

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Owing to the significant growth in technology advancement and the dynamic nature of business, establishing a business is currently at its easiest. There are several underlying factors that promote this trend, one of which is accessible financing. In the past, financing a new business was a complex process that could only be done through conventional capital sources such as family and friends, commercial bank, business angels, and venture capitalists. However, the exceptional rise of social media and the Internet have invented a new method of financing, which is widely known as crowdfunding.

As defined by Valanciene and Jegelevicute (2013), crowdfunding refers to the method employed by entrepreneurs who seek financing from a large number of investors through internet-based intermediaries. Statistical data and figures in the last several years have shown that this form of financing is gaining tremendous popularity among entrepreneurs due to its impactful outcomes. For instance, Oculus Rift campaign was launched in 2012, focusing on virtual reality headset that surpassed its USD\$250,000 and accumulated a total amount of USD\$2.4 million in funding before acquired by Facebook in 2014. Another example would be Pebble wearable devices that specialized in smartwatch and successfully funded its USD\$100,000 campaign with the help of approximately 69,000 individuals (Robinson, 2017).

Crowdfunding serves as a viable option to finance the production of a product due to its accessibility and practical ease. Contrary to traditional finance providers, crowdfunding only requires individuals to become a member on crowdfunding platforms, such as

Kickstarter and Indiegogo. A membership on these platforms allows them to propose a project funding, post comments as well as updates, and provide financial support for on-going projects.

When proposing a project for funding, an entrepreneur (referred to as “creator” in Kickstarter) is obliged to create a webpage for the project on the crowdfunding platform and provide information related to the project. This information includes the purpose of the project, the funding goal, the duration of project funding cycle, and multiple options of funding along with the rewards offered. Potential funders (referred to as “backer” in Kickstarter) are able to support projects they find promising by contributing a certain amount of money, which will be transferred to the entrepreneur via credit card. The platform also enables backers to descry current funding status of the project and view a listing of backers who support the project (An example of crowdfunding campaign is attached in Appendix A). Moreover, backers are facilitated with sorting options, which categorize all projects based on launching date, funding status, location, popularity, and section of interest (Kuppuswamy & Bayus, 2013).

The fundraising models within crowdfunding can be distinguished into two separate forms, namely all-or-nothing and keep-it-all. In all-or-nothing model, entrepreneurs are allowed to collect the pledges only when the funding goal has been reached. In occasion where the project fails to reach its goal, all pledges are fully refunded to the backers. On the contrary, keep-it-all model permits the entrepreneur to retain the entire amount pledged, regardless of whether funding goal has been reached or not.

In recent years, the majority of crowdfunders have familiarized themselves with Kickstarter, the largest global crowdfunding platform to date. Since its inception on April 28, 2009, Kickstarter has accumulated approximately 15 million backers who pledged more

than 47 million times in total. Predominantly designed to cater for creativity, the platform has successfully funded 147,662 projects with financial terms amounting to USD\$ 3,8 billions. All of these figures represent a combination of various categories, including art, design, film, games, music, and publishing (Kickstarter.com, accessed on July 23, 2018).

The data on Kickstarter.com in regards with project success rate reveals that each industry experiences different percentage of success. This finding is consistent with the premise that crowdfunding works differently in each industries. Out of many project categories and sections, the writer intends to focus merely on apparel industry and emphasizes the projects with innovative claims as the main interest. While the term innovation has become synonymous with technological appliances and gadgets, its significance is often overlooked and underestimated within the context of apparel production.

Technological advancements in manufacturing processes, streamlined distributions, lower production costs and rising consumer spending are responsible for the exceptional growth of apparel industry. Many clothing companies perceive this trend as a positive stimulus to maximize their profit and billions of consumers are delighted as well, due to additional variations in style and affordable clothing. However, such conditions actually serve as the catalyst for fast fashion, a consumerism behavior characterized by short-cycle clothing trends and affordable clothing. According to Remy et al. (2016), the worldwide clothing production has doubled in quantity from 2000 to 2014 and experienced an annual increase of 60% in consumer purchase. In 2014, apparel reached an incredible feat by exceeding 100 billions in production output, which is approximately equal to 14 different items of clothing for every individuals on Earth.

Increasing purchasing power is also responsible for fast fashion growth. More individuals in emerging economies like Brazil, China, and India have been classified as middle-class with elevated purchasing power, therefore leading to higher number of apparel sales. Despite this fact, their consumption still constitutes a fracture of clothing bought by counterparts in developed world. Current estimates suggest that if 80% of emerging market populations are as consumptive as consumers in developed nations, the environmental consequences would be beyond repairable (figure 1.1).

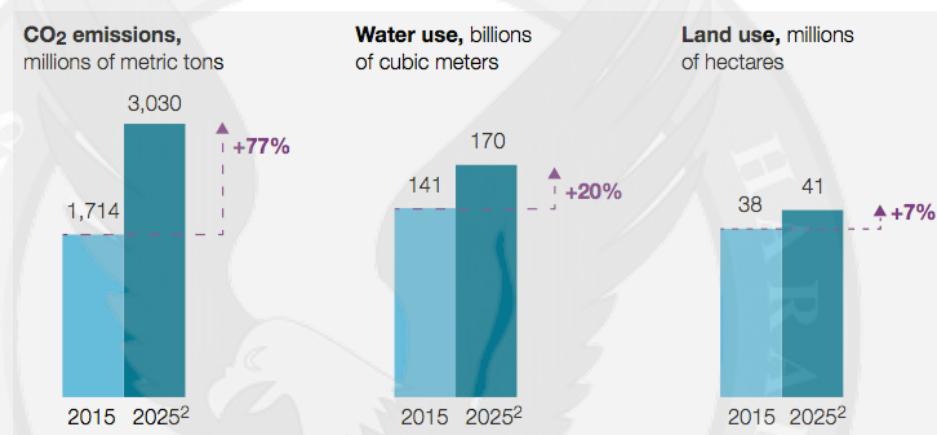


Figure 1.1 Environmental Impact of Global Apparel Industry

Source: World Bank; McKinsey analysis (2016)

In terms of production materials, fast fashion harms the environment through extensive use of water, pesticides, and fertilizer to produce satisfying yields. Most practices in fabric production and apparel manufacturing are still conducted under unsustainable manner and dependent on fossil fuels as the main source of energy. It is estimated that producing one kilogram of fabric releases approximately 23 kilograms of greenhouse gases.

The negative repercussions of fast fashion continue to expand upon purchase. Washing and drying one kilogram of clothing over its entire life cycle typically produces 11 kilograms of greenhouse gasses, as the result of energy inefficiency. This condition is further worsened

by the fact that consumers store their newly purchased apparels merely half as long as they did 15 years ago before discarding them after seven or eight wears. Latest technologies and social encouragement have been employed to overcome this issue, however, they are still unable to cope with excessive disposals of worn apparels. Recycling methods have minimum impacts due to process ineffectiveness as well as virtual absence of market demand and manufactured fabrics need to undergo sophisticated mechanism before being turned into usable clothing fibers. Consequently, nearly 60% of apparels manufactured are disposed to landfills or being incinerated within the same year of production.

Fast fashion illustrates the bleak picture of clothing industry and although innovation is rarely affiliated with apparel, the industry is in great need and urgency for innovativeness. As such, this research resurfaces innovative crowdfunding projects in apparel section to highlight how being innovative help these projects to gain public attention and generate more funding. Furthermore, the writer will regard the project creators as the center of attention since innovative ideas, which are prone to rejections by conventional financing sources, are embraced by crowdfunding platforms. The availability of successful projects and the dynamic nature of apparel products serve as the main arguments to conduct further study in this area with the title "The Effectiveness of Innovative Claims towards The Success of Crowdfunding Projects in Apparel Industry".

1.2 PROBLEM FORMULATION

In relation to the previously mentioned background of study, the writer seeks to gather perceptions from both project creators and backers related to apparel innovation. This research also identifies various tendencies that underlie the superiority of apparel projects with innovative claims over non-innovative counterparts. The

comparison between the former and the latter will be based on the attainment of successful funding and the percentage of excessive funds generated. Subsequently, supplementary factors that underlie pledge tendency and the influence of a specific innovation strategy on the overall success of an apparel project will be discussed in details. Therefore, this research will try to provide suitable answers for the following questions:

1. How do project creators perceive innovation within apparel projects?
2. Why do apparel projects with innovative claims have higher likelihood to succeed and generate more excessive funding?
3. What other factors do project backers consider before pledging for innovative apparel projects?
4. How does innovation strategy contribute to the success of an apparel project?

1.3 RESEARCH FOCUS

Due to the limitation of time and resources, the scope of this research will only cover academic literatures and theoretical premises on reward-based crowdfunding. The observations are concluded based on the publicly available data on Kickstarter.com and since the platform adopts all-or-nothing approach, the keep-it-all model is excluded. Kickstarter serves as global platform that accommodates numerous crowdfunding projects across several sections of interest. Therefore, this research will focus solely on projects within apparel section. As per July 2018, apparel section accounts for 7,942 projects, thus, only projects started and finished from January 1, 2016 to July 1, 2018 are taken into account.

1.4 RESEARCH OBJECTIVE

The main objective of this research is to provide valuable insights in correlation with the perception of project creators and backers towards apparel innovativeness. The completion of this research is also expected to result in better understanding on the underlying factors that incite more likelihood of success for innovative apparel projects as compared to typical apparel projects. Accordingly, complementary factors that influence backers' decision making will be discussed thoroughly, followed by several apparel projects that exemplify the significant influence of innovative claims towards project conclusion.

1. To provide valuable insights from the point of view of project backers and creators on apparel innovation.
2. To determine the decisive factors that explain the comparatively higher success of crowdfunding projects with innovative claims in apparel industry
3. To identify complementary factors that project backer consider before pledging for apparel projects
4. To illustrate the significance of innovation strategy in affecting the conclusion of apparel projects

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

In regards with academic context, the completion of this research will result in the following benefits.

1. For the writer, this research serves as the means to develop his analytical skills and further improve his theoretical knowledge in relation to crowdfunding, innovation, and apparel.

2. For future researchers, the research is expected to enrich existing literatures on crowdfunding innovation, various factors that favors apparel innovation, and implementation of several innovation strategies.

1.5.2 PRACTICAL BENEFIT

In regards with practical context, the completion of this research will result in the following benefits.

1. For novice entrepreneurs, this research provides a fairly comprehensive coverage on crowdfunding, which offers simple and accessible funding to finance their business.
2. For established firms, this research results in stimuli to employ crowdfunding as alternative marketing strategy and feasibility analysis of a new product/service.
3. For apparel manufacturers, the contents of this research are expected to encourage the incorporation of innovative features into apparel collections, particularly to address consumptive behavior and the harmful effects of fast fashion.

1.6 SYSTEMS OF WRITING

CHAPTER I : INTRODUCTION

This chapter focuses on introducing the background of crowdfunding and states the focus as well as the scope of this research. The problems on this topic are identified along with the objectives that the writer intends to achieve. Additionally, the benefit of the research, both theoretical and practical, will also be included in this section.

CHAPTER II : LITERATURE REVIEW

This chapter comprises of relevant theories and academic literatures related to crowdfunding. In addition, the writer also mentions prior research done in this area and develops the framework of thinking for this research.

CHAPTER III: RESEARCH METHODOLOGY

This chapter entails information in regards with the research design employed in the research and description of research object. Additionally, several data collection methods will be explained in details followed by the last section, which focuses on the methods used to analyze the data.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter provides introductory view of research object, including the history of establishment and operational activities. Following the general view, the results of data analysis will be discussed thoroughly along with the main discussion to answer the aforementioned problem formulation.

CHAPTER V : CONCLUSION

The last chapter consists of conclusion and the implication of the research. Moreover, this chapter also provides recommendations related to the research problems.