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Crowdfunding— social technology of collective financing: foreign experience of application

The article dwells on the foreign experience of crowdfunding in the case study of a crowdfunding platform. It presents the results of the platform operation by categories of declared projects and the total amount of funding. Analysis of the popularity of the proposed projects, as well as their efficiency is performed in the article.

Kickstarter, crowdfunding, social technologies, public funding.



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Crowdfunding (derived from English words: *crowd, funding*) is a social technology of collective financing, based on voluntary contributions, donations. The nearest Russian equivalent is national or public funding.

Crowdfunding is one of the branches of crowdsourcing, which is understood as voluntary participation of people in public decision-making. In the case of crowdfunding such participation is reduced to the transfer of monetary funds for launching and/or supporting a certain project.

Although the term is relatively new, the idea of national, collective financing is not modern: since the beginning of time people collected money for socially significant projects.

However, in recent years the development of the Internet and the comprehensive integration of information technologies in public life, their increasing availability and technological maturity, led to the emergence of new, unique forms of socio-technological systems, including crowdfunding platforms – specialized web sites to promote the projects and to raise funds. The given article considers one of the most successful and currently in-demand platforms, called ‘Kickstarter’.

As follows from Wikipedia, Kickstarter is an American-based private for-profit company founded in 2009 that provides tools to raise funds for creative projects via crowd funding through its website (Kickstarter.com) [6].

The project can be initiated by any person, with certain reservations (mentioned further). The donator himself/herself assesses the project's potential, its risks, as well as takes the decision regarding the sum paid.

Crowdfunding can be based on both voluntary donations, and donations with subsequent reward. In the first case, the donator does not pursue any material/financial gain, his/her interest in the successful completion of the project is the main motive for financing. For example, when it comes to the project on the making of a film or a computer game, the donator is interested in the film to be made, and the game to be written. As a rule, the main donors are a group of fans, admirers of the ideas, underlying the project.

The donation with subsequent reward does not negate the above-formulated motive, but supplements it with specific financial gain that the donator may come after. This is the kind of crowdfunding implemented on the Kickstarter. The project initiator offers several types of remuneration depending on the amount invested. For example, those, who contribute 5 dollars, get their name on credits; contributors of get their name on credits and a licensed copy of the film, etc. Therefore the reward acts as an additional incentive.

The article analyzes the platform performance in 2012. *Table 1* presents the basic data of the research, taken from the web site Kickstarter.com [7] (ranked by column "Collected funds" with the totals presented).

Let us clarify the notions used in the table.

Launched projects— the total amount of projects suggested for financing.

Successfully completed — the number of projects, the set goal of which has been met and that has been financed. The set goal is defined in the context as a minimum funding goal, specified in advance by the initiator and needed for the successful implementation of the project. The 'all or nothing' rule stands for this case: if the initiator of the project fails to collect the specified sum within 1 month, he receives nothing, and all the funds are returned to contributors. The collected, but subsequently returned funds are not considered in the table.

Raised funds — the total amount of donations collected for successfully completed projects.

Raised funds on average — average amount of collected funds for one successfully completed project.

Number of participants here is equivalent to the number of donations, collected funds

$$= \sum_{i=1}^n x_i, \text{ where } x_i \text{ — payment of a participant,}$$

Table 1. Statistics of the Kickstarter performance for 2012

Project category	Launched projects, units	Successfully completed, units	Raised funds , dollars	Raised funds on average, dollars	Number of participants
Games	2 796	911	83 144 565	91 267	1 378 143
Film and Video	9 600	3 891	57 951 876	14 894	647 361
Design	1 882	759	50 124 041	66 040	536 469
Music	9 086	5 067	34 953 600	6 898	522 441
Technology	831	312	29 003 932	92 961	270 912
Publishing	5 634	1 666	15 311 251	9 190	262 738
Food	1 828	688	11 117 486	16 159	138 204
Art	3 783	1 837	10 477 939	5 704	155 782
Comics	1 170	542	9 242 233	17 052	177 070
Theatre	1 787	1 194	7 084 968	5 934	95 225
Fashion	1 659	434	6 317 799	14 557	83 067
Photography	1 197	427	3 283 635	7 690	46 550
Dance	512	381	1 773 304	4 654	23 807
Total	41 765	18 109	319 786 629	17 659	4 337 769

n – number of participants. Note that the word ‘pledges’ was originally used instead of ‘participants’, and understood in the context as ‘people who have assumed the obligation¹ to carry a certain amount to the account of the project’ (for brevity, defined as participants in the table).

Let us consider some of the values. The total amount of funds collected in 2012 is 319.786.629 US dollars or 10.66 billion rubles (at the exchange rate of 1 US dollar per 30 rubles). Certainly, the parity of these amounts is quite relative, nevertheless let us make some comparisons: the subsidies for the development of national cinematography in 2013 are expected to make up 5.34 billion rubles [3]; the volume of Vologda budget revenues in 2013 is predicted at 6.7 billion rubles [1]. Thus, the funds collected on Kickstarter are rather substantial for a regional and, in some cases, federal budget.

The distinctive feature of the raised funds is that 1) they are invested by individuals, 2) it is the funds of target financing. If the initiator asks for money, for example, to shoot a film, he/she gets money for the film. Contrary to 5.34 billion rubles, planned ‘on the development of national cinematography’, all funds collected on Kickstarter, are allocated to certain people (initiators) for certain projects.

There are all reasons to believe that such target-oriented financing scheme is more effective from the viewpoint of funds distribution: it is faster, more transparent, less likely to be hampered by bureaucratic hurdles and corruption costs. In fact, the crowdfunding scheme assumes direct popular voting for this or that project, the vote in which is the sum allocated. In this case the competition exists between the projects, as well as jostling for funding. As a result, the most popular and well-grounded projects win.

¹ Kickstarter has a deferred scheme of funding. The actual payment is effected only after the project has been successfully completed (this peculiarity will be discussed further on in more detail).

The dropout of potentially strong projects with weak marketing and advertising component is an obvious drawback of the scheme, i.e. the project might be useful and have all chances of success, but without proper coverage, good presentation its chances to get the funds needed are little.

Among other data Kickstarter specifies the total number of those, who participated in the work of the platform (2.241.475 people). The discrepancy with the table total value (4.337.769) is explained by the fact that many of these people have participated in several projects. Therefore, the number of unique participants most likely amounts to 2.241.475 people. The share of the initiators and donors among them is not specified.

Information on the participation of the same people in several projects:

- 570.672 people financed two or more projects;
- 50.047 people financed ten or more projects;
- 452 people financed a hundred or more projects.

The total number of countries, the residents of which participated in Kickstarter activities amounts to 177, share structure of participants by countries is not represented.

Let us consider the processed information in *table 2*.

In the context the categories are ranked with regard to the number of launched projects. Success rate = (Successfully completed / Launched projects) · 100.

As one can see, film and video projects were the most popular among the initiators, music and publishing were next most important categories. Films, video and music imply respectively filming, video and music recording. Publishing is understood here as the production of graphic and printed products. In spite of most of the funds being raised for the projects, associated with the development of computer games, (table 1, row ‘Games’), they take only the 5th place by the number of launched

Table 2. Number of launched and successfully completed projects

Project category	Launched projects, units	Successfully completed projects, units	Success rate, %
Film and Video	9 600	3 891	41
Music	9 086	5 067	56
Publishing	5 634	1 666	30
Art	3 783	1 837	49
Games	2 796	911	33
Design	1 882	759	40
Food	1 828	688	38
Theatre	1 787	1 194	67
Fashion	1 659	434	26
Photography	1 197	427	36
Comics	1 170	542	46
Technology	831	312	38
Dance	512	381	74

projects. This is explained by the fact that the development of games requires larger seed funding. The team of highly qualified specialists is needed, including programmers, artists, designers, writers, the project manager, etc. Even if larger part of such experts is engaged only after the funding has been obtained, at the initial stage, it is still necessary to have a team of like-minded enthusiasts, who can prepare the demonstration part of the game for presentation. Thus, less popularity of game projects among the initiators is conditioned by higher entry price of the game projects.

Less popularity of other categories, according to the authors, is explained by a combination of factors, one of which, as have been already mentioned, is high barrier of entry, while others can be the following:

- other funding schemes, which allow attracting more or easier funds, as compared with crowdfunding;
- low demand for the company's projects according to the categories;
- crowdfunding financing scheme not corresponding to such projects.

Of special interest is the indicator of 'success rate', which is the ratio of the number of completed (funded) projects to the number of launched projects. Ranking by this indicator results in a rather different pattern (*tab. 3*).

The analysis of the popularity of the projects, submitted to Kickstarter from the donors' viewpoint is presented in *table 4*.

The projects on the development of computer games are the absolute leaders.

Let us enumerate some peculiarities of Kickstarter platform, exerting a significant impact on its operation.

1. 'All or nothing' principle. As have been already mentioned, the project financing is carried out only if the funding goal has been achieved, partial financing is not provided. Even if 99% of the set amount has been received, the project gets no financing. Obviously, this stimulates the initiators to refinance the project themselves.

In general, the statistics is the following [8]:

- Of the projects that have reached 20% of their funding goal, 82% were successfully funded.
- Of the projects that have reached 60% of their funding goal, 98% were successfully funded.
- To date, 44% of projects have reached their funding goals.

2. Payment system 'Amazon Payments'. One of the most important conditions for effective functioning of a crowdfunding project is that the contribution of funds should be simple and convenient for donors. Amazon

Table 3. Statistics of the success of launched projects

Project category	Launched projects, units	Successfully completed, units	Success rate, %
Dance	512	381	74
Theatre	1 787	1 194	67
Music	9 086	5 067	56
Art	3 783	1 837	49
Comics	1 170	542	46
Film and Video	9 600	3 891	41
Design	1 882	759	40
Food	1 828	688	38
Technology	831	312	38
Photography	1 197	427	36
Games	2 796	911	33
Publishing	5 634	1 666	30
Fashion	1 659	434	26

Table 4. The number of people, engaged in financing per one project on average

Project category	Launched projects, units	The number of people, who provided financing	Number of people, engaged in financing per one project on average
Games	2 796	1 378 143	493
Technology	831	270 912	326
Design	1 882	536 469	285
Comics	1 170	177 070	151
Food	1 828	138 204	76
Film and Video	9 600	647 361	67
Music	9 086	522 441	57
Theatre	1 787	95 225	53
Fashion	1 659	83 067	50
Publishing	5 634	262 738	47
Dance	512	23 807	46
Art	3 783	155 782	41
Photography	1 197	46 550	39

Payments provides such an ease. Although it is not widely known in the post-Soviet space, it is quite popular in Western countries (primarily in the US, the UK, and a number of countries in Western Europe).

The possibility of deferred payments is a distinctive feature of the system. Under Kickstarter terms the donor transfers the funds to the account of the project, he/she likes. The money transfer is counted towards the project, therefore, bringing it closer to the goal (funding goal). The money is not transferred immediately, however: the funds are 'frozen' on the donator's account. In case the project

goal is not achieved (i.e. the set amount has not been collected) the funds simply remain on the account, becoming fully available for further use.

Amazon Payments charges 3–5%, Kickstarter takes an additional 5% of the funds raised, which forms the company's profit. It is easy to calculate that in 2012 the company received 15.989.331 US dollars, having collected 319.786.629 US dollars.

3. Pre-moderation. The projects submitted to Kickstarter are pre-checked, after being approved by the company's employees, the project becomes available for donors.

Launched projects are to meet the following requirements [9]:

- Kickstarter cannot be used to raise money for charities or scoolarships;
- Kickstarter cannot be used to sell equity or solicit loans;
- Kickstarter cannot be used to fund e-commerce, social networking websites or apps;
- Kickstarter cannot be used to buy real estate;
- projects can not offer financial or medical advice;
- projects cannot offer alcohol as a reward;
- no projects endorsing or opposing a political candidate are allowed;
- no offensive material (hate speech, etc.); pornographic material is allowed;
- projects cannot offer tobacco, drugs; beauty products; eyewear (sunglasses, prescription glasses, and others); firearms, knives; personal care and medical products.

Creating projects is currently open to US and UK creators over the age of 18. Businesses, nonprofits, and other organizations can also use Kickstarter to fund their creative projects [9].

Conclusion

By the example of Kickstarter platform, it may be concluded that crowdfunding is a promising social technology that has a significant potential in terms of the stimulation of private business activities and the development of innovative projects.

At the same time, the Russian experience [4] leaves much to be desired. As of today, examples of successful funding under the crowdfunding scheme in Russia are the exception rather than the rule. Crowdfunding platforms existing in Russia are greatly exceeded on the number of the submitted projects and the volume of financing to Kickstarter due to objective reasons: technology novelty, lack of simple and convenient financial mechanisms, lack of legislative framework, financial and information and technological incompetence of society, low level of the Internet integration, etc. Relatively recent negative experience of large-scale financial fraud (MMM and others) should be also taken into account.

Thus, it is yet early to speak about crowdfunding as a ready to use social technology with regard to today's realities of Russia. Nevertheless, it is entirely possible to study foreign experience and use crowdfunding for the financing of certain pilot projects.

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