding as the source of financing. The results of this survey prove that crowdfunding as a source of financing business undertakings in Poland is still in the initial stage. And consequently, its role in financing startups is negligible. This is confirmed, for example, by the *wspieram.to* platform, where the number of campaigns related to business projects over the last several years has been small (143 campaigns).

The immense popularity of the Internet gives reason to believe that it is this way of financing activities that may be the primary source of capital for small businesses. In turn, the variety of crowdfunding platforms on the market makes it a flexible source of fit for both businesses and audiences (Motylska-Kuzma, 2018).

5. Conclusion

In recent years, crowdfunding platforms have started to play an increasingly important role in startup funding, changing the investment landscape and opening up new opportunities for entrepreneurs. However, it should be noted that other forms of funding are much more popular among startups. Despite the democratisation of access to capital and the many advantages of crowdfunding platforms, this instrument is still underestimated in Poland. With crowdfunding, everyone has the opportunity to support an interesting project and become part of its success. This opens the door to new innovative ideas and allows startups to grow independently of traditional funding channels. However, it should be noted that there are risks associated with

the use of crowdfunding platforms, e.g. the risk of fundraising failure or copying of an innovative idea by others,

Looking to the future, however, it seems that the prospect of crowdfunding platforms is promising. With the development of online technologies and increasing public acceptance, further development of these platforms and the evolution of crowdfunding models can be expected. In conclusion, the role of crowdfunding platforms in startup funding is dynamic and will continue to grow. This is evidenced by the increasing number of crowdfunding platforms in Poland offering various crowdfunding models enabling the financing of business projects. More and more people thinking about starting a business or launching an innovative product or service are realising the benefits of crowdfunding. It seems that crowdfunding platforms will continue to evolve and improve their operations, making this method of funding even more attractive to entrepreneurs.

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