

# Chapter 4

## In Search of Crowdfunding Business Models

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### **ABSTRACT**

*Crowdfunding platforms have substantially increased since 2005 and have supported entrepreneurial projects in response to the low propensity of banking institutions to finance either startups, or poor or young entrepreneurs. However, the theory of strategies and management of crowdfunding is far behind the dynamism of its growth. This shortcoming most likely causes costs and failures, in particular during the current state of increasing competitive pressure in the sector. This paper seeks to construct a general theoretical definition for the concept of a business model and apply it to the P2P social lending on the Internet. Extensive literature is reviewed to construct an archetype business model. The validity of the model will be tested through crowdfunding platforms.*

### **INTRODUCTION**

Crowdfunding has significantly changed the rules of entrepreneurship, in particular in the face of the low propensity of banking institutions to finance either startups, or poor or young ventures. Since 2005, crowdfunding platforms have substantially increased. Even if the demand is far from being satisfied as seen by more than 2.5 billion financially excluded individuals, it is noticeable that competition is growing among existing platforms. Such platforms consequently need to look for competitive advantages that allow them to position themselves favorably against their competitors.

However, the theory of strategy and management of crowdfunding is far behind its rampant growth. Concepts and theoretical models have not sufficiently developed to accompany and support the crowdfunding websites' entrepreneurs, strategists and managers. This shortcoming likely causes costs and failures, in particular due to the current state of increasing competitive pressure in the sector. The concept of a *business model*, despite its strategic theoretical and practical importance, is one of these concepts that suffer due to the absence of a reliable definition.

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*Table 1. Occurrence of “business model” in papers’ title, from 1990 to 2015*

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
2	3	2	4	3	17	26	37	47	83
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
154	199	210	263	271	267	371	372	462	603
2010	2011	2012	2013	2014	2015 (up to November 6, 2015)				
724	743	842	868	812	724				

Source: Google Scholar, checked on May 24, 2015.

The term first appeared in the ABI/Inform database in 1975 (Zott & Amit, 2009). It became a prevalent buzzword since the emergence of the commercial Internet in the middle of 1990 (Leiner et al., 2014). The occurrence of the term in the academic papers skyrocketed since 1995. A search with the key term “business model” in Google Scholar (specialized for scholarly literature search) provides statistical evidence, as the Table 1 illustrates. For avoiding confusion and ambiguity, we searched in Google Scholar for papers that give some centrality to the concept of “business model” by putting it in the title (allintitle:“business model”).

The business model has always been an ambiguous concept. The increasing occurrence of the term has not resulted into a single definition. No commonly accepted definition supported it (Osterwalder & Pigneur, 2002). Ghaziani and Ventresca (2005) tracked the term in more than 500 journal abstracts between 1975-2000 and find a multitude of local uses in parallel with a primacy of certain discourse across communities. Our search with the same keyword of business model in Google Scholar ended with 400,000 results on March 6, 2015.

A business model denotes different concepts among scholars and practitioners such as “value appropriation” (How does the venture make money?), “value creation” (How does the firm conduct business with its stakeholders?) a combination of both (Zott & Amit 2009), or even “profitability” and “strategy”. They are all misleading. In the field of crowdfunding, “business model” is often confused with the typology of relationships between project initiator and contributor. As we will see later, a business model can have a specific definition and a delineated field of application.

The unstructured variety of vantages makes the identification of basic business models extremely challenging in emerging sectors such as Peer-to-Peer (P2P) social lending or crowdfunding.

This paper seeks to construct a general theoretical definition for the term and apply it to the P2P social lending on the Internet and to assess the different entrepreneurial ventures in this sector. For this, we first proceed to a review of literature to construct an archetype business model for further field investigation. We then test the validity of our theoretical model with the research method of case studies. We finally suggest some crowdfunding business models.

## **REVIEW OF LITERATURE ON BUSINESS MODELS**

In this section, we successively review the literature on purpose, definition, components and taxonomies of business models. This appraisal provides us with a model for an ensuing analysis of the online websites of crowdfunding.

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