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15 Crowdfunding: principles, trends and issues

Stéphane Onnée and Sophie Renault

INTRODUCTION

Thanks to the combined power of information and communication technologies, individuals, commercial firms and non-profit organizations can often rely on a crowd to help them solve a problem they face: this is called crowdsourcing (Howe, 2006, 2008). Among the different types of crowdsourcing, this chapter will focus on crowdfunding. Lambert and Schwiendbacher (2010, p.4) propose a useful definition of crowdfunding: ‘An open call, essentially through the Internet, for the provision of financial resources either in the form of donations or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes’.

Crowdfunding is a growing phenomenon. A recent study of the Massolution Company (www.massolution.com) reported in 2014 the existence of 1250 platforms worldwide, which together raised US\$16.2 billion, up by 167 percent from what had been raised in 2013. North America is asserting itself as the leader, followed by Asia and Europe, which holds a 20.1 percent market share. According to a survey conducted by the University of Cambridge in 2015, the European market raised nearly €3 billion in 2014, with the United Kingdom ranking first (US\$2.34 billion was raised there) followed by France, far behind with US\$154 million, and with Germany, Sweden, the Netherlands and Spain tailing behind.

Here are some examples of crowdfunding projects in 2015:

- An influential female blogger, shocked by the proliferation of ‘fat shaming’ cases, has managed to raise more than US\$40 000 on the GoFundMe platform, to throw a magnificent party for the benefit of a London dancer who had become a laughing stock on social networks.
- After raising US\$10 million in 2012 for the Pebble watch project, a new US\$20 million record was set on the Kickstarter platform in 2015 with the Pebble Time project.

- In the wake of the tragic attacks that targeted Charlie Hebdo in January 2015, the Arizuka platform launched a donation campaign for the satirical newspaper. After raising €14 537, the platform redirected donors toward a dedicated site, JaideCharlie.fr, which subsequently raised several million euros.

Crowdfunding is developing in all directions. Alongside the generic platforms, specialized platforms are dedicated to litigation (Citizencase), the pornography industry (Offbeatr), comic books (Sandawe), health-related projects (Welfundr), scientific research (Petridish.org) and so on. Crowdfunding platforms can be highly differentiated, in particular depending on the nature of the contribution and the expected return (Bessière and Stéphany, 2014).

In this chapter, we present a broad overview of crowdfunding practices. Most of our own empirical insights come from analyses of primary or secondary French data. Our discussion is structured in four sections. The first section describes the main features of crowdsourcing and identifies its main advantages and disadvantages. The second section outlines the operating principles and regulatory issues associated with each of the four crowdfunding models. In the third section, we focus on the reward-based model and seek to understand the levers that drive the crowd to mobilize and finance a project. In this dynamic, we highlight the porosity between the different types of crowdsourcing and show that crowdfunding need not be limited to a mere financial contribution. Finally, we identify the fundraiser's key success factors in managing a crowdfunding campaign.

CROWDSOURCING AND CROWDFUNDING: GENERAL ASPECTS

Crowdsourcing: a Wide Range of Practices

Crowdsourcing emerged at the turn of the century, and was described by Jeff Howe in a *Wired* magazine article (Howe, 2006) and subsequent book (Howe, 2008). Practitioners and researchers are paying increasing attention to this phenomenon. 'Crowdsourcing' literally refers to outsourcing to the crowd. Somewhat circularly, Brabham (2013, p.117) defines the crowd as 'an online community of individuals engaged in a crowdsourcing activity'. So, the crowd is potentially everywhere. A connected crowd that often wishes to participate in new corporate projects is a major source of opportunity for an organization.

Since Howe's seminal work, many authors have tried to define crowd-

sourcing and clarify its contours (Lebraty, 2009; Schenk and Guittard, 2011; Pénin and Burger-Helmchen, 2012; Brabham, 2013; Renault, 2014). With a view to synthesizing this extensive body of literature, Estellés-Arolas and González-Ladrón-de-Guevara (2012) proposed the following definition:

Crowdsourcing is a type of participative online activity in which an individual, an institution, a non-profit organization, or a company proposes to a group of individuals of varying knowledge, heterogeneity and size, the voluntary undertaking of a task via a flexible open call. Undertaking the task, of variable complexity and modularity, always entails mutual benefit, and the crowd is asked to participate by bringing their work, money, knowledge and/or experience. Internet users will receive the satisfaction of a given type of need, be it economic, social recognition, self-esteem, or the development of individual skills, while crowdsourcers will obtain and utilize to their advantage what the user has brought to the venture, whose form will depend on the type of activity undertaken (p. 197).

Researchers have identified multiple crowdsourcing methods. Along with other authors, Howe (2008) highlights four main types of crowdsourcing practices:

- *Crowd wisdom*: The crowd can help a particular organization solve the problems it faces. In Surowiecki's sense (2005), a process of ideation like the Jam (Birkinshaw and Crainer, 2007; Bjelland and Chapman Wood, 2008) has made it possible to identify relevant solutions for the city of Coventry's urban development over the next twenty years. In 2010, this was a world first: a city invited stakeholders to discuss a given issue on an online platform and reflect on the establishment of a comprehensive strategy. In this context, participants were asked to propose solutions enabling the city to make their services more effective, with a view to meeting all users' needs, whether residents, businesses or visitors.
- *Crowd creation*: the work of the crowd may be required, involving various degrees of creativity. Through the eYeka platform, big brands call for the crowd's creativity in the area of marketing. Regarding creative writing, the community that had signed up on the platform was for instance sought out in 2015 to propose a campaign idea urging Vietnamese mothers to adopt Maggi products in their kitchens, to share in the family happiness of a meal cooked at home with love and care. On a different note entirely, amateur linguists on the Duolingo platform help translate the web (Garcia, 2013).

- *Crowd voting*: the crowd's views can also be requested; it can thus support an individual or organization in the choices they make. This is particularly useful for search algorithms and name-giving procedures. In this context, the crowd is not necessarily aware of participating in a value creation process. This is, for example, the case of Google's PageRank (Howe, 2008).
- *Crowdfunding*: the crowd's money is requested. Crowdfunding can be defined as the procedure allowing a project leader (a private individual, a for-profit or not-for-profit organization, etc.) to use the services of a funding platform (generic or specialized) to propose a project to a community (open or targeted) of contributors, possibly in exchange for previously defined compensations (Onnée and Renault, 2013).

However, this categorization fails to give a clear sense of the hybridization possibilities afforded by a mix of crowdsourcing methods. A crowd may contribute to the development and success of a crowdfunding project by providing other resources than money: advice, intelligence and creative support. Thus, according to Lawton and Maron (2013, p. 167):

Roughly speaking, one uses crowdsourcing to gather inputs from a crowd to get something done and crowdfunding to get something financed. But as is commonly the case, a considerable number of projects that need to be financed also need many other inputs to achieve their ultimate goal. And thus arises the interrelatedness and myriad hybrid model opportunities between the two, especially given a very shared set of group dynamic underpinnings.

Advantages and Disadvantages of Crowdfunding

Crowdfunding can be an alternative or a complement to traditional financial circuits. Indeed, crowdfunding may allow an individual or organization to avoid having to apply to a conventional bank for a loan, in the present context of reluctant lenders. Furthermore, beyond fundraising, crowdfunding can also afford a way to test the proposed good or service, in particular as a way of pre-selling it to potential clients. In addition, the community that meets around a project on a crowdfunding platform can also be proactive and sometimes get involved in the project development led by the creator. Presenting a project on a crowdfunding platform is also a way for the creator to promote the project and to benefit from the platform's viral potential.

As evidenced in Box 15.1, a successful crowdfunding campaign is a perfect reputation amplifier. In addition, backers are invited to share their interest in a project via social networks – resulting in a multiplier

BOX 15.1 CROWDFUNDING AS A COMMUNICATION CAMPAIGN

Guillaume Gibault, the creator of the brand *Le Slip Français* views crowdfunding as a communication media per se. Since its launch in 2011, the young brand has successfully conducted four crowdfunding campaigns.

The first one in 2013, on the MyMajorCompany platform, helped increase brand awareness while surfing on its humorous side. Indeed, the idea was to ask the crowd to launch 'sweet smelling briefs' whose perfume was embedded in micro-capsules that regularly released their scent over time . . . While the brand sought €10 000, the crowd doubled the bet.

The second campaign was conducted in 2014. This time, its objective was to provide funds to the Telethon to benefit the French Association against Myopathies. The operation was called 'Bouge ton pompon'. It was presented on the KissKissBankBank platform and raised nearly €140 000. Support for the operation by many celebrities on social networks (for example, German couturier Karl Lagerfeld and Quebec singer Garou) undeniably strengthened the brand's appeal. Because of the success of this project, it has been renewed in November 2015 with a bonnet designed by the French couturier Jean-Paul Gaultier.

In February 2015, the brand offered a project on the US platform Kickstarter. Well-conducted story-telling aimed to lay the groundwork for the French brand breakthrough in the US. An exclusive capsule collection was offered to backers. Pre-purchase was then presented as a sales channel just like any other, which, Guillaume Gibault says, involves multiple benefits. In particular, it enables both creators and backers to limit their risk-taking, since the production is launched only after a minimum sum has been pledged. The use of crowdfunding can also facilitate expanding into foreign markets by opting for a platform in another country.

effect. Thus, the community that supports the project becomes a driving force of the project. Ultimately, a successful crowdfunding campaign can enable project developers to make themselves more credible to traditional financiers (venture capitalists and banks).

There are also disadvantages and risks associated with crowdfunding. For example, once an idea has been posted on a crowdfunding platform, the whole world can see it. The idea may be copied and implemented by other entrepreneurs. So, the project initiators must use legal methods and instruments to protect their concepts and ideas (patents, trademark and copyright). Another source of risk relates to the mismanagement of the intellectual property of ideas submitted by the crowd: 'Most crowdfunding websites permit members of the public to comment on projects, and in many cases, these comments include recommendations that are later incorporated into the project' (Wells, 2013). Wells then asks an important question: '[. . .]Can the project creator use these ideas without

attribution or without compensation to the person who contributed them?’ (Wells, 2013). In addition, he underlines the fact that crowdfunding platforms rarely specify in detail their own obligations after funds have been collected. He notes that ‘large donors are perhaps more likely to follow up to ensure that donated funds are well spent, and class action lawsuits are definitely a possibility. There have been no high-profile court cases along these lines – yet – but project creators should not discount the wrath of a well-meaning donor who feels deceived’ (Wells, 2013). Lawton and Maron (2013, p. 118) recall that: ‘One of the ultimate forms of gratitude is turning contributions into something real’. More generally, this raises the possibility of troublesome information asymmetries between the project initiator, the crowdfunding platform and the backers. This is one of the potential weaknesses of crowdfunding platforms specifically, and multisided platforms in general (Hagiu and Wright, 2015).

Before examining crowdfunding’s operating principles, we summarize in Figure 15.1 the typical sequence of steps by which a crowdfunding campaign is conducted.

CROWDFUNDING OPERATING PRINCIPLES AND REGULATORY ISSUES

Crowdfunding: an Ecosystem Still Under Construction

Crowdfunding has become one of the informal financing modes that facilitate the initiation of a project, along with funds from business angels or ‘love money’ from friends and family. As stated in an article by Tomczak and Brem (2013, p. 339), ‘three roles have to be fulfilled in any crowdfunding effort: (1) the intermediary, also known as the platform that serves as a matchmaker between promoters and funders; (2) the fundraisers, contractors and others; (3) the investors themselves’. In this triptych, intermediary platforms often play a central role, but direct crowdfunding – where the fundraiser makes a direct appeal to a specific audience via his/her own fundraising platform – is also an option.

Typically, the platform’s remuneration is a commission of around 8 percent of the amount raised, on average (Financement Participatif France, 2014). This business model encourages platforms to strive for the success of a large number of fundraising campaigns. Project leaders, in turn, can choose from a variety of platforms able to accommodate their projects; and they can compare and contrast competing features and services. So, platforms try to innovate by defining a suitable differentiation

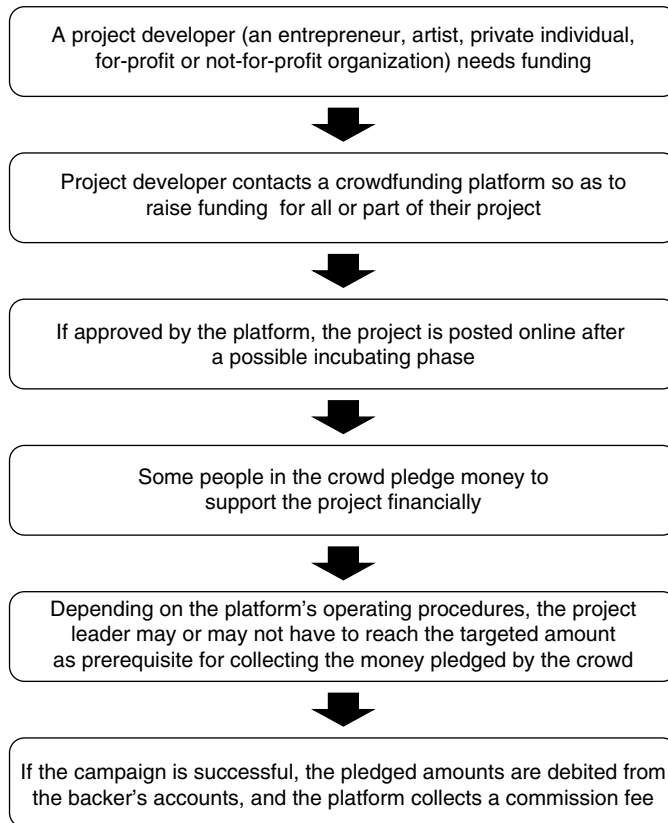


Figure 15.1 The main steps of a crowdfunding campaign

strategy, which leads them either to specialize around a sector, a region or a particular art, or to remain broad and generic in scope.

Crowdfunding platforms are one type of ‘multisided platforms’. Osterwalder and Pigneur (2010, p. 77) correctly point out that ‘[a] multisided platform grows in value to the extent that it attracts more users, a phenomenon known as the network effect’. The academic literature dedicated to multisided platforms is a relevant – though not exclusive – theoretical framework to help us improve our understanding of crowdfunding. Indeed, according to Chesbrough and Appleyard (2007), crowdfunding sites and apps can be seen as ‘community-driven’ platforms with entrepreneurs on one side and consumers/donors/investors on the other. Hagiu and Wright (2015, p. 13) underline that crowdfunding platforms have two features in common with multisided platforms: ‘they enable direct interac-

tions between two or more distinct sides and each side is affiliated with the platform'. In other words, entrepreneurs and contributors retain control of their mutual interactions and they make substantial platform-specific investments.

Conceptually, multisided market theory is related to the theory of network externalities (Rochet and Tirole, 2006). The major argument is that on a multisided platform, the value that accrues to agents on one side of the platform depends not only on the quantity and variety of such agents (direct network effect) but also on the quantity and variety of agents on other sides of the platform (indirect network effect) (Rochet and Tirole, 2006). Thus, crowdfunding contributors are likely to prefer platforms offering a wider set of campaigns from which they can choose the ones to support. In the particular case of the reward-based model, a greater number of projects increase the probability that contributors will obtain rewards that fit their preferences.

According to Tomczak and Brem (2013, p. 341),

this synergetic relationship between investors and fundraisers is extremely important and it means that an increase in the number of investors should lead to an increase in the number of fundraisers, and vice versa [. . .]. Crowdfunding platforms require a sufficiently large crowd to draw investment from, and enough crowdfunding projects, posted to attract an adequate number of investors.

This analysis suggests that platform managers should try to maximize the positive effects of cross-platform externalities, particularly in an environment of increasing competition between platforms (Doshi, 2014). Here, we propose three particular approaches to this strategy:

- Developing a brand community around the platform and creating a lasting loyalty among contributors and entrepreneurs. As an illustration, the Ulule or KissKissBankBank platforms call their users Ululers or KissKissBankers to create a sense of belonging and so unite a community. They know that without a core network of generous funders who frequently visit their website, they could not function. Platforms are present on social networks and regularly send newsletters to their members. To build a sense of community, platforms can also develop face-to-face communication: some events are organized to bring together their members and encourage them to develop relationships with each other.
- Encouraging the hybridization of crowdfunding with other types of crowdsourcing, so as to enhance the opportunity of mutual value creation for contributors and entrepreneurs.

- Reducing information asymmetries between the various sides of the platform.

Platform attractiveness also depends on the proportion of projects that manage to get sufficient financing. Mollick (2014) found that, out of 48 526 crowdfunding projects posted on Kickstarter, only 23 719 (or about 48 percent of those posted) were successfully funded. And on its own website, Kickstarter indicates that, as of August 2015, the proportion of fully funded projects on the crowdfunding website has been 37.13 percent. Since being able to maintain a high proportion of fully funded projects is so essential, this can lead platforms to shortlist the selection of projects upstream. If this selection process is not always displayed prominently on platform sites, it might be because they are keen on keeping alive the hope that any project can be financed by crowdfunding and that it is only up to the crowd of Internet users to pass judgment. But our own observations show that many platforms are selective in accepting new projects: they may ask the project developer to guarantee a minimum number of initial supporters; or they can select projects based on the perceived relative merit of the project's business plan.

The stakeholders directly involved in crowdfunding platforms (project leaders, funders and platforms) are part of a larger ecosystem involving other actors: banks, insurance companies, consultants, chartered accountants and even public or parastatal organizations, whose missions also include supporting business creation. Considered at first as a mere niche, crowdfunding is now taken seriously by many bankers, insurers and actors specialized in business development initiatives. These actors increasingly develop partnerships with crowdfunding platforms or invest in the most promising ones. These initiatives are designed to switch their practices toward this new mode of financing in order to improve, or at least maintain, their attractiveness in the eyes of project leaders and contractors. Among the many cooperation schemes observed, two main modalities are noteworthy: co-branding or creating a platform of one's own (Calmé et al., 2015). Co-branding is defined here as the alliance between a stakeholder and a crowdfunding platform to create a common platform. This is true of the French BGE national network, which in September 2013 created the co-branded platform *notrepetiteentreprise.com*, in cooperation with the *MyMajorCompany* platform. Platforms make this choice because they are keen on partnering with a strong brand that does not wish to get involved in the technical issues incumbent on platform management. The proximity between the banking sector and crowdfunding has even resulted in banks creating their own crowdfunding platforms. Thus, for example, *Banque Populaire Atlantique*, in

collaboration with the Crédit Maritime Atlantique, has recently set up the Crédit Proxima platform, meant to stimulate entrepreneurship in the French Loire-Atlantique region.

Various Financing Models

According to two reports published in 2012 by the websites crowdsourcing.org and crowdfundingframework.eu, crowdfunding covers multiple realities and is based on five financing models:

- *A gift-based model*: donors expect nothing tangible in return. This model is used to fund good causes in areas as diverse as sports, culture and humanitarian crises. The platform can take the legal form of a non-profit foundation (Razoo) or be a site that acts as an intermediary between Internet users and associations (Easycoz, Crowdrise and Mailforgood). Following Hemer (2011), we can assimilate this model of giving to ‘crowdsponsoring’ or ‘crowdsupporting’ practices.
- *A reward-based model*: people make payments in anticipation of a tangible or intangible reward (thanks, invitations . . .). In the entertainment industry, for example, they can include things such as ‘film credits or album liner notes, advanced autographed copies of the work, or backstage access at a performer’s show’ in exchange for investment (Burkett, 2011, p. 64).
- *A presale-based model*: in return for their contributions, funders expect to receive a copy of the product, or access to the service, developed by the project leader. In most pre-order campaigns, the price of the investment is lower than the price paid by the general public once the product is released (Bradford, 2012). One of the associated advantages of this model is detailed by Hemer (2011, p.28): ‘Having found a large number of supporters – which is obvious to anyone consulting the [crowdfunding] website – means, on one hand, that these already make up a core market and, on the other, that they can be easily mobilized as multipliers and sales agents within their personal (social) networks’. Here, the existence of a community of fans of the product or service proposed is a key factor to ensure the success of a campaign. This model could be seen as a variant of the reward-based model, since the presale is a form of reward.
- *A loan-based model (lending crowdfunding)*: in return for their contributions, funders expect a refund on an agreed deadline with or without interest payment, depending on whether these are

solidarity-based microcredit platforms (zero interest) or traditional lending platforms. Project leaders using this loan-based model seek passive investors. They are 'solely interested in raising money but not using the crowd as active consumers or giving up some control' over the product either (Schwienbacher and Larralde, 2010, p. 13). In France, this loan-based model has grown considerably; in 2014, it raised the most funds: €88.4 million, that is, an 84 percent increase over the funds collected in 2013. It should also be noted that 56 percent of project leaders applying for a loan were businesses (Financement Participatif France, 2014). This trend owes much to public authorities: they have established a favorable regulation, through the 30 May 2014 Ordinance No. 2014-559 and its 16 September 2014 implementation Decree No. 2014-1053. This ruling stipulates that crowdfunding platforms should have a regulated status for exercising their activity, unless the platform only offers financing based on donations. In the case of loans, the platform must be registered with ORIAS (Organisme pour le Registre unique des Intermédiaires en Assurance, Banque et Finance) as a crowdfunding intermediary and can be controlled at any time by the prudential supervisor. The method of financing the loan via crowdfunding is capped at €1m per project and contributors can only lend €1000 per project – so as to limit and diversify risk. Beyond France, on 26 February 2015, the European Banking Authority (EBA) gave its opinion on equity loans and expects a convergence of crowdfunding practices, including creating a leveled regulatory playing field between countries taking part in this market.

- *An investment-based model (equity crowdfunding)*: contributors receive securities enabling them to share in the profits or vote at general meetings, when these securities confer shareholder status. Platforms that adopt this model offer users the opportunity to fund projects already shortlisted by an expert committee and become shareholders of the company seeking funds. This model covers two practices: the club model and the holding model. Following the club model, platforms recruit wealthy individuals likely to invest in projects; the point is to create an exclusive club of qualified investors (which means that this kind of practice is not strictly crowdfunding). The holding model means the platform creates a financial holding. Funds are then raised from individuals and gathered by the holding, which reinvests them in projects without any direct link between entrepreneurs and backers. Again, the French legislation has softened and allowed the promotion of the development of equity financing. Equity crowdfunding took off in 2014 (+ 146 percent),

up to €25.4 million over the period. On average, the fundraising is at nearly €377 000 per project and €561 per contributor (Financement Participatif France, 2014). The regulation stipulates that a crowdfunding platform through subscribing securities issued by a private company must be registered with ORIAS as equity investment advisor. It can also opt to obtain a ‘provider of investment services’ status, apt to offer advisory services.

According to a recent study written by Kirby and Worner (2014), the first three crowdfunding models mentioned above (donations, rewards and pre-purchase) are grouped under the name ‘crowdfunding community’ and, by contrast, the other two (loans and equity) are dubbed crowdfunding with a financial return. Community crowdfunding is rooted in the social and solidarity economy and relies on dedicated crowdfunding platforms, including Babyloan and Spear, the most active ones. However, while crowdfunding has proved to be an accelerator for financing the social economy, solidarity-based crowdfunding today is a minority segment of it.

The role of the crowd differs depending on the model used: it might be a crowd-philanthropist (donations and intangible rewards), or a crowd-investor (loan participation), or a crowd-customer (material rewards, pre-purchases). It is therefore important for a project manager to choose the funding model best suited to his or her needs. Thus, if the project involves a new start-up to be financed eventually by issuing shares, the best choice is the investment model. This is not what the creator of the American start-up Oculus did: to finance the firm’s development, he raised over US\$2.4 million from 9522 backers on Kickstarter, opting for the rewards and pre-sales models, and then resold the company to Facebook in April 2014, for US\$2 billion. Many contributors felt short-changed because this corporate sale did not bring them anything, and thwarted their highly valued ‘indie’ spirit. In retrospect, it would have been preferable for Oculus to favor the investment-based model or to launch a hybrid campaign, combining the reward and pre-purchase models with the investment model.

HOW TO GET A CROWD TO MOBILIZE AND FINANCE A PROJECT

Backers’ Motives

Several studies have explored supporter motivations for participation in crowdsourcing activities, and more especially in crowdfunding. Both

intrinsic and extrinsic motivational factors (Deci and Ryan, 2000) may play a role in an investor's decision to fund a project. According to Gerber and Hui (2013), supporter motivations include the desire to collect rewards, help others, support causes and be part of a community. Some backers also want to be part of an innovative project (Schwienbacher and Larralde, 2010; Ordanini et al., 2011).

Internet users who are mobilizing to provide funding on crowdfunding platforms are similar to what Kozinets et al. (2008, p. 343) describe as Online Creative Consumer Communities (OCCC), that is, communities of individuals sharing a common orientation towards projects, products or services that are likely, given their expertise, to generate value. Members of these online communities are potential contributors seeking to finance projects that would meet their own needs. In a study of motivations to participate in a crowdfunding transaction, Gerber et al. (2012) identify four main types of motivation: getting rewards, helping others, belonging to a community and supporting a cause. In other words, backers' motivations might sometimes be economic, and at other times emotional or social. Other authors point out that motivation decreases when people are too frequently sought out or when they are kept waiting too long before receiving their rewards, a fact observed mainly by Mollick (2014). He indicates that 75 percent of projects deliver the results later than expected by supporters. Hemer (2011, p. 14) also identifies the intrinsic motivations in crowdfunding: 'Personal identification with the project's subject and its goals; contribution to a societally important mission; satisfaction from being part of a particular community with similar priorities; satisfaction from observing the realization and success of the project funded; enjoyment in being engaged in and interacting with the project's team; enjoying contributing to an innovation or being among the pioneers of a new technology or business; the chance to expand one's own personal network; or the expectation of attracting funders in return for one's own crowdfunding project'.

Motives differ, depending on the funding model used (gift-based, reward-based, presale-based, loan-based, or equity financing), the nature of projects (civic, communitarian, creative, entrepreneurial and so on), the types of sharing and information exchange-tools or the techniques used to present projects. Thus, backers care also about their social reputation and/or enjoy private benefits from participating in the success of the initiative (Lambert and Schwienbacher, 2010, p. 12). As for lending or equity crowdfunding, the expectation of a financial return on contributions will probably be more important than emotional attachment or social motivations. Also pertinent is Kuppuswamy and Bayus' (2014) reference to the literature on rational herding and information cascades: they argue that

positive herding based on the number of prior contributions signals to other investors that a project is of high quality. In this case, the herding behavior is a rational way for individuals to reduce their own risk in the face of uncertainty about a proposed new idea.

We believe it is also useful to consider the role played by the social links between the project leader and his or her backers. Thus, while family members, friends and fans might choose to finance a project for emotional and social reasons, contributors unknown to the project leader might be motivated by the lure of financial gains.

The Variety of Crowd Resources

Crowdfunding cannot be regarded merely as a means to collect financial contributions. As evidenced by research we carried out in 2014 (Onnée and Renault, 2014a), crowdfunding often interacts with other dimensions of crowdsourcing. It enables the project leader to test an idea, seek the crowd's advice and creativity, and perhaps boost the project's promotion.

The synergy between crowdfunding and 'crowdvoting' expresses the crowd's support of the project promoter. Crowd support can be expressed in the form of a vote that a platform seeks by asking backers to vote for the projects they believe in. This enables project promoters to pre-test their offers. While the vote is most often a mere expression of support, we also found that it can be selective in nature. This is the case particularly of platforms that offer to finance only the projects that receive a minimum number of votes. The Offbeat platform dedicated to the porn industry operates using this model.

It is also interesting to analyze the criteria used by the crowd to assess the merits of a particular project, compared with the criteria used by experts, such as business angels and venture capitalists. According to their experience, education and culture, amateur communities may indeed have a different approach than the community of experts for assessing the quality of a project. Mollick (2014) observes that the evaluation criteria are essentially the same for amateurs and for experts. Here are the main ones: the project leader's past achievements, the presence of commitment through collaterals, the quality of project preparation and the size of the project leader's social network.

Beyond its support, the crowd might also give advice to the project promoter. Crowd wisdom, funders' insight, independence of mind and knowledge are thereby mobilized in an overwhelming majority of crowdfunding platforms. To that end, platforms foster exchanges as much between project supporters as between project leaders and their supporters. The crowd then becomes a proactive force in favor of the projects it

supports. It can provide advice regarding the project itself, suggestions of future projects that could be promoted, or ideas about how to handle the crowdfunding campaign. The crowd can also exert pressure and urgency on the project developer. If the crowd has invested in a project, it is because funders are keen about its success. Therefore, as soon as funds have been collected, the crowd might start voicing its impatience, more or less loudly – especially when a financial return is expected (Onnée and Renault, 2014a).

Some crowdfunding platforms might also appeal to the crowd's judgment and creative talents. Several uses of crowdcreation have been observed: for example, resorting to the crowd to develop book covers (on the Bookly platform); or to co-create a video game (Wittygames); to choose the synopsis of a film (Peopleforcinema) or the shape of a light bulb (LightbyU).

The crowd can also be mobilized for more routine tasks. Thus, project promoters can ask crowd members to work as volunteers and contribute time to activities that require very basic levels of skills.

Crowdfunding is therefore a method of financing that makes it possible to appeal to users' knowledge, creativity, opinion and direct participation in a project. In the specific field of cultural creations, crowdfunding allows project managers to escape from the domination of music labels and film studios, and deploy their creativity more independently.

Finally, the hybridization possibilities between crowdfunding and other models of crowdsourcing can be illustrated by the case of JumpStartFund (<https://www.jumpstartfund.com/>). This platform solicits new business ideas and patents from individuals, private or public organizations. Selected ideas are posted for the community to vote on, offer input and fund. On the site, we can read:

We believe in the power of the crowd, and that a community can help you build a better business. Most businesses fail due to a lack of insight or experience. With the JumpStartFund approach, we can assist you to not only build a better business, but to also build a smarter company.

HOW TO CONDUCT A SUCCESSFUL CROWDFUNDING CAMPAIGN

How should a successful crowdfunding campaign be conducted? This is the challenge every project leader faces. Our research on this question enables us to highlight several best practices:

- *Choosing the right platform:* the project creator must choose between generic or specialist platforms by assessing the visibility and dynamism of the selected platform and its capacity to support a particular project, as well as the platform's commission rate. According to Belleflamme (2013), the entrepreneur has to find a platform that allows an optimal matching of the proposed project and the needs and expectations of potential contributors. Furthermore, the project initiator must choose a platform that has the ability to attract users with high performance potential to achieve the appropriate mix of buyers and sellers and create competitive advantage (Doshi, 2014). The presence of these 'superstar' contributors, as Doshi (2014) calls them, can create a positive 'halo effect'. In the same way, the presence of a small number of well-informed participants can facilitate the raising of more money (Parker, 2014).
- *Benchmarking other projects:* based on the project's positioning, project leaders will want to be original in the presentation of their project, so as to stand out more easily and get the potential backers' support.
- *Telling a compelling story:* in crowdfunding, it is essential for project leaders to be able to sell their project effectively, and to paint a favorable portrait of themselves. This gives consistency and soul to the project, while developing backers' emotional attachment to it. For this narrative to work, it is vital to make the presentation appealing. Potential backers value originality, all the more so when it is illustrated with videos and photos. However, Lawton and Maron (2013) indicate that 'ironically, many people who consider using crowdfunding initially don't want to be in their pitch video. But that's almost always counterproductive'. People want to know the project initiator with his/her qualities and imperfections. They give this advice to prospective campaigners: 'Let people see your eyes, let them see your passion' (p. 88).
- *Offering a broad range of rewards:* funders must pay special attention to the range and variety of the rewards they offer. Such rewards can be articulated along three tiers. In the first tier, small amounts can be contributed without necessarily getting the main reward. The second tier offers the main reward. Finally, the third tier offers high-value consideration items. Figure 15.2 illustrates this perspective.

Note that the higher up the level of top-tier rewards, the more exclusive the circle of investors will be. Therefore, a scarcity effect may contribute positively to the high-stakes involvement of the most generous and committed backers.

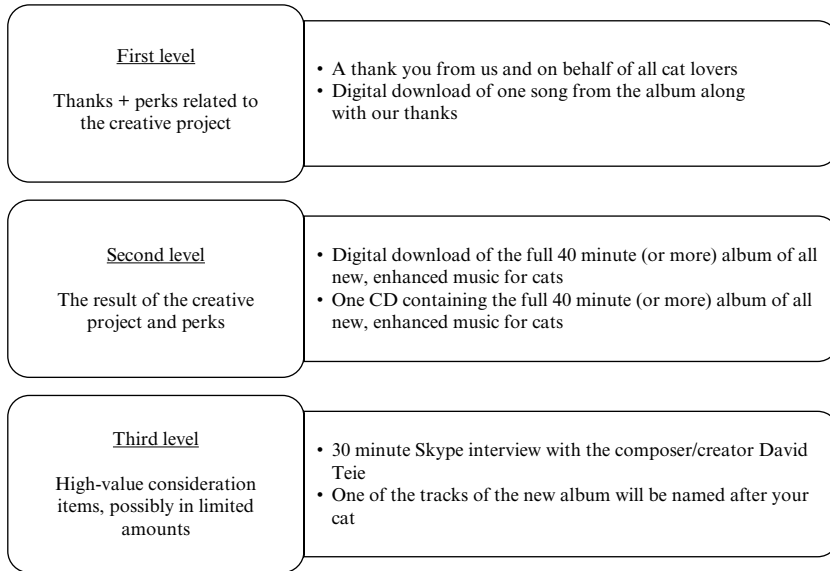
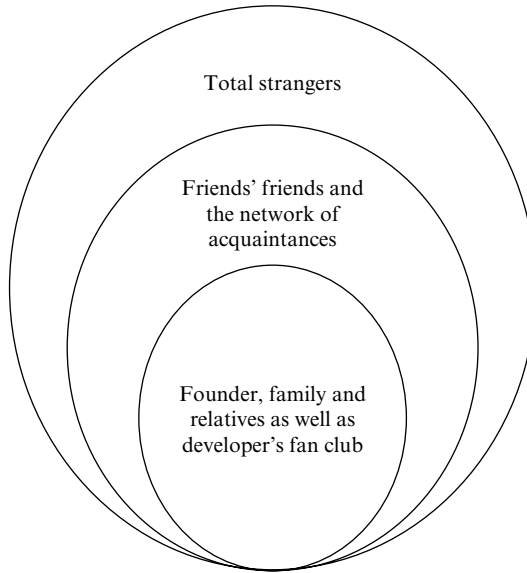


Figure 15.2 Three reward tiers for the project 'Music for Cats' on Kickstarter

- *Mobilizing the leaders' social networks*: every possible means should be used to get support from a large funders' community. In this area, network mobilization acts as a project visibility amplifier (Onnée and Renault, 2014b). Fundraising is assimilated to an accumulation process that can be broken down into three steps, each of them involving different types of funders (Agrawal et al., 2010, p.2). The first step is to get 'local' funders' support, as a way of testing the project leaders' social capital. The point is to mobilize their immediate networks, namely their family and relatives, as well as their professional and friendly circles. Mollick (2014, p.1) suggests that 'personal networks and underlying project quality are associated with the success of crowdfunding efforts'. According to Lawton and Maron (2013, p.71), 'there is a direct correlation between the size of the initial community that crowdfund campaigners bring to the table and the amount that their project typically can raise'. In the authors' view: 'Communities value the trust network that crowdfunded campaigners bring, along with the entire body of buzz that others are willing to afford those people' (2013, p.71). These early funders act as a signal to their own networks of relationships who, if they feel the project is compelling, will form a



Sources: Inspired by Agrawal et al. (2010) and Hemer (2011).

Figure 15.3 *The three funding circles*

broader second circle of funders, with whom the project promoter hitherto had only loose links. Lawton and Maron (2013, pp. 71–2) point out that ‘if you can’t kindle the fire with people you know, it’s going to be really hard to convince people you don’t know to throw logs on it’. If successful, fundraising will grow rapidly, thus creating a windfall from a third category of backers: total strangers who want to be part of an already financed project (Onnée and Renault 2014b). Figure 15.3 illustrates the three circles of community funding mobilized by a platform during a successful fundraising campaign.

According to Lawton and Maron: ‘One of the single most powerful aspects of an effective financial outreach using crowdfunding is that it develops a community of supporters – not an “audience”, but a community’ (2013, p. 72). With that goal in mind, communication with the audience should be particularly interactive and dynamic.

- *Creating proximity or closeness effect*: According to Lebraty and Lobre (2013, p. 62),

whether a proximity of ideas (as in some ethical or artistic projects) or a geographical proximity (as in projects concerning a site near their target public), these two elements are the glue in a relationship in which one person helps another by means of a minor virtual effort (a wire transfer from one account to another).

In particular, Mollick (2014) suggests that geographic proximity positively influences a project's chances of success.

- *Persevering*: a crowdfunding operation is a process that mobilizes project funders over several weeks. Project leaders must relentlessly keep reviving their funding networks and answer questions or react to remarks on the platform: a crowdfunding campaign is a full-time job (Lawton and Maron, 2013). A project leader's endurance and perseverance will be put to a severe test at this stage.
- *Leaving some things to chance and serendipity*: according to Lawton and Maron (2013), project initiators should encourage positive and unexpected opportunities to come their way because, in any case, they never really know where their campaign will lead them.
- *Giving thanks and delivering on the promises made*: thanking visitors for their support is essential, as is continuing to keep them informed on the project's progress. With crowdfunding, value is both physical and emotional. Backers receive the benefit of being part of the story. By sending the expected rewards on time, the project developer builds backers' trust, and is more likely to be able to count on them again for further projects.

CONCLUSION

Given the emerging nature of crowdfunding, few researchers have yet inquired into the subject and most of them approach the topic with exploratory research methodologies. The complexity of dealing with and analyzing crowdfunding practices cannot be understated: types of crowdfunding models differ and local regulations are constantly evolving. Crowdfunding is therefore a major research area and chances are that many research programs will be dedicated to more extensive analyses of project developers' and contributors' motivations, and to better identify the key features determining the success of a crowdfunding campaign.

Another research objective might be to consider the criticisms surrounding crowdfunding practices, and to assess both the risk of platforms going bankrupt (as happened to Isodev, a lending platform, in February 2015) and the risk of funded projects defaulting. Criticism is also

often expressed about the commission rates charged by crowdfunding platforms on the raised amounts. When considered in relation to the duration of a campaign – most often around three months – or to the lending rates enjoyed by borrowing companies, these rates may seem exceedingly high. Finally, crowdfunding also raises questions regarding the ambiguous nature of some of the funded causes, as noted in the report by the *Commission d'enquête sur l'organisation et les moyens de la lutte contre les réseaux djihadistes en France et en Europe* (Senate commission of inquiry on organizing the fight against Jihadist networks in France and Europe) or even in the *Annual Analysis and Activity Report* published in 2013 by Tracfin.

Because of the rapid and recent development of crowdfunding, this phenomenon remains poorly understood by entrepreneurs, investors, researchers, policymakers and even platform leaders. Some practitioners have launched new platforms without a good grasp of the opportunities and risks involved. Similarly, policymakers have established regulations without a proper understanding of crowdfunding's potential and limitations. Likewise, entrepreneurs often try to raise funds without a clear vision of the key success factors involved.[. . .] Currently, academic research on crowdfunding is still in its infancy. This chapter has tried to summarize its main findings, particularly with regard to platform governance, business models, opportunities and risks.

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