

CROWDFUNDING: Evidence of what drives success from Germany's biggest platform

Successful crowdfunding on websites like Kickstarter depends on offering the right kind of rewards and is not entirely the result of donors' inherent altruism or enthusiasm for innovation. That is one of the findings of research by **Paulo Crosetto** and **Tobias Regner**, to be presented at the annual congress of the European Economic Association in Mannheim in August 2015. Their study also shows that crowdfunding success stories tend to happen in the later stages of the funding cycle, often after the prospects of reaching the target amount have looked bleak for a long time.

The researchers analyse data on over 100,000 pledges to more than 2,000 projects on Startnext, Germany's largest crowdfunding platform. They find that it is never too late to turn a project into a success, and that projects tend to succeed due to sales rather than altruism. In particular:

- Around three out of five successful projects make up most of their donations in the final third of their allotted time.
- Only a fifth of donations are given for the sake of it or for some sort of 'thank you' note.
- Nearly a fifth of all pledges go to projects that have already succeeded in reaching their target.
- Rewards that boost backers' social standing – some sort of 'I was there' reward – are crucial to a project's success.

The authors conclude:

'While there is truth in the claim that crowdfunding is based by and large on people's altruism and enthusiasm for innovative, creative projects, it seems that the funders want to get their share too. Crowdfunding seems to be a clever way of selling while simultaneously securing the necessary funding to cover development and production costs.'

More...

The world is a strange place. Unknown until recent years, crowdfunding platforms – like Kickstarter or Indiegogo – are making the headlines around the world. Thousands of people are donating money to help artists produce their records, graphic novels, video games; or to allow geeks to produce a tool to transform bananas into a piano (and other things, too), a smart handle for cool bikes or even a set of tools to make robots with drinking straws. More: a project founder might ask for, say, fifty thousand dollars to produce a wheeled plastic cooler, and receive support for thirteen million, 260 times as much.

Why is crowdfunding so successful? Some people argue that it taps into a hidden reservoir of altruism present in internet communities – and that asking for help is the first step to get it. But is this the whole story – find a niche, fill it with a clever idea, and off you go to a successfully (crowd)funded project? It does not seem so easy as typically only around 50% of projects make it. What distinguishes crowdfunding success from failure? What makes people back a project? To answer these questions, it is crucial to dig deeper into the motivations of the crowd.

In a new paper, Paolo Crosetto and Tobias Regner explore these questions using data kindly provided by Startnext, the biggest German crowdfunding platform. The answers indicate that it is never too late to turn a project into a success, and that project success seems to have to do much more with sales than with altruism.

Startnext provided the researchers with access to its whole database – more than 100,000 pledges to more than 2,000 projects. This makes it possible to add another layer to the existing literature on crowdfunding. The researchers have access to transactions at the individual level, and what the backer got in exchange for the money.

The first striking finding of their analysis is that project success tends to come at a relatively late stage of the funding duration. The majority of projects (59%) that eventually get funded are not on a successful track when two thirds of the funding duration has passed. That is, nearly 400 not-on-track projects on Startnext turn out to be success stories even if they looked bleak for a long time and predicted outcomes were negative.

The second striking finding is that the key to understand crowdfunding success is at its core simple and old: project success is about sales. Outright donations – sending money for the heck of it, or for a small ‘thank you’ note – account for just 19% of all pledges. The rest is pre-selling of a product or service related to the project.

Moreover, exactly what is sold and its characteristics play a major role in project success. Crucial to project success are rewards that enhance the social image of the backer – T-shirts, public thank yous, anything that might help the backer say ‘I was there’ to others.

Overall, 18.7% of all pledges go to projects that, technically, already made it; in the last days, the share rises to as high as 75%. The vast majority of these pledges are outright pre-sales: backers want to get hold of the product on offer; and once the project is funded, they can do so at less risk.

While there is truth in the claim that crowdfunding is based by and large on people’s altruism and enthusiasm for innovative, creative projects, it seems that the funders want to get their share too. Crowdfunding appears, foremost, to be a clever way of selling while simultaneously securing the necessary funding to cover development and production costs.

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<https://paolocrosetto.wordpress.com/2015/01/22/its-never-too-late-the-dynamics-of-crowdfunding/>