Crowdfunding: an integrative analysis


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Abstract

This study investigates the crowdfunding through three case studies of Brazilian crowdfunding platforms. Thus, the study explores how these platforms operate in their business ecosystem and what are their strategies to overcome its competition and challenges. For researchers, this study offers an integrative view of different academic fields, such as strategy (specially business ecosystems and platform mediated networks) and the Crowdsourcing literature. For practitioners, it gives a broad view of the context in which crowdfunding takes place, pointing key success factors and potential threats and opportunities.
Introduction

The Crowdfunding concept is not new. The Liberty Statue was funded by a collective campaign led by Joseph Pulitzer (Lawton & Marom, 2010). In the last ten years the phenomenon escalated and got much more efficient with the growth of the internet (Geerts, 2009). A crowdfunding initiative can be described as the funding of a venture through many small amounts of capital invested by many different consumers, all gathered through the internet (Lawton & Marom, 2010). According to Newswire (2014), the average crowdfunding campaign amount is $7,000 and becomes successful 50% of the time.

Crowdfunding is becoming more and more relevant. According to the 2013 Crowdfunding World Summit, in 2012 the sector grew more than 80% and annual revenues would surpass 5 billion US Dollars. Relevant companies and celebrities such as Google and Donald Trump are becoming involved in the process (Crowdfunding World Summit, 2013).

This study seeks to investigate the crowdfunding phenomenon in Brazil. The Brazilian business environment, with its vigorous economy and growth in ICT infrastructure (CGI, 2013), offers an unique opportunity to understand how Crowdfunding platforms compete in emerging countries with expanding low-income markets. Moreover, to do so, this research offers an integrative view of different academic fields, such as strategy (specially business ecosystems and platform mediated networks) and the Crowdsourcing literature.

Literature Review

Crowdfunding, according to Howe (2006) is considered one specific category of Crowdsourcing. Ordanini et al. (2011) relate the Crowdfunding phenomenon to the expansion in the consumer’s role, as seen in the market orientation literature (Kohli and Jaworski, 1990), co-production – from the service marketing literature (Fisk, Brown, and Bitner, 1993), co-creation – from the service-dominant logic (Vargo and Lusch, 2004), open source community
(Bagozzi and Dholakia, 2006) and nowadays with social networking. It goes in sync with the convergence phenomenon (Wirtz, 2001; Jenkis, 2009) where formerly separated industries overlapped – telecommunications, information technology, content production and distribution and media.

Services are now distributed digitally, in real time, worldwide, with marginal costs – the cost of serving one more customer – converging towards zero. Such services become highly scalable, reaching nine digit figures (Shapiro and Varian 1999). In this new environment, consumers are potentially empowered, being able to make comments, complains and share experiences with others (Porta et al., 2008). Moreover, consumers form collaborative spaces that could potentially bring value to companies (Benkler 2002; Tapscott and Williams 2007) and to all the actors in this collective intelligence process (Lykourentzou, Vergados, and Loumos, 2009; Cova and Dalli, 2009).

The crowdfunding process involves at least three participants: the creators of the initiative or project, looking for support and financing; the crowd, who will decide to support it or not, and the platform owner, who provides the connection between the first two. Three broad drivers were identified for participation in crowdfunding initiatives: patronage, social participation and financial returns (Ordanini et al., 2011; Gerber & Hui, 2013; Boeuf, Darveau & Legoux, 2014). The authors found also a pattern for successful crowdfunding projects: a fast start, followed by a plateau, at the middle of the desired amount, and then another surge that lead to the goal (Ordanini et al. 2011).

According to Ley and Weaven (2011), Colgren (2014) and Dorff (2014), it supplies funds for startups in their early development stages, fostering growth and allowing them to become visible for VC firms. The authors relate the sustainability of crowdsourcing to the effective bridging between entrepreneurs and small investors. They also alert for the fact that,
in order to attract supporters, most strategic information about the initiatives is made public, potentially threatening its success.

Crowdfunding, as mentioned, creates new connections among actors from different industries, such as entertainment, advertising and finance, not forgetting the consumers, and among those, the fans. In order to better understand this phenomenon we should explore the strategy and economy literature, in special the fields of business ecosystems, information economy and platform mediated networks.

Iansiti and Levien (2004) compare the business space to a biological ecosystem. In spite of competition, the companies need each other to keep the whole system health. A business ecosystem comprises several domains, sectors and companies. As in nature, a failure in one sector, niche or even company could jeopardize everyone’s performance. Those interdependent markets usually are platform mediated, having intermediaries facilitating the interaction among the participants. Eisenmann (2007a) affirmed that 60 out of the world’s 100 biggest companies operates on networks: VISA, Time Warner, UPS, among others. In networked markets, companies that provide platforms have to assure a critical mass of users.

Platforms have two or more sides – each with different actors: for VISA’s platform consumers are at one side while merchants are at the other. It is interest to understand what we call network effects in a platform: when a kid considers buying a game console he takes into account which model his friends already own – the more friends in a platform means more opportunity to exchange games, and more opportunity to interact with friends. Moving into payment systems, a greater number of merchants accepting VISA would incentive consumers to own their credit cards; the same holds true in the opposite direction - the more users affiliated, the more merchants willing to have a VISA terminal. That’s called translateral network effects.
There is a direct relation between number of users and the perceived value of a network. The relation is known as Metcalfe’s Law - the value of a network grows with the square of its users (Shapiro and Varian 1999).

A key issue for a platform is how to create incentives for participation. There are three ways, according to Eisenmann (2007a): pay the user to participate; subsidize early adopters in order to create critical mass and become the standard platform; subsidize one side and profit from the other. Network effects could lead to concentration, when there are costs for affiliation to a platform and valuable functionalities available only at one specific platform (perceived high switching costs). This creates a dynamic named winner-takes-all (Eisenmann, 2007b).

There are significant research efforts in crowdfunding, trying to identify the motivations for its participants and service providers (Ordanini et al., 2011; Gerber & Hui, 2013; Boeuf et al., 2014), but the crowdsourcing phenomenon in developing countries demands analysis. Brazil, specifically presents a very dynamic economy, with a remarkable growth in its ICT infrastructure and also in digital social inclusion (CGI, 2013), making it an interesting case.

Other research gap is the analysis of this phenomenon using the strategy literature, in special the business ecosystems, platform mediated networks and the information economy concepts. That’s the contribution of this research. For that, we will try to answer the following questions:

Q1: How the crowdsourcing companies in Brazil position themselves in the ecosystem?

Q2: How do they operate and how pertinent are the information economy and platform mediated concepts for their operation and strategy?

Methodology
In order to address the research questions we employed an exploratory and qualitative approach – the multiple cases study (Yin 1981; Yin 2003). The steps taken, in accordance with the method, were: a) Analysis content definition; b) Case selection; c) Data collection - Interview protocol; d) Data analysis; e Findings and discussion.

Case selection

As a first study of crowdsourcing companies in Brazil, the selection process used two criteria:

- Focused on the Arts and Entertainment sector, to allow comparisons among results and also because there are plenty of opportunities for crowdfunding, caused by traditional business models still in place (Elberse and Perez, 2009; Elberse and Bergsman, 2009);

- Had at least one year of operation, so they could bring concrete experience to the interview.

The selected companies were: Mobz, Queremos! and Catarse. Mobz offers live sports events, shows and movies, among other contents. The company has three separate units: LiveMobz - for live events, MovieMobz for movies and MediaMobz for digital publicity and advertising. At their website an user can demand events, follow up mobilizations, interact with social networks and get updates about the movies. Queremos! is a platform that connects fans with bands, allowing their performance. They get show options with the bands and offer those to both fans and companies in order to cover the event’s fixed costs and turn them into financial partners of the endeavor. Catarse focuses on artistic projects, such as plastic arts, dance and drama, among others. Artists submit a project that is scrutinized by curators and then presented in the platform for funding.
**Data collection**

Complying with Yin’s (2003) recommendations, we collected data from two kinds of sources: primary - the interviews; secondary - websites, internal documents and press coverage. The later gave us context about the companies and helped in the interpretation of the data. For each company, two key executives (i.e.: managers, founders and CEOs) were interviewed.

**Interview protocol**

A semi-structured protocol was used in order to cover the main issues identified in the literature review, but also giving room for the emergence of other related topics that could help understanding the phenomenon (Yin, 2003). It would be considered a guided interview according to Patton’s (1980) classification. The interviews were all in person, recorded, and took 75 minutes on average. Transcriptions were performed and the content was read and discussed by the research team in order to get a better understanding of the perceptions expressed by the participants.

**Data analysis**

With software support content was coded and from the analysis ten categories emerged: 1) Social networks; 2) Events; 3) Funding pattern; 4) User motivation; 5) CRM; 6) Content versioning; 7) Incentives for participants; 8) Scaling; 9) Lead time and 10) Critical mass.

For each category, data from the three companies were compared among them and confronted with the literature, identifying points of convergence and non-conformities, providing a rich material for our conclusions and new research propositions. In parallel, the
key actors in their business ecosystem were plotted and connected, according to secondary data and the analyzed primary data from the interviews.

A network analysis software was applied and a density analysis was performed (Iyer, Lee, and Venkatraman 2004), comparing this ecosystem with other from a previous study on Brazilian media, comparing historical data (Rodrigues, Chimenti, and Nogueira 2011).

**Results**

The results are organized in accordance with the research questions, starting with the ecosystem analysis and then moving towards the operation of the three companies being analyzed at each category and confronted with the literature.

**Ecosystem analysis**

In order to answer the first research question (Q1), three crowdfunding firms were plotted on a simplified version of the Brazilian entertainment and information ecosystem. For the sake of clarity firms that would be shown scattered in the graph were clustered, while others, highly linked, are individualized. On the same principle, regulators and final users were removed - those are connected with most of the actors, crowding the chart and turning reading difficult. Complying to Iyer et al. (2004) the diameters are proportional to each node’s linkages - the more connected, bigger the sphere. Like in the cosmos, the higher the mass, the greater gravity one node exerts (Figure 1).
From Figure 1 we can identify the lowered importance of the so called old medias (press, radio, TV) to the communication and in special, internet companies. As important as the depicted links, potential linkages represent opportunities for new companies and new business models (Iansiti and Levien, 2004; Iyer et al., 2004). In Brazil there is plenty of space for content distribution on the internet and specially on mobile devices. For Queremos! there is an opportunity of linking with sport events producers and also video on demand platforms like Apple’s iTunes. Also from the chart is plain to see that with minor moves Mobz and Queremos! could become direct competitors, just like the current overlapping of Queremos! and Catarse in the dispute for bands and performing artists.

From quantitative analysis performed on the ecosystem model we evaluate its density (the number of actual connections in comparison with all possible - 274 out of 903) is 0.30, less than one third, indicating a less centralized set, in comparison with other models in the
entertainment and media of the past, like Rodrigues et al. (2011). For producers this number means multiple alternatives for their content reach the consumers - very different from the pre-internet era where the two only audio visual media were the movies on theaters and broadcast tv (Iyer et al., 2004). The new hubs for the ecosystem are iTunes, Google and Amazon, followed by telecom operators and game consoles.

Network effects take place over time, augmenting the relevance of those so called new media and the weakening of the traditional ones (Shapiro & Varian, 1999). Advertisers and corporate sponsors have great potential for supporting the new media as primary channels for content delivery in the near future, in exchange for a better focused communication for their messages to the precise audience, based upon effective CRM components of new platforms.

**Strategy and operations analysis**

To answer (Q2) the three companies were compared for each of the ten concepts:

a) **Social Networks**: The three cases use social networks for publicity, and also blogs. According to the participants these media are very effective for niche communication because in social networks people are already connected in groups according to their interests. By it’s nature, social networks stimulate the publicity of new projects looking for support and funding. Only Mobz uses paid advertising to foster the critical mass of supporters for their projects. They justify this investment saying that their audience is scattered in comparison with the other crowdfunding companies, because they go after a band’s fan, much more specific than a movie fan.

b) **Events**: All platforms establishes deadlines for their funding projects as, according to them, this catalyses the process and forces participants to decide whether contribute or not.
c) **Funding pattern:** The cumulative curve identified by Ordanini et al. (2011) also takes place for Queremos! and Catarse, but with different time frames: 3 to 7 days for the first and 30 to 60 for the late. The reasons for this should be investigated in a following research.

d) **User motivation:** There are clear differences between platform users. For Mobz they are band fans that wants to see a show and/or a documentary/live stream. For Queremos! in addition to the former, being sponsor for a cultural event and having peer recognition are the main motivations. Identification with the proponent is the first driver for participation in Catarse. After some time it changes to recognizing the project or cause, willingness to participate in crowdfunding projects and at last, networking. Thus, two motivations described in the literature (Ordanini et al., 2011; Gerber & Hui, 2013; Boeuf et al., 2014) were verified in this analysis (patronage and social participation). Further research is required to investigate the relevance of a third user motivation found in the literature review (financial returns) for Brazilians customers supporting crowdfunding initiatives.

e) **CRM:** In all cases platforms allows connecting with prospect customers and corporate advertisers. Their processes and tools for managing participants’ information are still primitive, with much room for improvements.

f) **Versioning:** Differently from Mobz, Queremos! and Catarse offer versions for participants, modulating features and prices in the platform. Queremos! for instance, offers regular tickets and premium ones, with additional features. In their early days, they offered one free ticket every 10 sold. At Catarse supporters can get different reward levels, according to the amount invested. Mobs can explore the content they promote for movie theatres also on iTunes platform. Somehow this can be perceived as versioning, but in multi platform agreements. This mutual benefit association is similar to the NYC Metropolitan Opera described by Elberse & Perez (2009), that opened their content to additional platforms, from
movie theatres to cable tv providers. Mobs does the same in the opposite direction, bringing premium live events to movie theatres in Brazil, at higher prices compared to regular tickets.

g) **Scaling:** Mobz and Catarse allows overfunding (gather more money and participants than needed). The first can reallocate the event to a larger projection room at the movie theatre or hire an additional room. For Queremos! there is no way because the venue (and its capacity) is associated with the event since its launch.

h) **Lead time:** Mobz needs at least 6 weeks to open an initiative. In parallel they negotiate the licensing with the content owners and local exhibitors. For Queremos! 8 weeks are needed - that’s the time frame for booking bands and also venues. Catarse is more flexible - a proponent can take as long as 60 days to submit a project.

i) **Critical mass:** Mobz and Queremos! perceived critical mass as a must in this kind of business. They recently opened their platforms to other producers and distributors as a way to get volume. Queremos! also reduced their margins in some of the promoted events in order to offer more of them, thus attracting more participants in the platform. Catarse pursues critical mass by means of AdWords at Google related to crowdfunding and active search for high public impact projects, that could bring more supporters and proposals.

**Conclusion and managerial implications**

This research identified that crowdfunding platforms allow more than critical mass of participants for events: it can unleash new demands and improve the offers by assessing the critics and suggestions received at the platform, in accordance with Agrawal, Catalini and Goldfarb (2013) and also Ordanini et al. (2011). For Mobz and Queremos! it also optimizes the profitability of the participating movie theaters and venues, with different versions for the event - basic and premium - the versioning concept from the information economy literature.
(Shapiro and Varian 1999). This feature opens for the proponents one degree of freedom and a trade-off between price and quantity of participants. Allied with CRM capabilities on both sides of the platform this would allow the creation and execution a greater number of events, with superior profitability, generating thus network externalities at each side and also translateral effects (Eisenmann 2007a).

Mobz, Queremos! and Catarse are filling a gap in the business ecosystem. They turn ideas into products, desires into events and people into supporters, enabling the development of offers that would not be economically viable otherwise. They present art movies to new audiences and bands to new fans, generating and distributing attention, emotion and wealth. As all three companies are small, they are dealing with a typical networked market, where there is a real chance of envelopment - being acquired and absorbed by another platform, such as Apple’s iTunes, Google or Facebook (Eisenmann, 2007b).

They have no control or protection for this kind of movement but to invest in CRM for both sides of its platform. The more they know about the supporters (crowd), the more they learn about proponents (idea or offer creators), the more valuable those crowdfunding platforms become. Another strategy that is being implemented for some of them is to accelerate affiliation, even at a cost, in order to achieve critical mass of participants and thus relevance in the ecosystem, being able to attract better content both in Brazil and worldwide, creating a virtuous cycle. Both strategies are in line with the concepts described by Eisenmann (2007a, 2007b) and Shapiro and Varian (1999).

For the researchers, our investigation indicated that the crowdfunding phenomenon in Brazil is related to the previous cases studied in the literature (Howe, 2006; Tapscott and Williams, 2007; Ordanini et al. 2011; Ley and Weaven, 2011; Gerber & Hui, 2013; Boeuf et al, 2014; Colgren (2014); Dorff (2014). In addition, it verified the pertinence of Information Economy concepts (Shapiro & Varian, 1999), Business Ecosystem Analysis (Iansiti and
Levien, 2004; Iyer et al., 2004) and Strategy for Platform Mediated Markets (Eisenmann, 1997a, 1997b) for cases analysis regarding the crowdfunding phenomenon, bridging the marketing and strategy literature.

For the practitioners and entrepreneurs it gives a broad view of the context in which crowdfunding takes place, thru ecosystem analysis. It also indicates key success factors for this kind of endeavor, helping them in this quest for relevance. For venture capitalists it makes clear how to evaluate this kind of business and how smart capital - knowledge, contacts, relationships - are valuable at those start-up companies. Also, strategic integration - selling the company to a major hub in the ecosystem is clearly a feasible exit strategy for the investors, as the business matures.

This study should be viewed as an exploratory and qualitative one, carrying all their limitations: subject selection, entrepreneurs (partners/key managers) as the only primary source of data, not having direct input from users, etc. We tried to minimize this by bringing secondary data sources such as information available at their websites, reviews in the internet about previous events and initiatives and other public data about the three companies.

After this effort, future studies should continue investigation on crowdsourcing, now from the customer/participant perspective and also from the greater, consolidated companies that currently lead this ecosystem. With more crowdsourcing platforms available in time, a quantitative research could be developed, inspired by operationalizing the emerging dimensions identified in the present work, that could be predictors of performance - another construct to be developed.
References


