Use of Entrepreneurial Finance Tools in the Field of Marketing

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It is a fact that the growth of entrepreneurship is crucial for the development of every national economy because entrepreneurship plays a fundamental role in economic growth and productivity performance (OECD, 2004). It has a way of triggering the creation of small innovative firms, and, thereby, increases the competition within a nation (Pandey et al., 2003). However, informational inconsistency and high start-up risk make small firms highly vulnerable (Berger and Udell, 2002). It is very important for a new venture to stand out and build a brand in order to survive. Great part of literature acknowledges that financing a small business is an issue. They face harsh financing issues because investors may refuse to finance early stage of start-up companies (Gans and Stern, 2003). At this point, venture capital and crowdfunding becomes important tools in financing small businesses.

The USA is the birth place of venture capital (VC). In fact, venture capital industry has become the largest industry in the US. It is a financial intermediary, and its role is to take investors' capital and invest in private companies. Venture capitalists (VCs) usually invest in young high-technology companies with the potential to quickly grow large. Functions of a VC can be broken into three main groups. First one is related to investing. VC seeks for investment opportunities. This is, in a way, related to screening potential investments and deciding on companies to invest. This process does not end until the final contract is signed. Once an investment is made, the VC begins working with the company. This brings us to the second function of a VC, which is monitoring. VC monitors these companies through board meetings, recruiting, and regular advice. Final function of VC as a financial intermediary is related to exiting. A VC has a contractual obligation to return capital to investors. Therefore, exit strategy has to be planned very carefully. This is usually made in consultation with investment bankers. A VC usually exits investments through a sale to buyer (usually a large corporation) or initial public offering (IPO).

Recently, new financing tool has emerged in the field of entrepreneurial finance. Entrepreneurs started to seek financial help from the general public in order to finance either their project-specific investments or their start-up businesses. This new technique is called crowdfunding. This technique allows entrepreneurs without any intermediary to simply raise money from the individuals through internet. Increasing number of companies also started to enter the crowfunding arena by running crowdfunding platforms (CFPs) on the web. CFPs act as intermediary between fund seeker entrepreneurs and people who are willing to provide the funds to finance these entrepreneurial activities. There is a possibility that CFPs may not be able to substitute VC but it may play an important role at the beginning of entrepreneurial project's life cycle. It is also questionable whether crowdfunding has the potential to provide unique opportunities of financing in regards to legal framework. For example, legal framework in Europe is not adequate to sustain the growth of equity-based and lending-based CFPs.

It is also worth to mention that venture capital firms provide much more than funding to start-ups on the contrary to crowdfunding. However, this new technique has attracted the interests of academics in regards to its use and benefits relative to venture capital. Common points of these two techniques are to raise investment capital but there are differences between VC and Crowdfunding. For example, entrepreneurs may need support on how to run their company or to assess economic potential of their products. VC could provide this service but crowdfunders may not have expertise or special knowledge to respond to the needs. On the other hand, crowdfunding could provide low cost alternative for certain companies wanting to go public since the initial public offering is more costly.

According to some experts, equity-based crowdfunding can be more useful to companies that want to combine crowdfunding with VC financing. However, some venture capital firms have started to worry that crowdfunding could disrupt their industry. While reviewing the literature related to crowdfunding and venture capital, I realized that academic literature did not have any comparative study related to venture capital and crowdfunding in the field of marketing. Based on the explanations above, aim of this research is to explain how entrepreneurial finance tools are used in the area of marketing as marketing tools. Therefore, the literature is divided into groups based on the issues explained in paragraphs above, and the survey organized accordingly. First, benefits of crowdfunding in comparison to venture capital are examined. Second, interaction of crowdfunding and venture capital in regards to financing entrepreneurial activities within the field of marketing is identified and discussed. Third, impact of crowdfunding and venture capital on marketing research is explained and compared. Finally, based on the findings, this research is concluded by determining whether the use of crowdfunding in marketing is beneficial to VC or they will be used in combination in the field of marketing.

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