

Jessica Sanfilippo
Username: Jsanfilippo
LSTU E-120
Final Project

Final Project: Crowd Funding and Cultural Production

“We are seeing the possibility of an emergence of a new popular culture, produced on the folk-culture model and inhabited actively, rather than passively consumed by the masses.”¹

Introduction

The creation and consumption of culture are no longer siloed or linear activities. Yochai Benkler introduces us to a new “folk-culture” model of cultural production, whereby the networked information economy allows for a circular, transparent, and participatory process.

This research paper explores the role that crowd funding plays in this new model. Specifically, I have conducted a case study on Kickstarter.com, an online fundraising platform designed to connect individual contributors with creative projects in need of funding. My research is guided by the following empirical and theoretical investigations:

1. First and foremost, is Kickstarter achieving success as a fundraising platform? (Method: Empirical analysis using scientific research)
2. Is crowd funding, as adopted by Kickstarter.com, a generative system? (Method: Theoretical analysis using academic literature)

¹ Yochai Benkler. *Wealth of Networks* (New Haven and London: Yale University Press, 2006), www.benkler.org/Benkler_Wealth_Of_Networks.pdf, p.287.

3. What are the motivations and incentives for participation in crowd-funded projects? (Method: Empirical analysis using scientific research)

Historical Background on Crowd funding

Traditional large-scale entrepreneurial initiatives often require funding from venture capitalists or private lending institutions, whereby profit goals are common motivating investment factors. By contrast, the incentive afforded by crowd funding is a platform where individuals can participate in the shaping of their own creative culture.

The concept of “crowd funding” has its roots in a one-off early Internet era experiment in the music industry, whereby fans of the band Marillion organized to fund their tour.² More recently, companies are emerging to help expand the term’s application into territories such as philanthropy, start-ups, and art.

Unlike venture capitalism, crowd funding is not exclusively focused on start up companies and, unlike loans, there is no expectation of repayment. However, all methods can be credited with helping to spur innovation. According to Wikipedia, crowd funding is based on the “collective...poolin[ing] of money...usually via the Internet, to support efforts initiated by other people or organizations.”

Overview of Kickstarter.com

Kickstarter.com is an online fundraising platform designed to connect individual contributors with creative projects in need of funding. Like the concept of crowd

² <http://en.wikipedia.org/wiki/Crowdfunding>, accessed April 12, 2011.

funding itself, Kickstarter, created in April 2009 by Perry Chen, Charles Adler and Yancey Strickler, shares its roots with music. Chen was a musician who, wanting to put on a concert, sought a means of mitigating the challenges in covering upfront costs and the risk of low demand.³ The concept for a site where projects could be funded in advance and by the wider public was born. According to Strickler, Kickstarter straddles the middle ground between “patronage and commerce.”⁴ Project owners identify a funding goal, and only receive pledged contributions if that goal is met. This policy is known as “All-or-nothing” funding. Kickstarter is powered by the beliefs that:

- “A good idea, communicated well, can spread fast and wide.
- A large group of people can be a tremendous source of money and encouragement.”⁵

These beliefs suggest that Kickstarter’s founders hinged their success on its system’s generative quality of transferability and the power of collaborative action.

Kickstarter projects are sortable by 13 categories (i.e., Art, Comics, Dance, and others) as well as by 13 cities (NY, LA, Chicago, and others). Projects are also curated into channels including Recommended (selected by editorial staff based on factors such as frequency of updates), Popular, Hall of Fame (highest grossing projects), Ending Soon, Recently Launched and Small Projects. Submissions must

³ Carlye Adler, “How Kickstarter Became a Lab for Daring Prototypes and Ingenious Products,” *Wired*, March 18, 2011, http://www.wired.com/magazine/2011/03/ff_kickstarter/all/1.

⁴ Prospero, “The Q&A: Perry Chen, Kickstarter,” *Economist*, October 22, 2010, http://www.economist.com/blogs/prospero/2010/10/crowd-funding_art.

⁵ “Kickstarter FAQs,” accessed April 12, 2011, <http://www.kickstarter.com/help/faq?ref=footer>.

adhere to the Project Guides⁶, which stipulate that no charity projects or business funding projects are acceptable, and that all projects must include a “rewards” incentive component. Reward tiers and offerings are entirely up to project creators, and often reflect items produced by the projects themselves. Rewards are valued between \$1 and \$10,000 and may contain limited availability features.

“Backers” make contributions in the form of “pledges,” and funding is placed in escrow until it is determined whether the project reaches its funding goal. For projects that achieve their funding goal, Kickstarter takes a 5% commission of the total funds raised, with Amazon charging an additional 3-5% for credit card processing fees.⁷ As of April 2011, there have been 20,371 projects launched, 7,496 of which were successful (43%). 591,773 backers have contributed over \$53MM in pledges.⁸ 80 new projects are launched every day, and \$1MM is pledged every week.⁹

Is Kickstarter achieving success as a fundraising platform?

In order to conduct an empirical analysis of Kickstarter’s success, 39 projects (3 from each of Kickstarter’s 13 categories) were selected at random. The only criterion was that their funding expiration date resided within the window of this investigation.

⁶ “Kickstarter Guidelines,” accessed April 12, 2011, <http://www.kickstarter.com/help/guidelines?ref=footer>.

⁷ “Kickstarter FAQs.”

⁸ “The Kickstarter Blog,” accessed May 10, 2011, <http://blog.kickstarter.com/post/5014573685/happy-birthday-kickstarter>.

⁹ Adler, “How Kickstarter Became...”

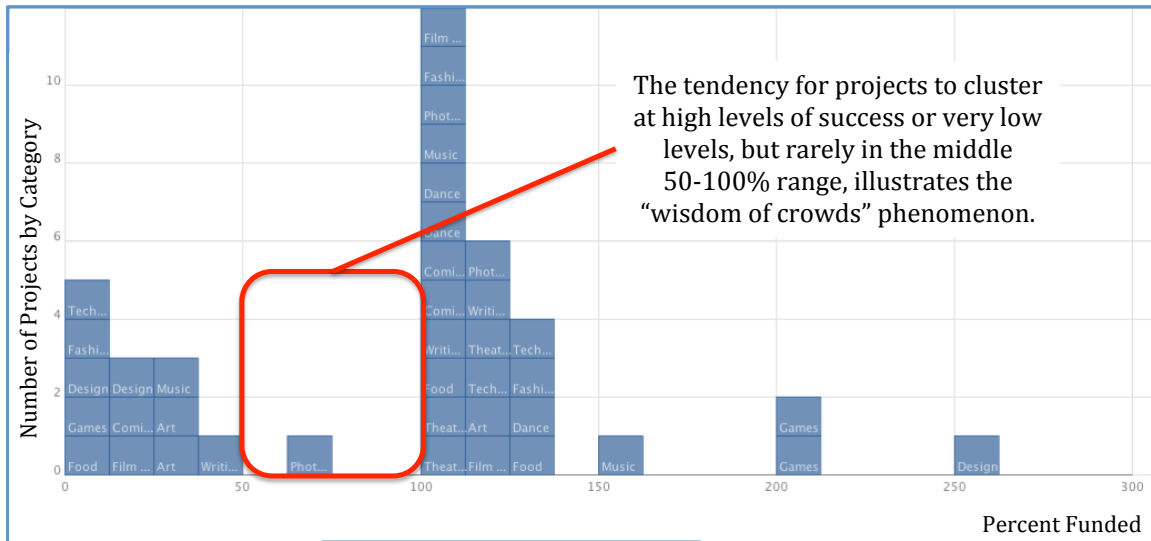
Figure 1: Project Status Summary

Project Status	# of Projects	Funds Requested	Funds Pledged	% Funded	Total Backers	Avg. Pledge Per Backer
Successful	26	\$257,537	\$364,052	141%	4,183	\$87
Unsuccessful	13	\$115,166	\$19,401	17%	476	\$41
Total	39	\$372,703	\$383,453	103%	4,659	\$82

Figure 1 above depicts a summary of results captured. Some key findings associated with these results are as follows:

- Of the 39 projects studied, 67% achieved funding their funding goal (higher than Kickstarter’s reported levels of 43% for all projects to date).
- Backers pledged \$82 on average, which is relatively consistent with Kickstarter’s reports of \$71 on average per pledge.
- Most notably, as highlighted in Figure 1, successful projects exceeded their goal by a large margin (147%), whereas those that failed were grossly underfunded (17%). This “wisdom of crowds” phenomenon is further illustrated in Figure 2 below, and will be discussed subsequently in more detail.

Figure 2: Block Histogram Depiction of Project Funding Status, by Category



Tool utilized: IBM Many Eyes,
<http://www-958.ibm.com/software/data/cognos/manyeyes/>

Figure 3 below begins to delve deeper into the potential role that rewards play in driving project success. Important to note is the overwhelming preference amongst backers to specify their own contribution level and/or decline a reward.¹⁰ Additionally, while rewards tiers <\$20 were inefficient at fund generation, their popularity amongst backers (20%) highlights the very essence of collaborative action: multiple, small contributions pooling together to accomplish a single task.

¹⁰ Backers have the option of setting their own contribution level and/or declining rewards. All project funds/backers not noted in individual rewards tiers were presumed to fall into this category. This represented the overwhelming majority of gross funds pledged, at \$105,436 (27% of total funds).

Figure 3: Distribution of Backers and Pledged Dollars by Rewards Tier

Rewards Tier	Percent of Backers	Percent of Dollars
\$1-\$5	7%	<1%
\$7-\$20	13%	2%
\$25	23%	7%
\$27-\$48	2%	1%
\$50	13%	8%
\$59	8%	5%
\$60-\$70	3%	3%
\$75	4%	3%
\$76-\$79	3%	3%
\$100	8%	10%
\$105-\$125	2%	2%
\$149-\$159	3%	5%
\$200-\$400	2%	6%
\$500	1%	5%
\$600-\$900	<1%	<1%
\$1,000	<1%	4%
\$1500-\$2500	<1%	3%
\$3500-\$6000	<1%	3%
\$10,000	0%	0%
Custom/Declined Reward	9%	27%

\$100 was the highest grossing rewards tier, and \$25 the most popular.

Lowest reward tiers were highly inefficient, and highest reward tiers were fruitful but unpopular.

Lion's share of pledges were custom levels and/or declined a reward.

Is crowd funding a generative system?

“Generativity is a system’s capacity to produce unanticipated change through unfiltered contributions from broad and varied audiences.”¹¹

A discussion of generativity plays an essential role in this analysis. At the core of generativity is not only how open and free the system is, but the level of participation involved, the relationships amongst users, and the relationship between users and the system itself. At a surface level, Kickstarter’s reliance upon a diverse community of creators and backers, and the varied forms of output that even the founders may not have anticipated, speak to at least some level of

¹¹ Jonathan Zittrain, *The Future of the Internet -- and How to Stop It*, (New Haven and London, Yale University Press, 2008), <http://yupnet.org/zittrain/archives/13>, chap. 4, par. 9.

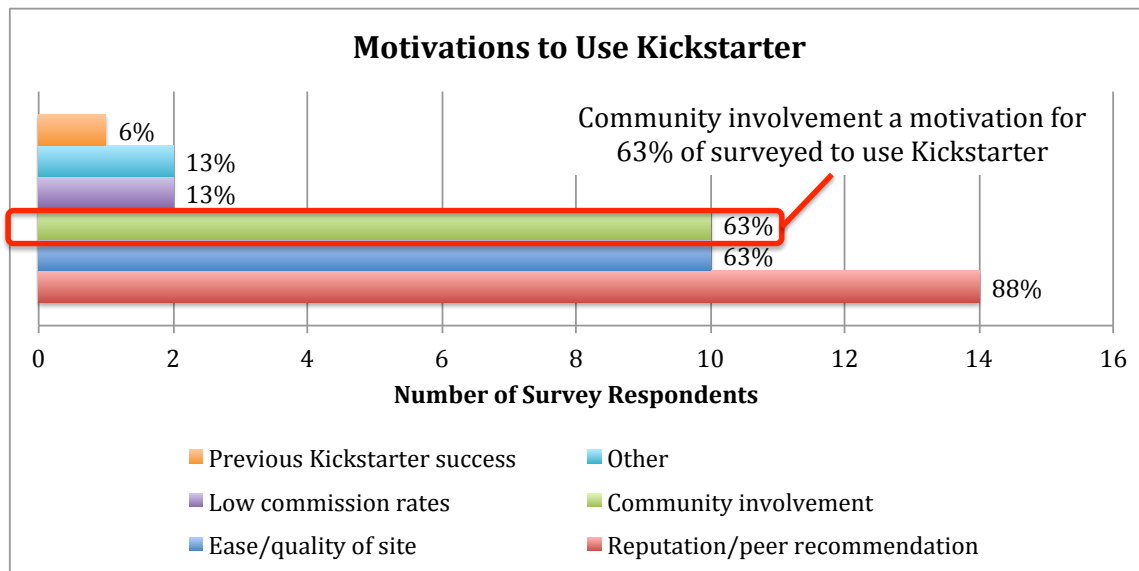
generativity. These projects are not unfiltered however (in fact, only 60% of projects are accepted¹²), and while their monetary contributions are ultimately what fuel project success, backers have little control over the scope or type of projects themselves (as proven in subsequent survey analysis).

A deeper theoretical analysis of Kickstarter's level of generativity is found in the Appendix.

What are the motivations and incentives for participation?

An empirical analysis in the form of surveys was deployed in order to get an understanding of the rationale for using crowd funding/Kickstarter. 16 survey responses were captured in total.

Figure 4: Creator Survey Summary (Motivations to Use Kickstarter)



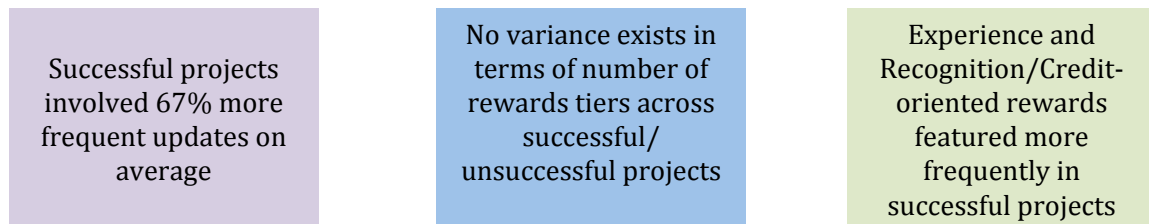
Based on the results depicted in Figure 4 above, opportunity to involve the community in the creation process was a key factor that triggered creators to utilize

¹² Strickler, Yancey, Phone Interview, April 29, 2011.

Kickstarter’s crowd funding platform for their project, beyond ease of use/reputation. Additional data captured from the aforementioned empirical analysis, shown in Figure 5 below, indicates a similar motivation exists amongst backers.

Figure 5: Rewards Category and Update Assessment

Project Status	Avg. # of Updates	Avg. # of Rewards Tiers	Rewards Categories: % of Projects Featuring			
			Product	Experience	Recognition /Credit	Special/ Exclusive Access
Successful	5	8	96%	77%	92%	62%
Unsuccessful	3	8	100%	46%	77%	54%



As shown above, *variety* appears to be a less influential factor as compared to *category* of rewards offered. In particular, the emphasis of Experience rewards in successful projects seems to point to a desire for contributors to close the gap between creation and consumption. Recognition/Credit was also a strong influencer, furthering the notion that contributors want to, quite literally, be part of cultural production.

Beyond the higher frequency of project updates found in successful projects shown in the above chart, 38% of unsuccessful projects did not feature *any* project updates, compared to only 15% of successful projects. These data points suggest that a discourse amongst creators and backers is of key importance in driving successful fundraising.

Survey results, as noted in Figure 6 below, highlight a perception amongst project creators that rewards are also highly influential in yielding contributions from backers, but not as crucial to success as a creator's own social circle, especially Facebook.

Figure 6: Creator Survey Summary (Factors Influencing Projects)

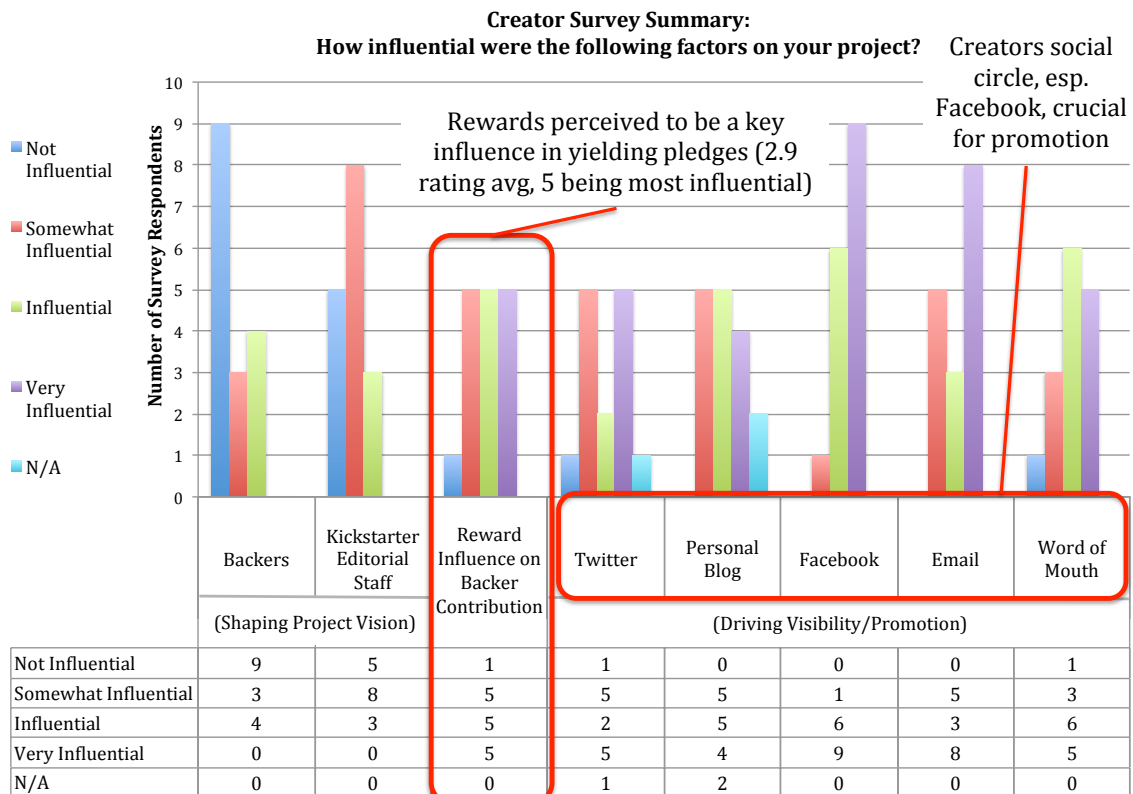


Table Data Reflects Number of Survey Respondents

In order to further tap into what inspires creators and backers to participate in crowd funding on Kickstarter, I supplemented my project analysis and surveys by conducting interviews with the following two individuals:

- Yancey Strickler, Co-Founder of Kickstarter
- Jason Brubaker, Project Creator of successful reMIND Graphic Novel project

In discussing what compels backers to contribute to projects, Yancey points to some tangible and intangible motivations that echo what was seen previously:

- (Tangible) Product: Almost functioning as a “pre-order mechanism,” people contribute because they want the product featured in the project or its reward categories
- (Intangible) Recognition: Creators receive opportunity of “being found” on Kickstarter, increasing one of “the largest platforms for ideas in the world.” Backers receive “bragging rights...and a story that [they’re] a part of.”
- (Intangible) Experience: “There’s a unique emotional experience that comes with...supporting someone directly...and [having] had a material impact on a [project’s] material existence.”
- (Intangible) Social Circle/Relationships: Connection to creator (friend, relative, etc.) or to category/project theme.

Brubaker reinforces this:

- Product: “This is a chance to get some unique stuff from people that you wouldn’t be able to get otherwise.”
- Recognition: Motivation is to be part of the discovery: “it’s all this potential huge talent that people can invest in and be a part of before it gets big.”
- Experience: Opportunity to “be part of someone else’s creative project” and “really connect.”
- Social Circle/Relationships: “It’s beyond category, it’s more about the project and the person behind the project.”

Strickley and Brubaker's comments point to an interesting theory as to why the majority of projects monitored received surplus funds. Particularly in cases where projects went far beyond their fundraising goal, latent contributors might have sought to stake their claim on involvement with a notable project. This type of behavior can be explained by Cass Sunstein's interpretation of the "wisdom of crowds," and his assertion that "in a group setting, people will often gravitate towards a strongly stated opinion, especially if their own opinions aren't fully formed."¹³ Projects that generate vast amounts of pledges create a sense of intrigue, and Kickstarter even encourages this trend via its highlighting of "Popular" projects. Additional evidence of the wisdom of crowds at play is exhibited by the fact that the majority of pledges go to successful pledges, and in fact success rate increases to 52% after a single pledge.¹⁴ Strickler likens it to the psychology surrounding waiting in line for something, and how "people like to be part of winning campaigns."

Conclusion

There are several core benefits associated with the current migration towards collaborative funding. For traditional paths such as venture capitalism, where profit potential is high, there is an associated high level of financial risk. Crowd funding serves to mitigate some of that risk, such that smaller sums are distributed amongst more varied projects. As Brubaker notes, even those projects that fail to achieve

¹³ Ethan Zuckerman, Review of *Infotopia*, by Cass Sunstein, *Ethan Zuckerman Blog*, November 30, 2006, <http://www.ethanzuckerman.com/blog/2006/11/30/cass-sunsteins-infotopia/>.

¹⁴ "The Kickstarter Blog."

funding status benefit from the vetting process, “because it’s important for creative people to see if people respond to their project or not. If they don’t get funding for it, it’s time to rethink things.” Additionally, crowd funding affords a higher level of transparency and immediacy, due to the online nature of the platform. Kickstarter’s interpretation of this platform is undoubtedly altering the innovation landscape, and with the majority of proposed projects studied achieving their goal, can largely be considered successful.

However, from the standpoint of the entrepreneur, the expanded funding base yields communication challenges, particularly in cases where hundreds of backers contribute pledges. This may confine Kickstarter to smaller scale initiatives.

Kickstarter’s policies also may be yielding some negative outcomes. The lack of caps on fundraising undoubtedly helps to inflate Kickstarter’s commission totals, but does not necessarily improve final project outputs.

Nonetheless, the cultural impact of this new fundraising system is powerful. As echoed by the sentiments of those surveyed and interviewed, being part of creating culture is a driving force behind fund contribution. The Internet’s facilitation of a platform such as Kickstarter creates a level of transparency into how culture is produced, and equips users with the tools to ensure that what they want to consume is made available. Users become exposed to and involved with the process (“how”) and creators (“who”) behind innovation, which is the essence of Benkler’s folk-culture model of cultural production.

Bibliography

Interviews Conducted

Strickler, Yancey. Phone interview. 29 Apr. 2011. Co-Founder of Kickstarter.com.

Brubaker, Jason. Phone Interview. 29 Apr. 2011. Project Creator of reMIND Graphic Novel project.

Works Cited

Adler, Carlye. "How Kickstarter Became a Lab for Daring Prototypes and Ingenious Products | Magazine." Wired.com .

http://www.wired.com/magazine/2011/03/ff_kickstarter/all/1 (accessed April 12, 2011).

Benkler, Yochai. *The wealth of networks* . New Haven, Conn.: Yale University Press, 2006.

"Community Guidelines." Kickstarter.

<http://www.kickstarter.com/help/guidelines?ref=footer> (accessed April 12, 2011).

"Crowd funding - Wikipedia, the free encyclopedia." Wikipedia, the free encyclopedia. <http://en.wikipedia.org/wiki/Crowdfunding> (accessed April 12, 2011).

"Frequently Asked Questions." Kickstarter.com.

www.kickstarter.com/help/faq?ref=footer (accessed April 12, 2011).

Kocialski, Cynthia. "Guest Post: Micro Venturing and Crowd Funding - Hot Alternative Funding Trends | Startup Tips From Logan Lenz." Logan Lenz's

Blog | Helping Entrepreneurs Launch Their Companies.

<http://www.loganlenz.com/funding-trends> (accessed April 12, 2011).

Propero. "Crowd-funding art: The Q&A: Perry Chen, Kickstarter | The Economist."

The Economist - World News, Politics, Economics, Business & Finance.

http://www.economist.com/blogs/propero/2010/10/crowd-funding_art

(accessed April 12, 2011).

"The Kickstarter Blog." Kickstarter.

<http://blog.kickstarter.com/post/5014573685/happy-birthday-kickstarter>.

(accessed May 10, 2011).

Zittrain, Jonathan. "The Generative Pattern." In *The future of the Internet and how to*

stop it. New Haven [Conn.: Yale University Press, 2008. NA.

m/blog/2006/11/30/cass-sunsteins-infotopia (accessed April 12, 2011).

Appendix: Chart depiction of Kickstarter’s level of Generativity, using Jonathan

Zittrain’s 5 core principles

		Does Kickstarter exhibit characteristics that support this principle?	
5 Principles of Generativity	Definition	Yes	No
Leverage	How extensively a system or technology leverages a set of possible tasks	The founders originated the concept of Kickstarter largely in order to create leverage - i.e., an easier means for creative individuals to propel their projects forward. Given that some projects garner hundreds of backers from all over the world, this system makes it much more feasible to gather these pledges than if an individual had to physically seek them out. If we consider Kickstarter's purported fundraising success rate of just under 50%, it can be considered at least moderately leveraging.	
Adaptability	How well a system can be adapted to a range of tasks	Compared to crowd funding platforms that specialize in one vertical (i.e., DonorsChoose focuses on philanthropy, Spot.U.s focuses on journalism), Kickstarter covers a broader range of creative fields. It supports a wide range of projects from food trucks to music albums to open source software development. Beyond its original purpose of fundraising, Kickstarter can also be adapted as a social network of sorts by connecting individuals with likeminded interests. It even is serving as a case study for this research project.	However, Kickstarter is at its core confined to the very specific task of project fundraising, and generally does not stray from this purpose. Even within that context, it is limited to creative projects and does not support businesses or philanthropic ventures.
Ease of Mastery	How easily new contributors can master the system	The skill required to participate in Kickstarter as either a creator or a backer is very minimal. Those with basic web navigation skills can accomplish the task.	
Accessibility	How accessible it is to those ready and able to build on the system	Since it is free to establish an account and to start a project, anyone with access to the Internet is generally able to participate in the Kickstarter process. There is also a wealth of information provided to help creators master the platform.	There are some limitations to Kickstarter's accessibility. Pledges by backers must be made through Amazon, and creators must have an Amazon Payments account to receive them. Additionally, a US Bank account is required to start a project.
Transferability	How transferable any changes are to others—including (and perhaps especially) non-experts.	The fact that projects reside in a web environment make Kickstarter highly transferable. Projects started in San Francisco may be quickly shared with backers in London. Additionally, the site itself exists in a transferable medium such that policy or functionality changes are easily conveyed to users.	