



DEMO REPORT

MARCH 2020

Campaign: Food
Platform: Kickstarter

Introduction

Dear customer,

Thank you for trusting our services. We hope that by reading this report you will be better able to manage your campaign and maximize its success.

In a highly competitive market such as raising funds via crowdfunding, it is not enough just to have a good product or a service. There is a wide range of other factors which have been demonstrated to impact significantly on the performance of the campaigns. Examples are the use of media such as videos and images, the experience of the entrepreneurs in previous campaigns, their social networks, the presence of relevant backers such as angel investors or venture capitalists, the regular use of updates, etc. However, fewer studies have looked at aspects related to the narrative of the campaigns.

In our research, we have studied hundreds of thousands of crowdfunding campaigns and identified that those that use a specific combination of words in their narratives are more successful in achieving goals.

But will this make a difference?

Our results say it does. The narrative according to which the campaign is written sends underlying signs to potential funders, thus ultimately influencing their decisions on whether to support a given campaign.

In the next pages, we will explain the science behind the facts and unveil key aspects which will allow you to better understand how to improve your campaign to maximize its effectiveness in raising capital.

We thank you for your attention and wish you all the luck in your campaign.

Kind regards,

Nuno Arroiteia
Startup Finance Limited

Our methodology

Our findings suggest that there are specific words that are used when entrepreneurs write and describe their business plans, which may infer an orientation towards an effectual or causal heuristic.

To put it simply, with effectual orientation, the starting point is that the future is unpredictable – so, rather than defining a specific plan to reach a specific goal, the focus of the entrepreneur is on making the most of the means available at a given moment, experiment, trial and error with short term and quick actions, and change the course of action as the results are analyzed, on the go.

On the other hand, a causal orientation implies that entrepreneurs define specific plans to achieve specific goals which they identify by conducting extensive market and competitor analysis. Therefore, the resources are mobilized in anticipation to meet the goals. Risk and uncertainty are avoided by extensively planning, and the maximization of expected results is intended in the long term.

These concepts related to the effectuation theory are largely embedded in academic debates in entrepreneurship, are used towards understanding how entrepreneurs make decisions in conditions of high uncertainty.

Looking beyond decision-making, we have expanded the research on effectuation theory by hypothesizing that the narrative used to describe a business plan and project may impact the way they might be interpreted and perceived by potential investors, and, in the case of a crowdfunding campaign, by its backers or funders.

To ascertain whether an effectual or causal orientation is present, we started with the identification of words that would, in theory, be related to either an effectual or causal orientation. First, we identified the *core words* according to the academic literature, and subsequently a list of *synonyms* (see some examples in Table 1).

In total 193 words related to a causal orientation (51 core words and 142 synonyms) and 186 to an effectual orientation (56 core words and 130 synonyms) were identified based on the literature.

Table 1 – Examples of effectual and causal words

Word	Type of word	Word	Type of word
analyse competition	Causal	accept the loss	Effectual
analyse the market	Causal	accessible mean	Effectual
analytical	Causal	adjust	Effectual
business plan	Causal	affordable loss	Effectual
business strategies	Causal	available	Effectual
calculate	Causal	collaborate	Effectual
causal	Causal	construct	Effectual
competitive advantage	Causal	creative	Effectual
competitive analysis	Causal	dynamic	Effectual
conscious	Causal	emergent	Effectual
control	Causal	experiment	Effectual
design	Causal	exploit	Effectual
determine	Causal	flexible	Effectual
efficient	Causal	learn	Effectual
expect	Causal	negotiate	Effectual
focus	Causal	non linear	Effectual
forecast	Causal	opportunity	Effectual
goal	Causal	partner	Effectual
identify	Causal	possible	Effectual
implement	Causal	pre-commit	Effectual
long run	Causal	probable	Effectual
market analysis	Causal	problem solving	Effectual
market research	Causal	react	Effectual
market survey	Causal	re-invent	Effectual
organise	Causal	relation	Effectual
plan	Causal	reshape	Effectual
precise	Causal	shape	Effectual
predetermine	Causal	short term	Effectual
predict	Causal	step-by-step	Effectual
result	Causal	take advantage of	Effectual
return	Causal	test	Effectual
select	Causal	transform	Effectual
systematic	Causal	trial	Effectual

Subsequently, we analyzed the presence of the word sets in a sample of campaigns against these sets of words and found that in general there is a positive correlation between effectual wording and the performance of the campaigns. Please see the results using the statistical methods and control variables on the following pages (Tables 2a, 2b, 3a, 3b and 4).

Maximum likelihood estimation technique below shows the importance of effectual words and core causal words for the success of a crowdfunding campaign.

Table 2a – Maximum likelihood function (logit model)

(Std. Err. adjusted for 15 clusters in MainCategory)						
stateA	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
CausalPer	-.0102197	.034102	-0.30	0.764	-.0770583	.0566189
EffectPer	.1350181	.0358124	3.77	0.000	.0648271	.2052092
Lngoal	-.8147526	.0525693	-15.50	0.000	-.9177865	-.7117186
epu_us	.0005668	.0006364	0.89	0.373	-.0006805	.0018142

Note: stateA = 1 if a campaign is successful; otherwise 0. CausalPer = % of all causal words; EffectPer = % of all effectual words.

Table 2b – Maximum likelihood function (just the core words)

(Std. Err. adjusted for 15 clusters in MainCategory)						
stateA	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
CausalCorPer	.0626427	.0379243	1.65	0.099	-.0116875	.1369729
EffectCorPer	.1646799	.061671	2.67	0.008	.0438071	.2855528
Lngoal	-.8118916	.04885	-16.62	0.000	-.9076359	-.7161473
epu_us	.0005338	.0006289	0.85	0.396	-.0006989	.0017665
Lnword_count	1.922551	.5956292	3.23	0.001	.7551389	3.089963

Note: stateA = 1 if a campaign is successful; otherwise 0. CausalCorPer = % of core causal words; EffectPer = % of core effectual words.

Tables 2a and 2b (above) have been truncated for brevity and do not show all the control variables in the econometric models.

Tables 3a and 3b show the positive impact of core words pertaining to an effectual orientation or causal orientation for campaign success.

All the results presented here are for campaigns above \$ 5,000 on a leading non-equity crowdfunding platform in the USA.

Table 3a – Linear regression model

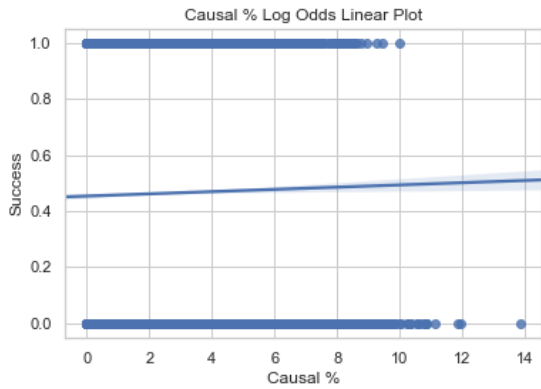
	I	II	III	IV	V
CO %	0.0240 (0.54)	0.0261 (0.71)	0.0475 (1.29)	0.0518 (1.39)	0.0514 (1.39)
EO %	0.190** (2.64)	0.206** (2.93)	0.254*** (4.06)	0.236*** (3.72)	0.234*** (3.71)
(ln) Goal	-1.338*** (-15.80)	-1.257*** (-17.02)	-1.421*** (-21.63)	-1.374*** (-21.57)	-1.374*** (-21.49)
VIX	0.0296** (2.40)	0.0222 (1.76)	0.0221* (1.84)		
UA	-0.00580 (-1.05)	-0.00524 (-0.93)			
Word Count	4.158*** (3.90)	3.984*** (3.84)	3.593*** (3.49)	3.276*** (3.61)	3.277*** (3.60)
Word Count sq.	-0.149 (-1.67)	-0.139 (-1.61)	-0.105 (-1.23)	-0.0826 (-1.09)	-0.0832 (-1.10)
Duration	0.0943** (2.63)	0.0873** (2.41)	0.0954** (2.79)	0.101*** (3.23)	0.101*** (3.25)
Duration Sq.	-0.00135*** (-3.36)	-0.00126*** (-3.16)	-0.00133*** (-3.51)	-0.00143*** (-4.20)	-0.00143*** (-4.21)
Commercial	-0.0162 (-0.05)	2.828*** (93.02)	2.521*** (58.48)	2.268*** (20.58)	2.282*** (22.16)
Category fixed		YES	YES	YES	YES
Country fixed			YES	YES	YES
Year fixed				YES	YES
Month fixed					YES
No. of obs.	60739	60739	60739	76341	76341

The dependent variable is the natural log of (money pledged/goal). Both core and synonym words are used for effectual orientation and causal orientation in the above table.

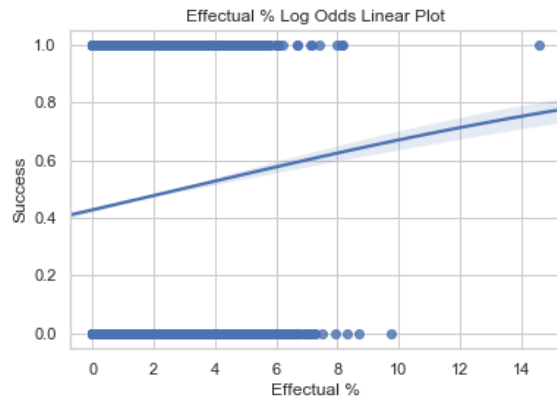
3b – Linear regression model (just the core words)

	I	II	III	IV	V
CO (core) %	0.222** (2.71)	0.256*** (3.32)	0.254*** (3.44)	0.238*** (3.29)	0.238*** (3.28)
EO (core) %	0.248* (2.14)	0.276** (2.45)	0.335*** (3.19)	0.330*** (3.19)	0.327*** (3.19)
(ln) Goal	-1.338*** (-15.69)	-1.256*** (-17.05)	-1.419*** (-21.57)	-1.373*** (-21.60)	-1.373*** (-21.52)
VIX	0.0301** (2.45)	0.0227* (1.80)	0.0226* (1.89)		

Table 4 – Graphical representation of the results



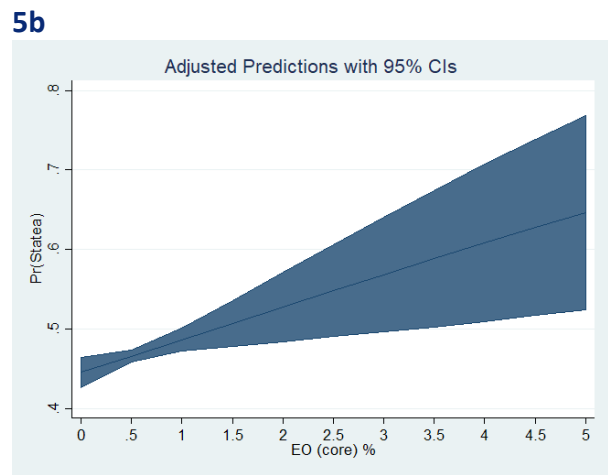
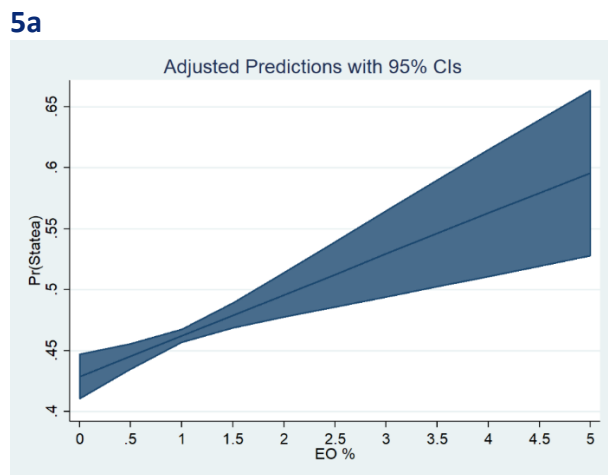
StateA (1= successful; 0 = failed); Causal % = percent of Causal words in text



StateA (1= successful; 0 = failed); Effectual % = percent of Effectuation words in text

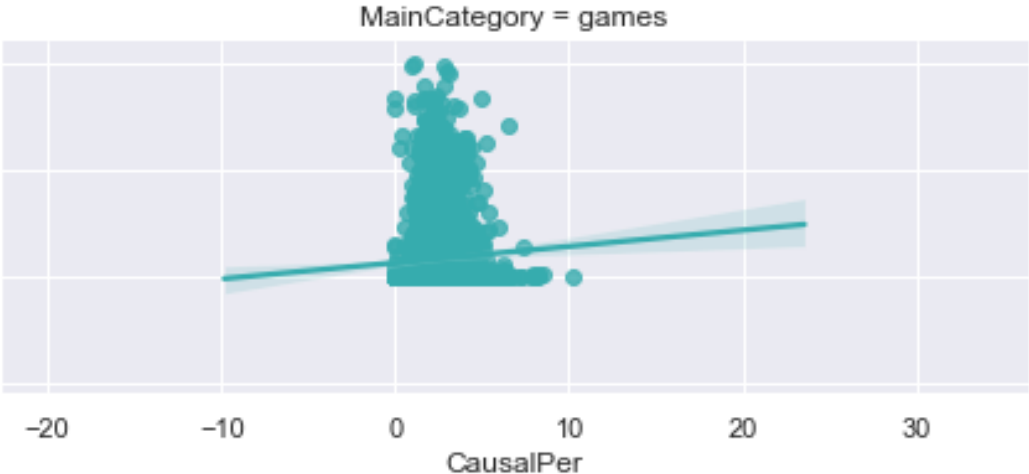
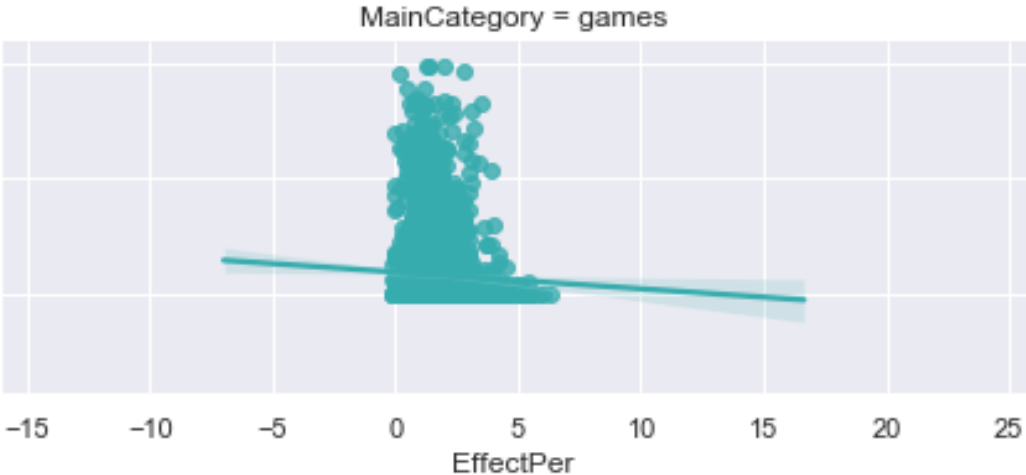
Based on maximum likelihood estimation technique shown earlier (in Tables 2a and 2b), our econometric model shows that increasing the effectual words from 0 % to 5 % in a campaign can increase the probability of success from 43% to 60 % (Table 5a). This statistically significant impact (at 95% confidence interval) can potentially tide a campaign over the finish line. By the same token, increasing just the core effectual words from 0% to 5% in the text can increase the probability of success from 45% to 65% (Table 5b). This is based on our prediction based on the maximum likelihood approach (not shown separately for brevity).

Table 5 – How probability of success changes with an increase in Effectual Words



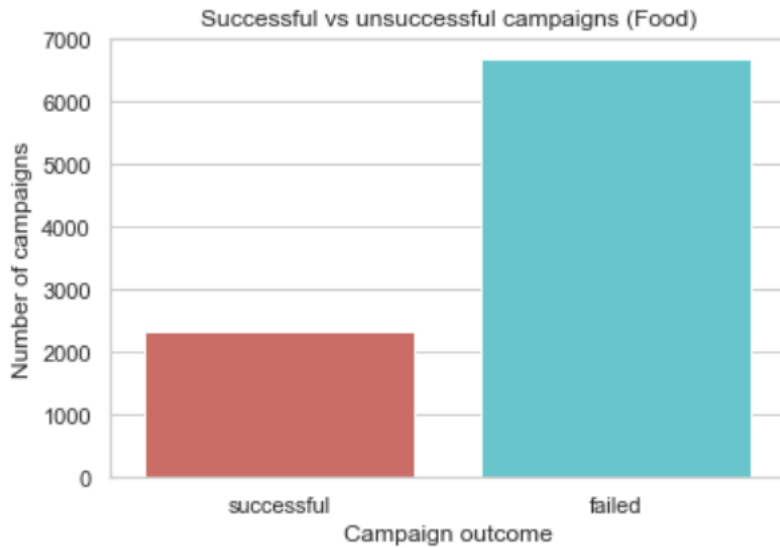
However, it must be noted that not all campaigns are impacted uniformly by the presence of effectual or causal words. For example, Table 6 shows that for a Games campaign, effectual words are associated with a negative impact on success whereas causal words are associated with a positive impact.

Table 6 – Different levels of impact depending upon the category of the campaign

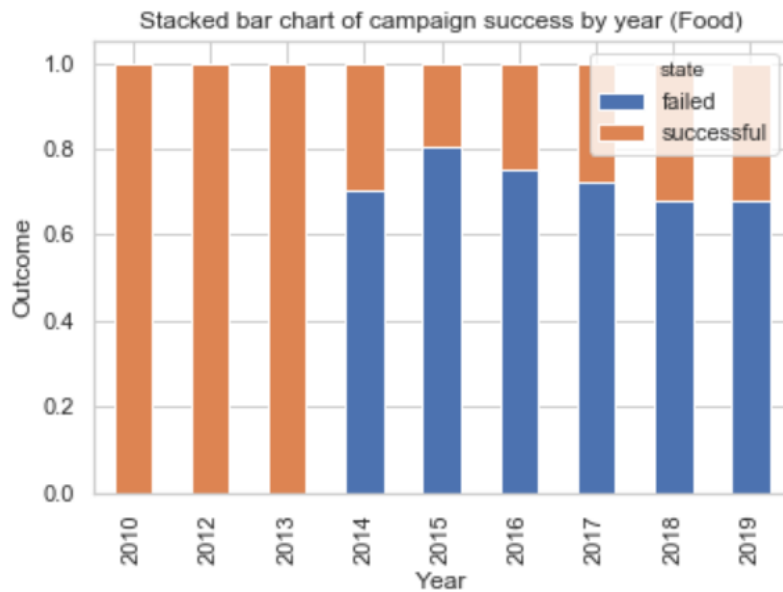


Your results

The rate of failure within the overall food industry is high as shown in the below figure:



Success rates have suffered especially over the last few years in the food sector as depicted below:



The DEMO campaign has a total of 45 effectual words and 88 causal words. In relative terms the percentage of effectual words is 1.3% and causal words is 2.6%. Please see below:

Word	Effectual or causal	Word count
anticipate	Causal	1
apply	Causal	1
competitive advantage	Causal	1
concentrated	Causal	1
conclus	Causal	1
conscious	Causal	1
continuous	Causal	1
decis	Causal	1
design	Causal	1
dividend	Causal	1
document	Causal	1
earn	Causal	1
exact	Causal	1
gain	Causal	1
income	Causal	1
order	Causal	1
pay out	Causal	1
purchase	Causal	1
search	Causal	1
solution	Causal	1
strateg	Causal	1
aware	Causal	2
distribute	Causal	2
expect	Causal	2
target	Causal	2
focus	Causal	3
implement	Causal	3
manage	Causal	3
result	Causal	3
revenue	Causal	3
mindful	Causal	4
organis	Causal	4
select	Causal	5
profit	Causal	6
plan	Causal	25
available	Effectual	1
believ	Effectual	1
choice	Effectual	1
experi	Effectual	1

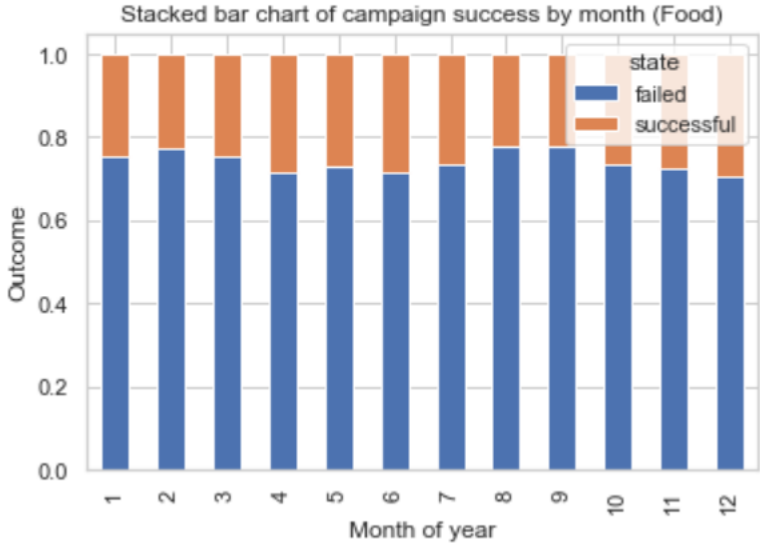
join	Effectual	1
learn	Effectual	1
participat	Effectual	1
possibility	Effectual	1
probab	Effectual	1
replace	Effectual	1
short term	Effectual	1
test	Effectual	1
trial	Effectual	1
tried	Effectual	1
venture	Effectual	1
viable	Effectual	1
alter	Effectual	2
alternative	Effectual	2
flexib	Effectual	2
team	Effectual	2
try	Effectual	2
possible	Effectual	3
strong	Effectual	3
active	Effectual	4
opportunit	Effectual	4
partner	Effectual	5

Within the ‘Food’ category, our econometric models show positive impact of effectual words in the campaign’s success; these results are economically and statistically significant at 99% confidence interval. Successful campaigns are found to have 1.5% effectual words whereas failed campaigns are found to have 1.2% effectual words.

Based on these, we recommend increasing the number of effectual words in the campaign description and risk mitigation page and reducing the causal words (please see Appendix 1 for the list of effectual and causal words divided into core words and synonyms frequently used in successful campaigns in your category ***feature not available in the demo report***).

Moreover, total wordcount is also found to be statistically significant in providing positive outcome to food campaigns; successful campaigns on average have 911 words (including risk mitigation) whereas unsuccessful campaigns have 541 words.

One last note, campaigns in the food sector tend to be more successful towards the end of the year and around late spring; hence we recommend launching your campaign around that time.



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