

The Role of Crowdfunding in Delivering Entrepreneurship Within the Hospitality Sector: A Case Study Analysis

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Abstract: Over the last decade, crowdfunding, has emerged as a hugely disruptive force within the financial landscape worldwide. Crowdfunding, the process of raising relatively small sums of money from the crowd, via the internet, enables entrepreneurs, particularly at the innovative and new start-ups stage, to access much needed funding, overcoming a “funding gap”. The growth of crowdfunding has been phenomenal. In 2019, an estimated €14 billion was crowdfunded worldwide (Statista 2020) and the forecast is for the sector to grow to €30 billion by 2025 (Mordo Intelligence, 2020). Initially, crowdfunding gained prominence through funding creative and artistic projects, but over the last number of years, this appeal has spread across a diverse range of businesses and sectors (Bradford 2012 and Research and Markets 2022). In the wake of the 2007-2008 financial crisis and more recently the COVID-19 pandemic, crowdfunding offers entrepreneurs and businesses access to much needed seed funding, but also non-financial benefits in the form of market and product testing, media exposure and customer feedback. Crowdfunding is a relatively new domain for businesses in the hospitality sector. As noted by Belavin, Marinesi and Tsoukalas (2020), crowdfunding offers huge potential for the sector, who often face funding challenges thereby limiting new innovative start-ups, critical for the sector’s long term viability. This case study examined how one entrepreneur in the hospitality sector, successfully crowdfunded an innovative business idea in the midst of the COVID-19 pandemic. The case traces the idea and the factors that shaped the decision to crowdfund. Additionally, the case examines the benefits and challenges involved in successfully crowdfunding the business idea and closes with the entrepreneur reflecting on the key learning from the experience. The contribution of this case study is twofold. Firstly, it serves to highlight the potential of crowdfunding as a funding source of enterprise development, particularly among new, innovative businesses. Secondly, it adds to the current debate, as noted by Belavin, Marinesi and Tsoukalas (2020), of the potential crowdfunding in fostering entrepreneurship and economic development within the hospitality sector.

Keywords: crowdfunding, entrepreneurship, hospitality sector, challenges and benefits

1. Introduction and research context

In October 2020, amidst the Covid-19 pandemic, the hospitality and wider tourism sector worldwide, suffered unprecedented losses. DigiTally, a new technology start-up business in the catering and hospitably sector successfully launched a crowdfunding campaign, raising over €285,000. The timing of the crowdfunding campaign could have been a disaster. Instead, the funding target was exceeded, resulting in the business securing vital seed capital.

Crowdfunding is a relatively new concept, the first incidence of modern crowdfunding occurred in 1997 (Hemer, 2011). However, in the wake of the 2008 financial crisis, crowdfunding has emerged as an important funding mechanism for entrepreneurs and businesses worldwide. According to Massolution (2013), the sector raised an estimated \$5.1 billion in 2013. In 2015, the global crowdfunding market was valued at \$34.2 billion. The most recent figure as reported by Technavio (2021), forecast that the crowdfunding market is expected to grow to \$196.36 billion, equivalent to a CAGR of almost 15% in the next five years.

Crowdfunding involves using the internet or an online platform to raise money from a large, often diverse number of individuals to fund a business or a cause (Chan Parhankangas, Sahaym and Oo, 2020; Ivanovici, 2019). Post 2008, there has been a growth in crowdfunding platforms leading to a significant body of academic research on the subject. This research has documented the use of crowdfunding in overcoming the so called “funding gap” faced by entrepreneurs worldwide (Roggan, 2015; Estrin, Gozman and Khavul, 2018; and Ellman and Hurkens, 2019), particularly for new, high risk, innovative start-ups (Schwienbacher and Larralde, 2010 ; Belleflamme, Lambert and Schwienbacher, 2013; Baskerville and Cordery, 2014; and Sassoon and Duggal, 2015; Burger and Kleinert, 2020; Brown, Mason, Rowe and Mason, 2018). While providing seed funding, research also identifies non-financial benefits in terms of market validation (Zimmer, 2018). Through harnessing the ‘crowd’ (Clauss et al, 2018) and connecting with the ‘public’ (Petruzzelli et al, 2019), a crowdfunding campaign can identify product validation (Junge, Laursen and Nielsen, 2021), social proof (Wessel, Adam and Benlian, 2019) and generate presale options (Stofa and Soltis, 2021, Wang, Johnston and Caraher 2021) as well as building brand awareness through social media, news press, blogs and so on (Nevin, Gozman and Khavul, 2018).

However, crowdfunding is not without its challenges. Within the last ten years, there has been a proliferation of crowdfunding platforms available to entrepreneurs. Each platform containing certain conditions (Cruz, 2015; Estrin, gozman and Khavul, 2018, Saluzzo and Alegre, 2021) and studies cite challenges in terms of the time and work involved in launching and managing a successful campaign (Lim and Busenitz 2020 and Stanko and Henard 2017), managing the product offering (Song et al, 2020), developing the promotional videos and stories (Ferreira, Papaioikonomou, andTerceño, 2022) and engaging with the crowd (Junge, Laursen and Nielsen, 2021). There is also risks involved in crowdfunding; as ‘an open call’ (Belleflamme, Lambert and Schwienbacker, 2014; Delivorias, 2017) entrepreneurs face risks, in terms of disclosing sensitive and business details (Agrawal, Catalini and Goldfarb, 2013) leading to risks of imitation (Wang, Xu, Wu and Goh, 2022). For example, entrepreneurs often need to disclose information publicly on their products early on. This may increase the risk of product imitation (Cowden and Young 2021). Moreover, there is the relatively high failure rates in campaigning, with some studies citing failure rates as high as 75% (Bidaux 2018) in some campaigns.

While research into the potential of crowdfunding has been explored in various sectors (Research and Markets Report 2022), to date, the use of crowdfunding by entrepreneurs within the hospitality and tourism sector has not attracted considerable attention. As noted by Belavina (2020), COVID-19 had a devastating impact on the hospitality sector, with many independent businesses closing. As such, as noted by Belavin, Marinesi and Tsoukalas (2020), crowdfunding could offer the sector vital funding access, particularly, for innovative, start-ups, vital for ensuring entrepreneurship and economic growth within the sector.

In light of the above, this case study examines crowdfunding a highly innovative business idea in the hospitality and catering sector. The case is organised as follows. The case briefly reviews the rationale for adopting a case study approach and then examines the background to the business idea and the decision to crowdfund. The campaign is reviewed followed by an analysis of the key benefits and challenges involved. The case closes with the key learning and insights from the entrepreneur in terms of advice for other entrepreneurs in the sector.

2. Methodological approach

This study involves an exploratory case study, focusing on the launch of a successful crowdfunding campaign for a new technology start-up company. Case study research is a widely adopted approach within the social science research (Stake (1995, 2006); Green and Thorogood, (2009); Yin, (2014); Stewart (2014) and Kitsios (2022). Case study analysis offers researchers a unique approach in that it involves an in-depth and multi-dimensional analysis that relies on multiple sources of data and methods (Merriam, 2009; Stake, 2006; Yin, 2014). As noted by Crowe et al, (2011), the case study approach is particularly useful to employ “when there is a need to obtain an in-depth appreciation of an issue, event or phenomenon of interest, in its natural real-life context” (p 1). As Baxter and Jack (2008) argue, the case study approach allows the researcher to explore the event “not through one lens but rather a variety of lens” (2008 p 544), thereby allowing for a deeper understanding of the phenomenon or event to be revealed.

For the purposes of this exploratory case study, the information was obtained from both primary and secondary sources. Consistent with Kitsios (2022), a series of semi-structured (formal) interviews, as well as unstructured (more informal) conversations, were conducted with the CEO of the company, Patrick McDermott. The CEO was interviewed several times during the research process. Theses interviews were conducted online via zoom. Further, additional information was collected from a range of sources including the crowdfunding platform and the company’s social media pages and additional media and newspaper articles.

3. History of the company and the entrepreneur

Irish entrepreneur Patrick McDermott came up with the idea behind DigiTally in 2016. Patrick spent two years developing the idea which led to the company securing their first paying customer in 2018. Over the next few years, the company secured a growing number of Irish customers (approx. 100 customers in total). Encouraged by this early success, they decided to consider expansions into the larger and more lucrative UK and US market. This would require significant funding. In early 2020, amidst the global pandemic, DigiTally began looking at funding options and in late 2020, the company successfully launched their first crowdfunding campaign. The campaign target was €200,000. The campaign, which lasted four weeks, attracted considerable attention eventually raising over €285,000.

Originally from Co. Louth, Ireland, Patrick McDermott had worked in the hospitality and catering sectors since leaving second level education. Patrick spent his early career working in the hotels in Ireland before moving overseas and working as a restaurant manager on a number of international cruise ships. During this time, he became acutely aware of the problem in managing and controlling stock. Patrick recalls that at that stocktaking was a “paper and pen process” and relied on several people counting stock and “inputting data into an excel spreadsheet”. The process, according to Patrick was “time consuming” and subject to “human error”.

In 2004, he returned to Ireland where he met his future business partner, Artur Leonowicz. The two set up Stocktaking.ie, offering businesses, in the catering, hospitality and retail sectors, an outsourced service to manage stock levels and give owners “a more formal and correct method of valuing stock”. The business was not an immediate success. Indeed, over the next 18 years, Stocktaking.ie continued to trade, but things were changing in the food and hospitality sectors. As Patrick recounts, working with customers in the fast moving consumer goods sector (such as convenience stores and forecourts) he noticed a shift towards fresh food offerings. Patrick recounts “businesses were taking out retail and putting in more fresh food, more deli, and more baked products”. The two business partners sensed an opportunity and began looking at offering a stock solution that was more technology based. Up until this point, their business was a service based approach to managing stock. They realised that if the business was to expand, they would need to “expand through technology”. In 2008, they began exploring the idea of developing a “technology based solution” . DigiTally was born.

4. Setting up DigiTally

Initially, the entrepreneurs began exploring the development of an App to manage and control stock. Arthur, who had a technology background, began the development of the App. At the same time, Patrick began focusing on the business side. According to Patrick, they had very little market knowledge. He recalls, “we had no idea who our customers were, what the market needed, what would be the best approach”. However, initial field research, talking to business owners, they quickly realised “stock control was a huge problem for the whole hospitality sector”. Patrick recounts that, ‘the idea came from speaking with food retailers who had difficulty counting their stock partly because it had no barcodes’. Talking to food businesses, they realised that the real benefit that customers were looking for was not the counting of stock but “the reports and the information generated”. This feedback was crucial. The business idea shifted completely towards a “cloud based software platform for managing, tracking and analysing stocktaking”. The platform would allow food businesses to complete stocktaking quicker and more accurately, resulting in improved gross profit margins and reduced food waste. He explains, the platform uses a “single dashboard” that allows a manager access to a “one stop platform, with the aid of an App to check stock”. The benefit of DigiTally, is that multiple people can use the platform to count stock at the same time, using a mobile device. With information gathered in one place, it was easy for a manager to “identify, monitor and support stock effectively and accurately”. As Patrick states, ‘the real beauty of the system is the single dashboard that allows a manager to see exactly what’s going on with stock at a glance’.

5. The funding dilemma and the decision to crowdfund

The challenge of securing funding for any business, particularly for new innovative or technology based businesses is well documented (Beaver and Prince, 2002 and Noelia and Rosalia, 2020). In Ireland, despite having a dynamic and supportive entrepreneurial culture, securing funding is still a major issue for Irish entrepreneurs and businesses. Research from the Central Bank of Ireland SME Market Report (2019) reported that the three main Irish banks controls over 90% of new lending to businesses and that interest rates on small loans in Ireland are on average 2.5% higher than similar size loans in Europe. The research also suggests that Irish SMEs are 50% less likely to apply for bank funding than their EU counterparts. While, enterprise support agencies, such as Local Enterprise Offices (LEOs) and Enterprise Ireland, (EI) the national agency for promoting “high potential start-ups”, are increasingly pro-active in providing start-up funding in the form of grants and vouchers (such as innovation voucher, for example, which provide grant funding of €5000 at the start-up stage), the funding options offered to start-ups, particularly innovative businesses, with no prior trading history, means, traditional bank funding is not always an option. Other funding sources, such as venture capitalist (VCs) and business angels, typically associated with high growth seed funding, while increasingly available, are not always suitable (Hellman, 1998; Meena, Kumar, Meera Sailabala and DeiShow, 2018). For example, while VCs can provide seed funding to high potential, high risk businesses, this comes at a cost; in terms of considerable time and energy and loss of control for entrepreneurs (Harvard Business Review 2014).

Until this point, Patrick’s experience of securing external funding was relatively limited. His first business was self-funded and had little or no starting capital, relying on internal and customer funding. His experience of securing external funding, was largely in the form of enterprise support grants. As Patrick recounts, in the early stages “we accessed local funding through the LEOs and Enterprise Ireland” in the form of capital grant assistance and employment grants. They had applied and received funding of €30,000 from the NDRC’s programme in 2019. However, by 2020, the business needed a sizeable injection of funding to develop the DigiTally platform and to grow and launch internationally into the UK and the US market. Their initial market research indicated that there was significant opportunity for DigiTally in the US, with an estimated 1.2 million food businesses and a market valued at over €1 billion.

In early 2020, the entrepreneurs began exploring various funding options. Patrick recounts there were various options available to them, including venture capitalist and business angels. They began exploring the VC option, however, soon realised that this form of funding was problematic. In some cases, having “conversations with different investors”, they realised that investors were either “not ready to invest” or in reality “were not in a rush to part with their money”. They quickly made the decision that “he didn’t want to go down that route” and began exploring Crowdfunding. In the New Frontier Enterprise Program, Patrick recalls that while VCs and business angel were mentioned, crowdfunding was “not really discussed”. However, after some initial research, he soon realised that “this was the right way to go”. According to Patrick, entrepreneurs and businesses “spend a lot of time and effort on raising funding. Time spent working on raising funds, is taking you away from growing the business”. The appeal of crowdfunding was that it gave Patrick a specific timeframe to raise the money. According to Patrick, “we were looking to put all our efforts into raising funds, but we want to do it in a specific timeframe”. The appeal of crowdfunding was that there was a clear “start and an end date”.

6. Getting started

The crowdfunding market in Ireland is relatively small, although there are a growing number of platforms. These include, Fundit, a crowdfunding website for Irish creative projects, Kickstarter.ie. (which launched their Irish website in 2014) and Indiegogo, a global platform set up in 2008. Kickstarter and Indiegogo are among the most established and largest crowdfunding sites in the world. Kickstarter, for example launched in 2009, has raised more than \$6.5 billion (€5.51 billion) to date with over 20 million investors. A relatively new platform, Spark Crowdfunding was established in 2018, is an equity crowdfunding platform (FORA, 2018) and is based in Dublin, Ireland. Faced with a range of crowdfunding platforms, the business opted for Spark Crowdfunding. The decision to go with SparkCrowdfunding was primarily based on the fact that this was their first campaign and they “wanted to keep the process as simple and as clean as possible”. Moreover, Spark crowdfunding, according to Patrick, had “a proven track record”, and although a relatively new platform, Patrick felt that it was better “to have a local platform”. He recounts that “when you find someone in Dublin at the end of the day, that’s handy”.

7. Understanding and launching the campaign

A crowdfunding campaign has a number of core elements or stages– the prelaunch stage, the launch and the closing stage. The pre-launch and launch stage, are considered critical to the success of the campaign, (Jovanovic, 2018; Horisch, 2019 and Dushnitsk and Fitz, 2018) and involves considerable effort and work. In the case of DigiTally, the campaign was officially launched in early October 2020 with a funding target of €200,000 of which the company was offering an equity stake of 11.76%. Table 1. below presents the key stages in the history of DigiTally and the key aspects of the campaign. The campaign was launched in early October 2020, in the midst of Covid-19 pandemic, when the hospitality sector in Ireland was effectively closed. The campaign lasted four weeks and ended on the 31st of October 2020, at which point the company exceeded its funding goal, raising €285,989.

Table 1: Details of the DigiTally Crowdfunding Campaign

Team size	Five staff: CEO Patrick McDermott
Trading history	Two years (2018-2020)
Customer base	Over 100 paying sites in Ireland
Awards	NDRC investor showcase winner, All Ireland Business “Excellence in Start-Up” award, finalist in Galway Chamber Best Emerging enterprise, listed as a Top 100 Hot Start-ups in Irish Times 2020
Growth	A 300% increase between 2019 to 2020
Key Value Proposition	Robust sales pipeline potential ; In-depth market knowledge with a strong management team ; market ready IT product, ready to scale /grow

Campaign Target	€200,000
Proposed	Grow staff and team and target UK and US food sector
Campaign Video	https://youtu.be/OBISZ16AU4

8. Understanding the factors in launching a successful crowdfunding campaign

As noted above, research into success rates into crowdfunding indicates that failure rates are high. Research by Bidaux (2018) suggests that during the period 2015 -2016, failure rates for Kickstarter, the industry leader, were in the region of 75%. Failure rates for Indiegogo, the second largest crowdfunding platform, as of 2015, were significantly higher, (Zhao, Chen, Wang and Chen, 2017). Due to the high failure rates, a number of studies have sought to examine the factors behind the success or failure of crowdfunding campaign (Li, Jarvenpaa and Pattan 2016; Alvarez 2019; among others). This research points to a variety of factors, including the importance of finding the right platform (Paschen 2017), having a credible product (Song et al, 2020), developing a convincing promotional video and story (Ferreira, Papaoikonomou, and Terceño, 2022), entrepreneurship qualities (Lin and Pursiainen 2021), successfully engaging with the crowd (Junge, Laursen and Nielsen, 2022), and the effective use of social media (Sahaym, Datta, and Brooks, 2021). Indeed, the volume of time and effort required (Lim and Busenitz 2020 and Stanko and Henard 2017) and a failure to plan and manage the campaign (Sassoon and Duggal 2015) have been cited as critical. As noted by Sasson and Duggal, ‘entrepreneurs considering the use of crowdfunding should be aware that it can constitute more than just raising funds, and that planning and managing a campaign requires considerable effort’ (p.2).

9. Success factors in Crowdfunding Campaigns

By way of exploring the key factors behind the success of the crowdfunding campaign, Patrick identified a number of elements that he felt were really important. A summary of the benefits, challenges and key factors identified as crucial to the success of the campaign are summarised below in Table 2 and discussed in detail in the following section.

Table 2: Summary of key findings from the case study

The Business	Start-up Technology company in the catering/hospitality sector
Business Life Stage	Start-up – Growth stage
Perceived benefits of Crowdfunding	Time-efficient form of funding
Perceived challenges of crowdfunding	Limited/No prior knowledge of crowdfunding Volume of work involved in terms of energy, time and resources
Factors identified as critical to the success of the campaign	Planning and preparation at the pre-launch stage Harnessing the crowd /engaging with investors during launch stage Confidence and self-belief of entrepreneur Prior product and market validation

There are two key parts to a crowdfunding campaign and getting both right is essential. He makes the point that in terms of workload 60% of your time is in the pre-launch stage and 40% during the launch. Patrick states, that they spent “three months before the campaign pulling everything together and making sure everything was covered”. Patrick acknowledges that this stage is quite straightforward but intensive. “Spark give you a list of what's needed and then you just work your way through the list and get it all ready. So that's quite simple”. However, the pre-launch stage is intensive in terms of workload and involves making sure that the “financials are right, your route to market, your market validation, value proposition all have to be put together” Moreover, this is the stage where entrepreneurs develop the social media and video promotion material. Patrick recounts that “it was intensive, making the video, changing, tweaking and editing it for the upcoming launch”.

The second stage – the launch stage was, according to Patrick, “where the real work began”. According to Patrick, one of the key benefits of working with Spark Crowdfunding was that “they had the connections with the investors”. As Patrick recounts, ‘Spark provided us with a vast community of investors’. However, he makes the point that equally important was conversing “with his network and using social media”. Before and during the campaign Patrick went back to people he had spoken to years before and said, “remember me”. He makes the point that “engaging with the crowd”, engaging with investors and “using your network connections” is crucial. According to Patrick, from an investment perspective, one of the benefits of crowdfunding was that they could say “all the information is there (on the crowdfunding platform)”.

The Third key element is self-confidence and market validation. Patrick acknowledges that his prior business experience meant he had “confidence in his own ability” plus a strong belief in the business offering. “We knew we have some very strong customers on board, and we validated our product”. DigiTally had secured two major catering firms prior to the campaign. This market validation was hugely important in terms of attracting investors. He recounts one investor contacting him, and said “look if you can sell to those businesses, then you’re well on the way”. The investor, pledged €75,000.

10. Key Insights from the experience

Patrick makes the point that the public nature of crowdfunding is that “it is not for everyone”. “If you’re a little bit shy, don’t use crowdfunding. Angel or others might be better for you’. According to Patrick, “you gotta put yourself out there, you gotta hustle, you gotta talk to people”.

One of the key insights Patrick was keen to stress was the amount of work involved in preparing and running a campaign. According to Patrick, ‘Don’t underestimate the amount of work it takes to put it together’. While Patrick acknowledged that the process was relatively straightforward, “there is a significant amount of work and energy in putting a campaign together”.

Looking back on the experience, Patrick was overwhelmingly in favour yet realistic about crowdfunding. From his perspective the appeal of crowdfunding is that “it is convenient”. Unlike bank and VCs funding, raising funding through crowdfunding is much more ‘immediate’ and ‘timely’. As he stated, ‘I get to decide when to raise the funding and how much I want to get’.

11. Conclusion and discussion

Using an exploratory case study, this paper examines the experience of a new technology company in the catering/hospitality sector crowdfunding in 2020. Consistent with prior research, this study supports crowdfunding as an important source of capital for innovative start-ups (Baskerville and Cordery, 2014; and Sassoon and Duggal, 2015) but reveals that one of the benefits of crowdfunding is as an efficient funding source. In terms of challenges, the study concurs with the literature in terms of work involved (Lim and Busenitz 2020, Papaoikonomou, andTerceño, 2022) and the importance of managing the crowd (Junge, Laursen and Nielsen, 2021) and the entrepreneur (Lin and Pursiainen 2021). However, the study indicates that having prior product validation is important in the campaign success. In terms of practical insights from this study, the paper makes two contributions. Firstly, it provides further insights into how entrepreneurs can launch a successful crowding campaign. Secondly, in the context of Belavin, Marinesi and Tsoukalas (2020), it is hoped that this study will help broaden the appeal of crowdfunding for start-ups in the hospitality but also other sectors.

A limitation of this paper is that it is based on the experience of one entrepreneur so the results cannot be generalised. Hence, a multi-case analysis involving several crowdfunding campaigns would provide important insights in this regard. Moreover, employing quantitative analysis using a larger data set would be an interesting avenue for future research to explore the impact of these factors on the decision and success of a crowdfunding campaign.

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