What can we say about the users of Crowdfunding Platforms?

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Abstract

Crowdfunding is a method for financing a product, investment or project. It means that all people, individuals or companies that have an idea and Internet connection can outsource the idea on a crowdfunding platform. The purpose with this crowdfunding is that the creator turn to many people with small amounts of money. This paper focus on the users of crowdfunding platforms though. There are a lot of articles on the Internet about Crowdfunding but not so much information about the users. In a try to identify the people who uses this kind of financial method I have made a survey with 200 respondents. In the empirical chapter, every single question and the answer is displayed in a respective figure.

Keywords: crowdfunding, crowdfunding platforms, creators, funders, financial, investment.

Introduction

Crowdfunding platforms is a place on the Internet where people with an idea they want to implement seeking money from investors. The principle is that anyone, only you have access to the Internet, can outsource his idea to thus obtain financial help to make the idea a reality. The goal of the creators (those who put out an idea and request funds) is to reach out to people who have a similar interest and thus want to invest in the product or service. Funders are those who spend money by invest in an idea and they often get something in return in the future such as a product, service or reward. The websites work like a pin board where many different business ideas are presented at the same time. Examples of such platforms are Kickstarter, RocketHub and IndieGoGo. Crowdfunding platforms uses web technologies and existing payment systems to make the transactions between investors and creators more easy (Gerber & Hui 2012).
Methodology

This study is a qualitative study because it is based on a survey. I created a questionnaire with eight questions and wrote a little description of the survey, including that all answers will be totally anonymous. I put the questionnaire up on Facebook and shared it with all my friends there and asked them to share it too.

The theoretical chapter are based on secondary sources which mean it is not experienced in the first hand because someone else created the research before. The scientific articles were found in Google Scholar and on the library of Halmstad University databases, summon. The theoretical chapter will be analyzed and compared to the empirical chapter in the analysis.

The purpose of the survey was to identify the people that use crowdfunding platforms. The first two questions were about sex and age. To makes sure that only people who use crowdfunding platforms answered the questionnaire, the question number three was “do you use crowdfunding platforms?” Only if the answer was yes they had to answer the rest of the questions. This meant that those who responded that they do not use crowdfunding were screened off and assured me therefore that the respondents included in the result actually use crowdfunding platforms. Questions number four was about their income per month in Swedish crowns and number five was about their living place. The next two questions were about for what purpose they use crowdfunding and what is important when they choose between the existing platforms. When I did the figures to this paper the different response alternatives did not fit in the box to these two questions so I put numbers instead and wrote an explanation to every number under each figure. The final question was about their experience of crowdfunding platforms, if they think it is a good option for financing and investment or not.

Deficiencies with my survey may be that because I am Swedish, and most of my friends on Facebook are as well, the most respondents are from Sweden and not from the rest of the world. This means that the results can be distorted current users of the crowdfunding throughout the world because I get more answers from the Swedes. Thus, the result will not be justice for the use of crowdfunding in the whole world, but for the users in Sweden. The title of which I was assigned did not specify any nationality and since it can be hard to reach out to people outside of Sweden, I am happy with how the survey turned out. Another disadvantage of outsourcing the questionnaire on Facebook is that the respondents may not be representative of the entire
Swedish population, or all users of crowdfunding. Nonetheless, I chose to outsource it on Facebook since I had to have a minimum of 200 respondents.

Almost all people have a Facebook account today. Therefore I do not think that I miss any users of crowdfunding by putting the survey out on Facebook. Furthermore I think that almost all people who use crowdfunding platforms also use Facebook and because of that I think that Facebook can be representative for user of crowdfunding platforms.

**Theoretical evidence**

Since it can be difficult to obtain loans from the bank or other investors before any cash flows can be demonstrated, crowdfunding has recently become another opportunity to finance a new project or an investment etcetera (Schwienbacher & Larralde (2010).

According to Gerber & Hui (2012) users of crowdfunding platforms are split into two different groups, *creators* and *funders*. Creators are those who securing funding through platforms and funders are those who spend money on products and experiences, which mean those who invest money in other projects. Crowdfunding means that you are searching for financial help from the general public through the Internet. The creator of a project is getting small amount of money from a large number of people without any financial intermediaries (Mollick 2013). Crowdfunding makes it possible for more individuals to come up with and launch products to the market. Already in the development process the founder gets the opportunity to raise money for the project and to advertise and reach out to potential future buyers. All these benefits crowdfunding possess had not been possible with another form of financing. (Stanko & Henard 2016). Crowdfunding is growing rapidly due to its simplicity for creators to get in touch with stakeholders (Koch & Siering (2015).

Even though crowdfunding on the Internet is relatively new, Bannerman (2013) mean that crowdfunding is an old-age concept. Bannerman (2013) makes an analogy to the pedestal for the Statue of Liberty which was funded in 1884 by Joseph Pulitzer through micro-donations from the American people. According to Schwienbacher & Larralde (2010), the market for crowdfunding was 2010 still very young and at that time the Great Britain was standing for the largest part of the market, about 60 %. Mollick (2013) mean that an uncertainty of crowdfunding is the long-term consequences, which means that we cannot know in advance for sure if the product or project that is promise will be implemented.
According to Kraus et al. (2016) there are four different models for crowdfunding. The most common one is the reward model and it is also considered as the most successful one. The investor has a chance to get both material and immaterial rewards in exchange for their investment. For the creators means this that the future production is financed by the investors pre-orders. It is a win-win situation. Example of a reward based community is Kickstarter.com.

The donation-based model has the goal of raising money. The only thing that makes this model different from a classic collection is that this one is done through the Internet. In this model of crowdfunding the investors do not expect to receive any compensation in the form of money or products but perhaps social reward. Sometimes the investments survive thanks to donations. The lending model is what it sounds like. The funds come in by individuals who lend money to other people or companies that are in need of money. The fourth model of crowdfunding is the equity-based model. This means that individuals can invest money in exchange for shares in the company seeking capital. The financiers become partners in the company in which they invest. Anyone can invest in a company seeking financing, not only approved investors. Equity crowdfunding is suitable for both established and emerging companies. Compared with traditional financing models, equity crowdfunding is based on that companies present themselves to many stakeholders who all offered to become a partner for a relatively small investment (Kraus et, al, 2016). Gedda et, al, (2016) suggests that there are seven models of crowdfunding though, not only four. These three extra models are sponsorship, pre-order and they split the lending model into two different models, lending with interest and lending without interest.

The users of crowdfunding platforms can be either companies or individuals. As a startup company, it can be difficult to finance its activities in the beginning. Even established businesses may need financial help for a new investment. It can also be individuals who are sitting on a good idea or dreaming of starting a business who need financial help to make it a reality. (Schwienbacher & Larralde 2010). According to the data that Agrawal et, al, (2011) study, the majority of those who seeking financial help (creators), are young, have limited contacts network and they do not have big financial resources. Also, Cholakova & Clarysse (2015) agree to that the popularity of using crowdfunding as a financial method in an early stage greatly increases. Mollick (2013) believes that it is primarily the founder of the artistic and cultural initiatives that use crowdfunding. Agrawal, Catalini & Goldfarb (2011) mean that the most crucial and most important feature of them all for crowdfunding is perhaps the wide geographical spread of investors in small projects in early stage. Two factors for successful
Crowdfunding projects are personal network and that the project is of high quality. Also geographic is associated to both types of the projects proposed and successful fundraising. (Mollick 2013).

Mollick (2013), just like Cholakova & Clarysse (2015) say that scientists know very little about the dynamics for successful crowdfunding and what attracts people to use it. In their study, they concluded that the non-financial motives are not decisive when people should make decisions on whether to use crowdfunding platforms or not. Gerber & Hui (2012) mean that a reason why people are interested to participate in crowdfunding platforms is because they feel a social solidarity and they want to invest in project with people with the same interest. Gedda et al, (2016) talk about motivations as intrinsic- and extrinsic motivation. Intrinsic motivation is increased by the activity itself, while what impact the external motivation is profit from the activity. Koch & Sierling (2015) has made a survey to see what kind of underlying factors that can affect the success of a project. What surprised them was that if the founder had previously created other project had no significant influence. (Koch & Sierling). The results from this survey also showed that investors prioritize descriptions of a product and that videos are available. There is a positive correlation between these factors and projects’ success.

Funders are not only important for the creators as a financial source but also for the products future. Funders are often early adopters stakeholders and are important for the feedback, ideas and by spreading the products to potential buyers. Stanko and Henard (2016) write that crowdfunding gives an enormous chance for “free advertising” by spreading the new products through word- of- mouth. They also mean that the platforms have forum where the funders can leave comments about feedback and ideas. For the creators, these are essential for the improvement of the products and it is invaluable non-financial advantages with crowdfunding.

Crowdfunding is a part of crowdsourcing. A website where crowdsourcing occurs is iStockphoto where people can upload photos which they get paid for. According to Brabham (2008) is the general user for this website (and probably other outsourcing websites as well), a middle to old, middle to upper class, high educated, married white man with high speed Internet connection. The reason number one why this typical man is using this kind of website is money and because he wants to improve his knowledge and have fun.
Everyone is not happy with their experience of crowdfunding platform, in the survey they did, one participant said that the major of givers are members of friends and family. That person mean that you cannot believe in that the platform will do the job for you, you have to bring your own traffic to Kickstarter. The respondents of the survey also said that putting out its project at a crowdfunding platform takes a lot of time and effort and it will not be profitable. (Stanko & Henard 2016)

**Empirical evidence**
Diagram 5. For what purpose do you use crowdfunding platforms?

Explanation of the numbers in figure 5.
1. To fund a newly started project/company.
2. Start a donation.
3. To finance an investment.

Diagram 6. What is the most important to you when choosing a platform for crowdfunding?

Explanation for the numbers in figure 6.
1. Focus on a particular topic or industry.
2. Large and well-known.
3. Focus on a particular geographical area.
4. Donation based.

Diagram 7. Do you think crowdfunding is a good option for financing and investment?
Analysis

Both Mollick (2013) and Cholakova & Clarysse (2015) indicates that we still know very little about the mechanism that motivate people to use crowdfunding. This makes is harder to compare the theory with the results from the empirical study.

What we can see from the survey is that more women than man use crowdfunding. The majority of the answered people are in the age between 31-45 years old and the most of these people earn more money than 30.000 per month but not more than 40.000 SEK. Most of the people live in a middle- sized city. The question about the purpose for why people use crowdfunding platforms is the question most consistent answer which mean that people are using crowdfunding platform for different reasons. This means that all the different types of crowdfunding are used for its purpose and are all roughly equally appreciated. Figure 6 shows that the most important for people when they choose platform is that the platform must be large and well-known. This is probably the most important factor for new users who has not been in the industry before. It is usually a sense of security as a beginner, no matter what the case is, to start with something you know that others have previously used and are satisfied with. Everyone except for two respondents, think crowdfunding platforms is a good option for financing and investment.

According to the survey that Stanko & Henard (2016) made, all the creators are not happy with their experience of crowdfunding platforms. Some respondents said that using crowdfunding platforms will not be profitable since it takes a lot of time and effort. It sounds like these people expects to get things for free and not have the attitude that hard work pays off. How successful a project will be depends most likely on what type of product and how attractive it is but also the attitude of the creator who comes up with the idea.

Crowdfunding is most well- known as four different models and this is also what the most of the sources been studied in this paper say, but Gedda et, al (2016) mean there are seven different models. That there may be disagreement about these things may depend on how deep the author chooses to explore the topic. Regardless how many different groups there are, the different groups indicate that crowdfunding can be used in different ways. Even though the primary reason why people use crowdfunding is the same. These different models can do that more people use crowdfunding because there are different ways to use it and for different reasons.
The safety of investing in crowdfunding is questionable. Investors cannot know for sure that the projects they choose to invest in will be implemented. In that case, what happens to the invested money?

**Conclusion and implications**

Okay, to be honest, when I got this title I had no idea about what crowdfunding even was. I have learnt a lot about this financial method and am impressed of how it works. Crowdfunding gives more people the opportunity to make their business dreams come true and creates at the same time communities where people with the same interest can feel and share their fellowship. I think it is really great! I was actually surprised of that so many of the respondents, 198 out of 200, have the opinion that crowdfunding is a good option. Not that I do not think so but I just did not know that it was so popular. Another preconception that I had was that I thought more men than women use crowdfunding. I do not have a good explanation for way I thought so. My survey does not have to reflect the reality so that could still be true though.

**Further Studies**

Even though crowdfunding is relatively new on the Internet, there are many scientific articles published. The users of crowdfunding platforms though, do we not know so much about. There are studies made about the users but what been focused on is the backward motivation to why people use it, what kind of people who uses it for financing a project. We do not know so much about the funders more than that a reason why they invest in crowdfunding is because they feel a belonging and community to people with the same interest. I think there is much more to explore about the users of crowdfunding platform and what attract them to use it. Assignment 3 is going to be based on the research I have done in this paper and I will focus on developing the analysis chapter.

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