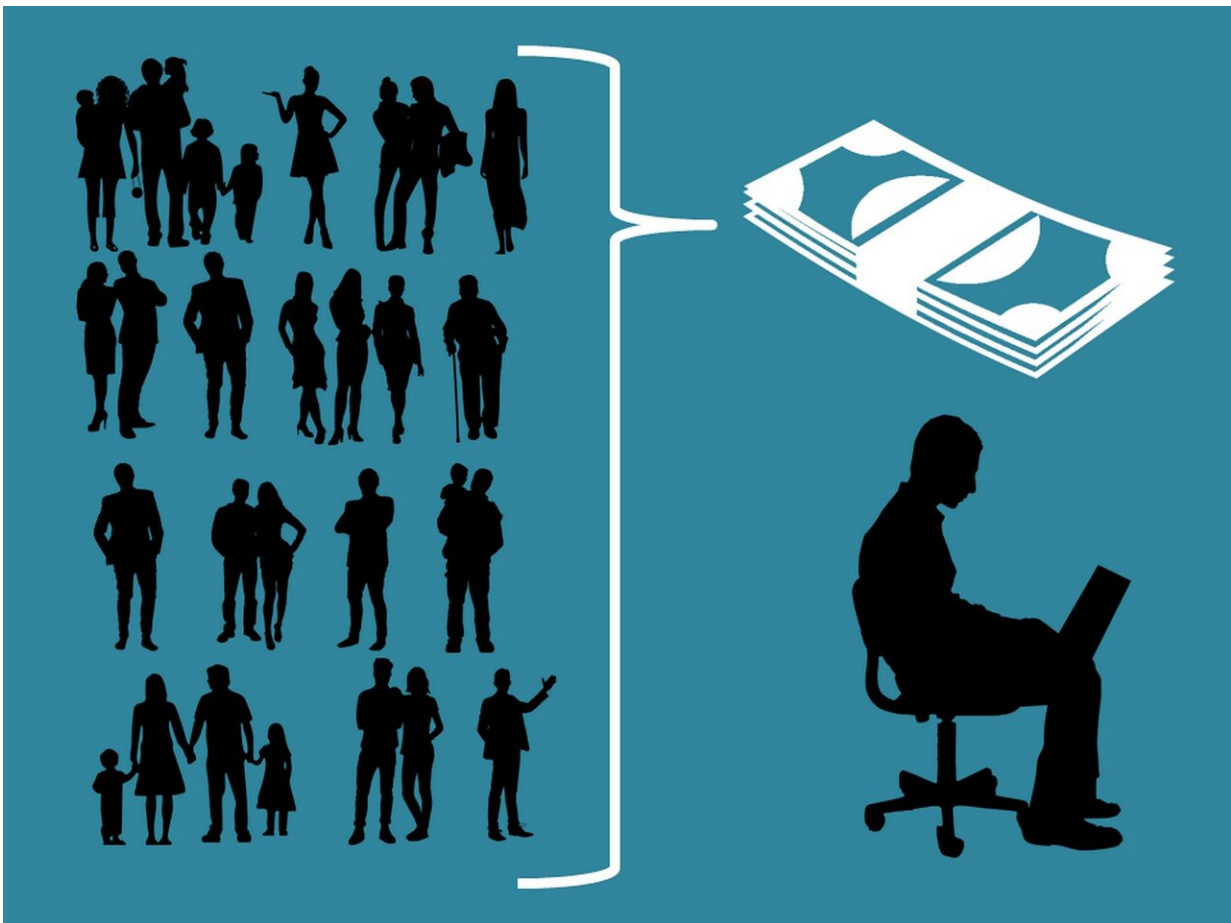


# Best strategies for designing crowdfunding campaigns revealed in new study

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Credit: Pixabay/CC0 Public Domain

Kickstarter. Indiegogo. GoFundMe. Crowdfunding platforms have

financially leveled the field for those interested in launching a new product or backing a particular cause. These popular sites reportedly added \$65 billion in revenue to the global economy in 2020.

"The [crowdfunding](#) model is an amazing way to raise funds because you are bypassing all the institutional infrastructure," said Soudipta Chakraborty, assistant professor of business at the University of Kansas.

"There are no banks. No venture capitalists. You're cutting out the middleman and raising funds directly from the end consumers of the product. So this is an amazing business model ... but there are all these problems."

Such problems led Chakraborty to write "Designing Rewards-Based Crowdfunding Campaigns for Strategic (but Distracted) Contributors." The paper studies how to devise such campaigns when backers choose not only whether to contribute, but also when to contribute. It appears in *Naval Research Logistics*.

According to Chakraborty, who co-wrote the paper with Anyi Ma of Tulane University and Robert Swinney of Duke University, a typical crowdfunding campaign lasts around two months. Most see plenty of traffic right at the beginning because creators reach out to family, friends and co-workers to secure pledges. Then comes a period of slow activity. This is sometimes followed by a "last-minute surge" before the deadline.

"Previously, people thought this surge happens because the contributors of the pledges are altruistic and want to see the creator and the campaign succeed. But we found it might not always be the case. This last-minute surge can happen due to people strategically withholding because they want to see if it's going to get funded," he said.

"If you think about it, there are not many reasons to withhold your pledges. On most sites, if your campaign doesn't succeed, then the contributors get their money back. So there is almost no risk."

What Chakraborty discovered was that seemingly small "frictions" for an individual contributor during the campaign often have a big influence on supporting the creator of the product. For instance, simply filling out credit card details can dissuade a potential funder, causing them to wait until weeks later or even not engage at all.

"We've come up with ways in which creators can overcome this problem of people waiting strategically," he said.

"One way of doing that is using menus, where you have the same product but you charge different prices depending on when people are getting in. So there could be the same product sold at, say, \$100. The first few individuals who decide to contribute will get this lower price. Anyone who decides to wait will have to get the same product at a higher price."

Chakraborty's team used a [mathematical model](#) to study what is called "equilibrium" in game theory. The researchers set this up to where everyone—from the creator of the project to the target of the campaign—is acting in their own best interest, then verified the model using real-life experiments.

The professor first became drawn to this topic when he read a report stating only one in 10 crowdfunding platforms deliver the product that is promised. It remains one of many misconceptions people have about crowdfunding.

"Especially for rewards-based crowdfunding, the most misunderstood aspect is it's like buying something on Amazon. You can go on Amazon

and press click and get something delivered to you. But that's not what crowdfunding is. There is an inherent risk because you are investing in something that has not yet been developed. Kickstarter is not a store," he said.

Now in his second year at KU, Chakraborty specializes in operations management. His primary research interest involves improving new business models.

Chakraborty himself has invested in a Kickstarter [campaign](#), which raised funds for a device that could remind drivers where they parked their vehicle.

"It was a really bad product," he said. "Every time you'd stop at a red light, it would indicate that your car was parked."

That experience further emphasizes the 1-in-10 delivery statistic.

"There is an inherent risk to this business model," Chakraborty said. "And sometimes sites allow all sorts of unscrupulous actors who will take advantage of that."

One other discovery from his research may surprise those who are familiar with crowdfunding.

Chakraborty said, "Crowdfunding campaigns either fail miserably or they do well and succeed. But it almost never happens that the creator raises 80% of the target and then loses. It's either only 20% of the target is raised or it's fully funded. This in-between scenario is very rare. Our model can explain this observed quirk."

**More information:** Soudipta Chakraborty et al, Designing Rewards-Based Crowdfunding Campaigns for Strategic Contributors, *Naval*

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