Advantages and disadvantages with crowdfunding
-and who are the users?

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Abstract

This paper is based on another paper I have written, *what can we say about the users of crowdfunding platforms?* This paper focuses on advantages and disadvantages with crowdfunding and the users of crowdfunding platforms. Previously researchers mean that there are both positive and negative things about crowdfunding and these will be analyzed and raised in this paper. There is not much information about the users of crowdfunding platforms. In a previous paper I did a survey to try to identify who the users of crowdfunding are. In this paper the result from that survey will be analyzed and hopefully succeed in identifying the characteristics of users of crowdfunding platforms.

*Keywords: crowdfunding, users of crowdfunding platforms, creators, funders.*

Introduction

This paper focuses on crowdfunding, its advantages and disadvantages. Focus will also be on the users of crowdfunding platforms. Crowdfunding platforms is a place on the Internet where creators and investors meet. Crowdfunding is a way for creators to finance their operations, it can be a new business idea, an investment etcetera. By posting the project on a crowdfunding platform the creator can seek financial contributions from people who are interested in the project. This sounds really good and brings several positive things, but there are also those who mean that there are also some negative things with crowdfunding. Who the people who uses crowdfunding are and what motivates them to use crowdfunding platforms is what this paper will try to sort out.
Methodology
This paper is mostly based on a previously paper I made. In this paper, I will analyze the advantages and disadvantages about crowdfunding that came up in assignment 2. I will also develop the analysis about the users of crowdfunding platforms. In assignment 2 I made a survey with 200 respondents so the result of that survey will be analyzed and compared to what previous fact say. The theoretical chapter is the same as in paper 2 and 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. I also added an extra source about Jon Widegren who is the founder of Flippin’ Burgers. The reason I did this is because he is a good example of a person who has financed his business idea through crowdfunding.

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 maybe the most important of all, to through “the word to mouth” spread information about the product to potential future buyers. This feedback and “free advertising” is invaluable for the creators. (Stanko & Henard 2016).

Crowdfunding is a part of crowdsourcing. According to Brabham (2008) the general user of a crowdsourcing platform is 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).

Jon Widegren, founder of Flippin Burger, is an example of an individual who started up his project by funding through crowdfunding. He put up his project on a crowdfunding platform called fundedbyme. People who liked the project donated money through PayPal. Widegren mean that he was supposed to give something back to the people who chose to invest in his project. He decided that all funders that gave a minimum of 150 Swedish crowns, would get a gift card. He says that he got 30.000 Swedish crowns from around 140 people. According to him he knew only a third of the funders before and he mean that the other two thirds were people that he would not have reached out to if he did not use crowdfunding.

Analysis

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. An advantage that there is more than one model can do that more people use crowdfunding because there are different ways to use it and for different reasons.

A positive thing with crowdfunding is that three of the four different models are a win-win situation for both the creators and the investors. Regardless which models is used; the creator gets financial help in form of money from funders. The reward model is the most common and successful one. In this model the funder has a chance to get both material and immaterial rewards in exchange. In the lending model, the funders lend money to the creators and lending also means that you get the money back or something else in return. In the equity-based model the funders who invest in a project get shares in the company
in exchange. This means that the investors become partners in the company. The only model that is not an obvious win-win situation for both partners are the donation-based model. Probably the investors have a big interest in the project that they still want to invest in the project even though he or she does not get anything in return. The funder may get social reward in return though. According to Gerber & Hui (2012) people participate in crowdfunding platforms because they feel a social solidarity and want to invest in projects with people with the same interest. Another reason why people choose to invest in projects even though they do not get anything in return can be because of intrinsic- or extrinsic motivation as Gedda et al, (2016) talk about.

This type of financing is growing rapidly. Many people today use Internet and social media which means that through these channels can we reach out to lots of people in a short time with relatively little effort. This is also a reason why crowdfunding is growing so fast and has been very popular lately. So another positive thing with crowdfunding is that it is easy for the creators to reach many investors through the platforms.

The safety of investing in crowdfunding is questionable. Mollick (2013) means that a negative thing with crowdfunding is that the investors cannot know in advance for sure that the projects they choose to invest in will be implemented. What will happen to the funders then? Will they get their money back or are they lost? It is a disadvantage of crowdfunding that there are no guarantees what happens if the project will not be successful.

It seems to be divided opinions about whether it is easy to find funders or not. 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. One participant of Kickstarter mean that the major of the funders are friends or family. This respondent mean that this is a negative thing and that crowdfunding platforms do not works as well as it seem to do. It sounds like these people expects to get things for free and not have the attitude that hard work pays off. Widegren (2015), founder of Flippin’ Burgers, said in the interview that only a third of the funders to his projects were people that he knew before. How successful a project will be depends most likely on what type of product it is. If not many people are interested in the project, family and friends may volunteer as financial support just to be kind. It may also depend on how much appreciation the creator shows to its investors. Widegren gave all funders that donated money a gift card to
show his appreciation. The success of a project through crowdfunding depends on what type of project it is, how ambitious and what type of strategy the creator uses. Mollick (2013) indicates that two important factors for successful crowdfunding projects are personal networks and that the project is of high quality.

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 it harder to compare the theory with the results from the empirical study.

The result from the survey made in assignment 2 shows that more women uses crowdfunding platforms than men do. Most of the users are in the age 31-45 years old, lives in a middle-sized city, has a salary between 30.001-40.000 Swedish crowns a month. 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 Brabham (2008), the general user for an outsourcing website is 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. What distinguishes the results of the survey from what Brabham (2008) says is that the survey showed that more women than men use crowdfunding. The mostly users of crowdfunding are in aged between 31-45 and the users of outsourcing websites is middle to old, which is older than what the survey showed. The result of the survey showed that people earn between 30.001-40.000 Swedish crowns per month and this might mean that the people are high-educated, just as Brabham (2008) says. The rest of the questions are hard to compare since Brabham (2008) does not talks about the same things that the respondents in the survey had to answer. According to the data that Agrawal et, al, (2011) study, the majority of the creators who seek financial help are young, have limited
contacts network and they do not have big financial resources. This theory differs from the result of the survey and also what Brabham (2008) says about users of outsourcing platforms. This may depends on that the users of outsourcing platforms and crowdfunding platforms are not the same. It sounds logical that the people who seek for financial help do that because they do not have so much money themselves. So another reason why Agrawal et, al, (2011) theory differs from the result from the survey could be that the survey did not turn to either the creator or the funder so the result did not specify for what purpose the respondents use it. If they have funded any own ideas by crowdfunding or if they been investing in others’ ideas. It is possible that the creators are mostly young people who do not have big financial resources and that the result of the survey shows the typical funder. Probably people will not use crowdfunding as a creator more than one or a few times since you must have a complete idea to apply for funding through these platforms. As a funder, it is possible to invest in how many projects as you like and have an interest to. There is no limit of how many or what kind of project a funder can invest in. With this said, we can make the conclusion that there are many more funders than creators using crowdfunding platforms. Some people and companies may be included in both. The typical user of crowdfunding may differ in one project to another and even in different countries.

Conclusion/implements

It is hard to say who the typical user of crowdfunding is. The results of the survey I did in assignment 2 is not fully consistent with what the other facts say. This is also because there are not many studies made that identify users of crowdfunding. After I did this paper and the analysis I think that the result of the survey I did in assignment 2 shows the typical funder and that the creators are mostly young people who do not have big financial resources.

I think a great idea to get to know more about the users would be to have a little questionnaire on the front page at the websites. This is quite common today and it has happened to me many times when I clicked myself into a website. Usually it is just one or two questions about the experience of using the website. This makes it easy to get the people to answer the questions and to reveal a bit about themselves and their purpose of use. It could also be an email that goes out to the people who signed up when they used the platform. Regardless of how this survey is done, the purpose would be to improve the website and to specify it more to its users. Or try to
reach out to more people to make the platforms better and bigger. More users of the platforms create more money which makes that more projects can be funded and thus realized. To get more potential funders simply gives more money to more projects. This must be the goal of the entire crowdfunding thing.

Further studies

As I mentioned above a good way to get to know more about the users would be to use questionnaires on the websites where people who click themselves in there can answer questions about themselves and why they use crowdfunding platforms. Since we still do not know so much about the users of crowdfunding, founders of the platforms should make more studies about the users to be able to improve the websites according to the users’ potential preferences. It is important to know what type of people who use the different types of crowdfunding platforms so it is important that these people are being identified. There are a lot of papers about crowdfunding but not so much information about the users. The founders of the crowdfunding platforms should make surveys to identify their users. These surveys can then be compared with each other to find out who the typical user of crowdfunding is and what motivates them to use it.

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