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A typology of crowdfunding sponsors: Birds of a feather flock together?

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ABSTRACT

This study develops a crowdfunding sponsor typology based on sponsors' motivations for participating in a project. Using a two by two crowdfunding motivation framework, we analyzed six relevant funding motivations—interest, playfulness, philanthropy, reward, relationship, and recognition—and identified four types of crowdfunding sponsors: *angelic backer*, *reward hunter*, *avid fan*, and *tasteful hermit*. They are profiled in terms of the antecedents and consequences of funding motivations. *Angelic backers* are similar in some ways to traditional charitable donors while *reward hunters* are analogous to market investors; thus they differ in their approach to crowdfunding. *Avid fans* comprise the most passionate sponsor group, and they are similar to members of a brand community. *Tasteful hermits* support their projects as actively as *avid fans*, but they have lower extrinsic and others-oriented motivations. The results show that these sponsor types reflect the nature of crowdfunding as a new form of co-creation in the E-commerce context.

1. Introduction

Over the past two decades, the Internet and information technology have impacted business organizations dramatically. The diffusion of E-commerce (electronic commerce) since the early 1990 s has fundamentally changed business transactions (Ngai and Wat 2002, Zwass 1996). E-commerce is, narrowly, business transactions conducted via the Internet (Bhattacherjee 2001). More broadly, however, it includes all types of seller–buyer relationships as well as the organizational processes supporting transactions within the organization (Ngai and Wat 2002, Zwass 1996). The consumer-to-consumer (C2C) marketplace (i.e., open markets) is a representative example of the evolving and expanded forms of E-commerce (Adjei et al. 2010, Strader and Ramaswami 2002). More recently, as the boundaries between organizations blur, new types of transactions and relationships between E-commerce users are emerging, known as "co-creation" (Kohler et al. 2011). Co-creation includes crowdsourcing (Howe 2008, Leimeister et al. 2009) and open innovation such as open source software projects (Lakhani and Von Hippel 2003, von Krogh et al. 2012).

These co-creation activities in business now extend from commerce to fundraising. The phenomenon of crowdfunding is undertaken to raise money for projects run by entrepreneurs or artists by soliciting money in small amounts from the general public (i.e., sponsors) mainly through E-commerce platforms (Belleflamme et al. 2014, Mollick 2014, Ordanini et al. 2011). Crowdfunding involves three main players (Ordanini et al. 2011). First, a creator offers a new project and attempts to seek funding from sponsors, the second player. The sponsors decide whether to support the project by considering the expected compensation, including its intrinsic values (e.g., altruism, fun), extrinsic benefits (e.g., cash, stocks, profit sharing, preorder), or both. The third player is the crowdfunding platform, which brings the other two players "on board" and presents an opportunity to exchange values. Most crowdfunding platforms have four common properties: a standardized format creators use to pitch their projects, a payment system that encourages small financial sponsorships, funding-related information (e.g., number of sponsors, amount of funding to date), and the tools the platform users employ to communicate, particularly to facilitate conversations between creators and sponsors (Agrawal et al. 2011). Creators upload an introduction to their project and other required information (e.g., goal amount, funding duration, and planned rewards for funding), and the platform operator screens the appropriateness of the content and fulfillment of the requirements. The project page is then published on the crowdfunding platform. Potential sponsors are exposed to the project page and decide whether to sponsor the project. If a sponsor decides to make a pledge, a transaction between the sponsor and the crowdfunding platform occurs and is reflected on the project page

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in aggregated form (i.e., total pledge amount and total sponsors to date). When the project reaches (or exceeds) its goal amount during the funding period, the crowdfunding platform delivers the funds to the creator after subtracting all operation and transaction fees (usually 5 to 10% of the total amount raised). The creator is then ready to implement the project and deliver the rewards offered on the project page. If the funding fails, the crowdfunding platform typically cancels all transactions related to the project, saving the sponsors from financial loss. Throughout the entire process, creators and sponsors can communicate (e.g., for progress updates, support messages, inquiries) through the crowdfunding platform.

Mollick (2014) posited that there are four basic types of crowdfunding: ones in which (1) sponsors expect no return for their donations, (2) sponsors provide funds as a loan, with the expectation of some return, (3) sponsors receive rewards by backing a project (i.e., reward-based crowdfunding), and (4) the sponsors are investors who will receive equity stakes. In this study, we focus on the reward-based model, in which sponsors support projects in exchange for some reward. This model fits well with creative projects undertaken by artists, musicians, filmmakers, inventors, and social enterprise. Since this model combines donations and investment, it is interesting and important to investigate the dynamic motivations of the sponsors participating in such a model. Furthermore, its size is increasing dramatically. Kickstarter, a representative crowdfunding platform based in the U.S., raised more than half a billion dollars from 3.3 million people for 22,252 projects in 2014, launching projects in the major categories of film, music, publishing, art, and theater (Kickstarter 2015).

The recent growth of crowdfunding platforms has been phenomenal, and understanding this phenomenon will enable us to expand our knowledge of the new context of E-commerce. This should provide an opportunity to understand the evolution of co-creation activities in business and model the dynamics among various users on an E-commerce platform. However, it is a novel phenomenon, and it is not clear what motivates crowdfunding participants or how. Behind this backdrop, this research aims to identify and define the different types of crowdfunding sponsors based on their funding motivations. And we examine the differences across sponsor types and how they are formed and affect actual funding behavior. Despite the plethora of customer typologies proposed in the traditional and E-commerce contexts (Kau et al. 2003, Mathwick 2002, Reynolds and Beatty 1999, Rohm and Swaminathan 2004, Webb and Mohr 1998), no customer typology has been developed in the relatively new context of crowdfunding. Laying the foundation for understanding (and thus targeting) different segments of crowdfunding sponsors, a typology in this context will facilitate the identification of distinct sponsor groups, expanding our knowledge on co-creation activity in E-commerce context. Furthermore, it practically allows crowdfunding platform operators and project creators to tailor their propositions to their sponsors.

2. Literature review

Two bodies of pioneering studies on crowdfunding provide the major issues in this research field: the success drivers of a crowdfunding project and the important factors affecting a crowdfunding sponsor's behaviors and motivations.

A series of studies has tried to understand and predict the success of a crowdfunding project. Compared to the selection criteria for venture capital firms, evidence of past success, external endorsements, and a prepared demonstration were found to affect project success (Mollick 2013). Mollick (2014) found that the personal networks of project creators and the expressed quality of a project were associated with project success. In line with this study, project creators' social capital (i.e., an entrepreneur's social network ties, obligations to fund other entrepreneurs, and the shared meaning of the crowdfunding project between the entrepreneur and the sponsors) had significant effects on crowdfunding performance in both China and the US (Zheng et al. 2014). Meer (2014) found that the efficiency price of giving has a strong impact on the likelihood that a project will achieve its funding goal. Furthermore, it was explored that the strongly negative effect of having additional similar projects competing for donations exists. It was also found that performance in the early stage is critical (Colombo et al. 2015). Both the number of early backers and the percent of target capital pledged early in the project campaign are positive predictors of success, and project creators' internal social capital is fundamental to attracting backers and raising capital in the early days of a campaign. In the lending-based context, it was found that an increasing focus on the extrinsic motives embedded in the project description significantly diminishes investments in loans while greater degrees of intrinsic-motivated language are associated with a reduction in the time needed to fund a microloan (Allison et al. 2015). More interestingly, the positive effect of intrinsic language outstrips the negative effect of extrinsic language.

The success of a crowdfunding project depends entirely on the participation of potential sponsors; thus, understanding their behaviors and motivations is a more fundamental objective of this research area. For example, the distance between a project creator and potential sponsors plays an important role in crowdfunding (Agrawal et al. 2011): local sponsors are more likely to pledge in the earlier stages of the funding period. Furthermore, sponsors are also less responsive to the decisions of others. A couple of tendencies have been found concerning the timing of crowdfunding (Kuppuswamy and Bayus 2013). For example, potential sponsors may choose not to support a project that already has significant funding because they may perceive it to be secure enough without their help. For successful projects, frequent project updates in the final days of the funding period increased the number of project sponsors and diminished diffusion of responsibility. Another study examined both the antecedents and consequences of funding decision-making (Burtch et al. 2013). As in Kuppuswamy and Bayus (2013), this analysis of antecedents indicated that the amount and timing of other sponsors' contributions had a substitution effect on potential sponsors' funding decisions. In addition, a positive association was found between the number of sponsorships and the level of exposure that a project received during the funding period, suggesting the potential role of crowdfunding in attracting public attention. Finally, few studies have focused on crowdfunding sponsors' motivations. Using an interview methodology, Gerber et al. (2012) indicate that sponsors' motivations might include the desire to collect rewards, help others, support causes, and be part of a community. It is also suggested that sponsors on crowdfunding platforms may show the characteristics of both investors and donors (Belleflamme et al. 2014, Gerber et al. 2012). Another study on sponsors' motivations found that sponsors may focus on the return for their donation while also enjoying supporting the cause (Cholakova and Clarysse 2015). Interestingly, the desire to collect a reward was significant in predicting the decision to pledge in both equity investing and reward-based pledging in crowdfunding campaigns, indicating that sponsors are primarily financial/utility driven rather than motivated by nonfinancial considerations. The major findings of previous studies are summarized in Table 1.

3. Conceptual framework

As reviewed in the previous literatures, crowdfunding studies so far have focused on sponsors' funding behaviors rather than