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Making-the-Product-Happen: A Driver of Crowdfunding Participation

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Abstract

Crowdfunding campaigns, where entrepreneurs seek consumer funding to develop new products, foster dynamics that go beyond traditional seller–buyer transactions. This research studies how consumers increase their participation when they believe their contribution is pivotal to product creation. Utilizing controlled experiments we find that making-the-product-happen motivates participation above and beyond the desire to help the entrepreneurs. Moreover, we show how this motivation, which increases when an all-or-nothing campaign is drawing to a close and its financing target is within reach, is driven by future product availability. Furthermore, we identify conditions where making-it-happen dominates herding and an increase in the backing actions of others decreases one's willingness to back. Lastly, consistent with the notion that individual backers can determine campaign success, an analysis of over 200,000 Kickstarter projects shows that 33% of all successful campaigns hinge on the marginal support of no more than three average backers.

Keywords: Crowdfunding; Motivation; Goal attainment; Herding

Introduction

Crowdfunding has become an increasingly popular financing platform through which entrepreneurs raise money for the purpose of developing new products and services. Industry reports estimate that over 35 billion dollars were raised using crowdfunding in 2015. Rewards-based crowdfunding, one of the common crowdfunding structures, allows an entrepreneur to finance projects by offering non-monetary rewards. In many cases such rewards entail the right to receive a future product or service.

Rewards-based crowdfunding differs significantly from classic consumer purchasing because it involves consumers in the financing of a product or service that does not yet exist. In a classic purchasing decision, consumers evaluate existing products; by contrast, in rewards-based crowdfunding, consumers can affect the likelihood that a product will be developed and made available. We contend that this context activates consumer motivations that go beyond traditional seller–buyer transaction. We hypothesize an increase in consumers' willingness to participate in a crowdfunding campaign when they feel pivotal to making-the-product-happen.

Our premise derives from recent empirical findings (Cumming, Leboeuf, and Schwienbacher 2015; Kuppuswamy and Bayus 2017) supporting the notion that the existence of a funding target and a fixed duration affect crowdfunding outcomes and contribution patterns. However, crowdfunding studies that use field data alone face the challenge of isolating consumers' reactions to the funding states from those of the entrepreneurs, as both dynamically respond to the remaining campaign duration, current financing and the actions of others. Moreover, research has shown that potential backers react to the entrepreneur's campaign activities. While some of these dynamics can be observed and integrated into the analysis, as skillfully demonstrated by Kuppuswamy and Bayus (2017), identifying the causal channels and motivations, and ruling out alternative explanations pose a challenge when using field data alone.

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Our paper addresses these limitations and contributes to existing literature by taking these questions to the lab. We use controlled experiments to examine how various campaign parameters and information cues affect consumers' decision to back a crowdfunded project. This allows us not only to illuminate causal channels of the backing process, but also to isolate and identify the existence of a making-the-product-happen motivation. This motivation, relates to, but is distinct from, the underlying pro-social motivation (i.e., helping the entrepreneurs) or the mechanical goal-gradient effect (Kivetz, Urminsky, and Zheng 2006; Ting 2011). We show that consumers are motivated to make the product happen more than they are motivated to help the entrepreneurs secure the campaign's financing target. While these motivations are related, identifying the separate existence of a product-centric motivation carries important implications for the understanding of consumer behavior and campaign design in a crowdfunding setting.

A growing body of literature addresses various motivations that drive backers to support crowdfunding campaigns. Ordanini et al. (2011) study the potential role of crowdfunding backers as participants in a collective effort; highlighting motivations that emerge from social identification with the content, cause or project as well as from being partially responsible for the success of others. Gerber and Hui (2013) use structured interviews to identify several distinct crowdfunding motivations, including the desire to receive the reward (or product), help others, support social causes or be part of a community.

The making-the-product-happen motivation that we study in this research also relates to consumers' sense of responsibility for product creation (Norton, Mochon, and Ariely 2011) as well as a possible increase in the affective commitment generated by participation in product creation (Atakan, Bagozzi, and Yoon 2014) and the desire to have an impact on campaign outcomes (Duncan 2004), which are accelerated when the crowdfunding campaign approaches its financing target (Kivetz, Urminsky, and Zheng 2006) and backers perceive themselves as instrumental to the process of bringing the product to life.

Recent literature on crowdfunding participation (Ellman and Hurkens 2016; Strausz 2017) has raised concerns regarding the applicability of pivotal considerations when the "crowd" is large. To address this question we executed some of our studies in a context that required thousands of backers to reach the funding target. We find that making-it-happen also occurs in such large crowd settings; supporting the existence of product-centric pivotal considerations even for large crowdfunding campaigns.

In four lab studies that explore different crowdfunding settings we provide support for the making-it-happen and the making-the-product-happen effects and test for possible moderators and drivers. Using over 200,000 Kickstarter projects we provide further evidence for the notion that a consumer may be pivotal to the success of a crowdfunding campaign. We find that 33% of all successful campaigns hinge on the marginal support of no more than three average backers and that 17% of successfully crowdfunded campaigns would have failed if one average backer (in terms of the amount committed) had been removed from the roster of backers.

Identifying the subtle motivations that drive consumers to back crowdfunded projects has implications for entrepreneurs, platform designers and social planners. Eliciting the pivotal reaction, by means of messaging, information or contract design, may increase the probability of successfully financing crowdfunding campaigns. These forces can also impact the design and profits of crowdfunding platforms, as the revenue of such platforms is proportional to the sums raised and in some cases (such as on Kickstarter) is only generated when campaigns succeed in securing their financing target.

Background

The growing crowdfunding markets and the proliferation of such platforms emphasize the importance of understanding the drivers of crowdfunding participation. Empirical literature on crowdfunding is growing rapidly, with particular attention addressing the motivation of backers to contribute to certain projects and the dynamics that impact campaign success. A number of papers emphasize the effect of reported cumulative backings on the propensity to back (Agrawal, Catalini, and Goldfarb 2015; Burtch, Ghose, and Wattal 2013; Kuppuswamy and Bayus 2017; Mollick 2014; Zhang and Liu 2012). These papers provide support for the notion that potential backers react to the backing actions of their peers and that the accumulated sum secured and the time remaining in a campaign are correlated with a change in campaign backing actions.

Herding behavior has been studied in related domains (Dholakia and Soltysinski 2001; Hanson and Putler 1996). In the context of crowdfunding, the empirical literature has documented both positive and negative effects. Smith, Windmeijer, and Wright (2015) study fund-raising pages set up by people who raised money for charity by running the London Marathon 2010. They focus on the effect of peer donations on the amount pledged by others. They show that donors are influenced by peer donations such that the dollar amount of a new donation is positively correlated with the mean of past donations. The results of Smith, Windmeijer, and Wright (2015) are consistent with Andreoni's (1998) theoretical model which predicts that crowding-in may occur when a fundraising target is set. While Smith, Windmeijer, and Wright (2015) focus on the sum committed, we focus on the extensive margin, that is, the motivation to participate, and its possible moderators and mediators.

Kuppuswamy and Bayus (2017) show that as crowdfunding campaigns approach their time limit, consumers are more likely to participate; however, their findings indicate this increased participation also correlates with increased owner activity. Thus, both the independent impact of the campaign deadline and the direction of causality are not easily identified within this dynamic setting.

Burtch, Ghose, and Wattal (2013) study contribution patterns in campaigns that support online journalism projects, a public good, and do not have a predetermined financing threshold. They find that in some situations past contributions crowd out future contributions as participants wish to donate to projects that have received less funding. Indiegogo, one of the largest rewards-based platforms which facilitates pre-selling of products, allows for entrepreneurs to select into an all-or-nothing mechanism or a flexible, keep-it-all, mechanism in which they receive all sums