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Judging the book by its cover? In crowdfunding, maybe.

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Recently, start-ups have increasingly relied on crowdfunding platforms to raise money. For example, Kickstarter has seen the launch of more than 600,000 campaigns, 41% of which successfully reached their funding goals[1]. But what did the successful entrepreneurs do?

The crowdfunding context is opaque and presents strong information challenges regarding projects' viability. For instance, entrepreneurs have more knowledge about the underlying quality of their projects and the true potential of their ventures than their potential investors and backers. Alleviating such information gaps can be a daunting process, hence their need to deliberately transmit credible signals that would influence their decision making.

Crowdfunding as a different setting

Signals are pieces of information that one party sends to another to convey their qualities to another party. Research has long established that effective signals are observable and tend to be relatively costly to deter imitation from low quality players. Examples of such signals are patents, certifications, founders' education, among others. However, the value of signals is also contextual, therefore entrepreneurs must consider the characteristics of the crowdfunding context to leverage the full potential of their signals. Indeed, crowdfunding differs from other traditional financial settings by having scarce objective information, no established behavioral norms, and unexperienced audiences. Given the openness of the platforms, amateurs are motivated to participate in the funding of projects, even if they lack financial knowledge and expertise to make thorough financial decisions. Moreover, given campaign durations, crowdfunding investors have limited time to conduct detailed due diligence of the prospective venture.

Signaling project quality in crowdfunding

When creating a crowdfunding campaign, entrepreneurs are encouraged to consider the following tips:

- **Present your project in an enticing visual way.** Although affordable to create, use images, videos, and graphics in your campaign to communicate your product qualities in a simple, yet effective way. Imagine a crowdfunding website like Kickstarter as an e-commerce platform, where you would spend substantial effort in creating visual stimuli that would appeal to your campaign backers or "customers.", hence inducing campaign backing.
- **Update your audience.** Soon after you launch your crowdfunding campaign, provide additional information about your venture's attributes, such as your management team, financials, external credentials, and progress. This would convey the viability and feasibility of your venture, as you must reach an appropriate level of product development to be able to communicate about its quality.
- **Back other projects.** The public display of your support in backing other projects signals reciprocity and involvement in the crowdfunding community. For example, on Kickstarter, people can see the number of campaigns you have backed. Such reciprocity enables you to build relationships and a strong social capital, which in turn would benefit the resource acquisition of your own venture.
- **Showcase your team strengths.** If you are a team of founders, create the campaign together. Display your diverse knowledge and skills. Signal to your potential investors/backers that a collective pursues the opportunity and commits to the venture, which would in turn build their confidence in comparison to projects pursued by single founders.
- **Leverage endorsements from reputable sources.** Whether it be affiliation with venture capitalists or business angels, receiving certifications and awards or being granted a patent, make sure to show it all! Such social proofs legitimize your project, signal financial viability, and translates into a positive reputation effect for your project.

In a nutshell, a crowdfunding campaign is judged by its cover! That is not to say that hard to imitate signals are not at play, but entrepreneurs should also craft cool campaigns that standout in the marketplace to effectively reach their funding goals.

[1] https://www.kickstarter.com/help/stats

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