DIY Crowdfunding

6 How it Can Solve the Six Big Crowdfunding Problems

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Quilageo

Emergence of a New Model

Reports on developments in the crowdfunding industry suggest a continued uninterrupted climb toward ever more enormous volumes of capital raised, thousands of campaigns launched and numbers of platforms competing for users.

Yet there is a serious fault in the existing crowdfunding infrastructure that is a major pain point for crowdfunders and a potentially negative omen for the sites that currently serve as the conduits for almost all crowdfunding in the world.

A dramatic innovation is emerging that threatens the status quo in the crowdfunding universe. This is scary news for crowdfunding mega-sites like GoFundMe, Kickstarter and Indiegogo, but it is bright news for individuals, start-ups, businesses and non-profits that are growing weary of the repressive rules, time limits and other arbitrary restrictions and fees imposed by the mega-sites.

Do-it-yourself (DIY) crowdfunding has the potential to upend the new, vast and massively expanding crowdfunding sector.

Industry Status

There are general and specifically targeted crowdfunding platforms, as well as hybrids, focused on, for example:

MUSICIANS | OPEN SOURCE SOFTWARE DEVELOPMENT | REAL ESTATE | EDUCATION | NON-PROFITS | FAITH-BASED ORGANIZATIONS | ARTS | PERSONAL MEDICAL EXPENSES | POLITICAL CAUSES | AIDING PEOPLE DURING HEALTH OR ACCIDENTAL CRISES | SCIENTIFIC RESEARCH | TV AND FILM PRODUCTIONS | BREAST AUGMENTATION | CHILDREN AND TEEN PROJECTS | ENTREPRENEURSHIP | AND MUCH MORE …

While crowdfunding originated as a means to encourage people to contribute on altruistic grounds, there soon emerged campaigns that offer various incentives, including rewards ("swag" in the parlance) or pre-production reservations for the crowdfunded product. The recent emergence of "equity crowdfunding," which permits campaigns to sell shares to backers, opens massive new opportunities for the sector.

Nearly every day brings a new study outlining the powerful growth of crowdfunding – an industry whose name was not even coined a decade ago. The most recent numbers indicate that crowdfunding, as predicted, is growing massively.

- Between 2009 and 2012, crowdfunding expanded at a compound annual growth rate of 63%.[1]
- Projections suggest that the crowdfunding market raised $16.6 billion in funding in 2014, generating 270,000 jobs and $65 billion in economic activity. Of this growth, donation-based crowdfunding will comprise the majority of giving, growing at a compounded annual growth rate (CAGR) of 444%, compared to equity crowdfunding, which is growing at a rate of 168%.[2]
- Crowdfunding has grown 1,000% in just five years.[3]
- By 2020, the industry is expected to reach $500 billion in project funding per year generating $3.2 trillion in economic value.
- Most of the crowdfunding so far has been through the huge crowdfunding mega-sites like GoFundMe, Kickstarter and Indiegogo.

These spectacular numbers may suggest that nothing can stop the powerful locomotive that this new capital-raising method represents. Yet in these numbers – or, more accurately, in the critical mass of projects and platforms the numbers represent – are the potential seeds for the decline of crowdfunding as we know it.

Crowdfunding has grown 1,000% in just five years.

More than 160,000 crowdfunding campaigns launch annually. Over half of those campaigns fail.

There is massive proliferation of crowdfunding sites.

- There are over 450 crowdfunding platforms worldwide
- More than 160,000 crowdfunding campaigns launch annually
- Over half of those campaigns fail

The failure rate is due to a confluence of realities.
Among them: bad ideas, bad implementation, bad campaigns.

But some of the failures are directly attributable to the structural faults in the existing crowdfunding mega-sites. Those faults are to a large measure a result of the velocity with which the sector is expanding.

We can think back to the earlier years of the World Wide Web and the plethora of then-revolutionary but now-forgotten programs and applications, like Altavista, WordPerfect and Friendster. The massive successes of today emerged from the ferment of a maturing internet culture.

A similar transformation could be upon us, with the biggest names in crowdfunding today potentially destined for an ignominious obscurity in a decade or so.

6 Big Problems with Crowdfunding Today

In some respects, one crowdfunding mega-site is much like the other, yet each has its unique, often arbitrary (if not arcane) rules, regulations, limitations and characteristics. Finding the site that is appropriate for a particular campaign can involve a daunting learning curve – even before the demands of the campaign itself begin.

Most importantly, regardless of which mega-site a campaign selects, almost all traffic and contributions ultimately come from the initiators' own circles and are mobilized through the marketing and PR efforts of the campaign itself. The crowdfunding sites actually provide very little benefit outside the platform structure. And those platforms are now becoming part of the problem.

There are few, if any, crowdfunding campaigns today that succeed simply because they were posted to a crowd-funding mega-site like Kickstarter. To succeed, campaign initiators must drive traffic, run a smooth PR campaign, convert the curious into paying backers and execute an entire strategic process to obtain support.

Herein lays an irony with the term “DIY crowdfunding.” All crowdfunding is, essentially, DIY. If you don’t accompany a campaign with a vigorous PR and marketing strategy, there is little hope of success. In the context of this paper, though, and in detail that will be discussed in greater depth below, the term means a very specific infrastructure of crowdfunding liberated from the capricious rules of the crowdfunding mega-sites.

How do the mega-sites help a crowdfunding campaign? They provide the online real estate for the campaign to advertise itself – and little else. While the mega-sites actually give campaigns very little, they take from the campaigns an enormous amount – including a nice slice of revenue and ownership of the data collected from backers.

This is not all. The drawbacks and disadvantages of crowdfunding mega-sites are imposing.

The universe of crowdfunding sites is increasingly crowded and confusing. There are equity and non-equity, debt and reward-based crowdfunding sites targeted to pretty much everything an entrepreneur can imagine.

Yet each of the crowdfunding mega-sites has its own particular, often daunting and usually arbitrary rules and disadvantages, including:

PROBLEM # 1. Time Limits

This is a common rule in crowdfunding, with campaigns usually limited to a few weeks. There is no logic to this rule except for the sense of urgency it allegedly stimulates. Yet this is a primary reason why the majority of campaigns fail. Particularly because almost all crowdfunding campaigns are launched by people with no prior experience, the process involves, by definition, a steep learning curve. Time-limited crowdfunding platforms undermine their very purpose by cutting off campaigns at precisely the time when initiators are gaining their footing, learning the basics of user-acquisition, conventional and social media relations, customer service, retention and vertical cultivation. Time-limiting rules are among the crowdfunding mega-sites’ most detrimental features.

PROBLEM # 2. All or Nothing

Most of the major crowdfunding sites have an “all-or-nothing” policy. Either you raise the entire goal amount in the limited time period or the campaign receives nothing. Again, the only logic to this arbitrary rule is the sense of urgency and threat of loss. And crowdfunding campaigns that allow you to keep the funds despite an unmet funding goal charge higher commission rates (some as high as 9%). Another downside to the mega-sites is that unsuccessful campaigns are, in some cases, left permanently online as a monument to apparent failure. The all-or nothing approach, and the high commission rates, are not beneficial to the campaign initiators.

PROBLEM # 3. Secrecy and Control

Most mega-sites have privacy policies that benefit the mega-sites and disadvantage the campaign proponents. Most, if not all, of the backers driven to support a campaign are motivated by friendship or association with the initiators and are driven to act through specific targeted marketing and PR campaigns by the campaign itself – not by the mega-site. Yet all of their contact information and other data is the property of the crowdfunding mega-site (unless, in some cases, the campaign is successful – and even this is a minority of campaigns). The information is maintained by the mega-site and failed campaigns are restricted from contacting backers, even as the mega-sites are free to utilize the user information for their own marketing purposes. The crowdfunding mega-sites have created a relationship that is wildly one-sided.

PROBLEM # 4. Onerous Acceptance Barriers

Because many mega-sites have a narrow-interest focus, projects require approval from the site before listing. Even some sites with broad criteria require review. And just because a project fits the narrow scope of a site's general requirements still does not guarantee approval. The acceptance process differs for every site, but what they all share in common is a lack of transparency and openness – both in terms of how decisions are made and what sort of projects are welcome. This draconian policy subverts the basic philosophy of crowdfunding, which was invented to realize open, accessible, less restrictive funding for start-up ventures. And mega-sites like Kickstarter reject 25% of campaigns and disallow charity crowdfunding.

PROBLEM # 5. Inherent Competition

Every campaign listed on a crowdfunding mega-site is in direct and immediate competition with every other campaign. Of course, competition is inherent in everything we do, but rarely is it as direct and threatening as in the case of these mega-sites. Think of a shopping mall. There is a trade-off in the fact that a collection of retailers draws a critical mass of consumers, which may have a positive spillover effect on stores that, for example, do not spend money on advertising but are situated adjacent to mega-advertisers like Target or Best Buy. There is a possibility that someone who is drawn to the mall by one store may end up shopping at another, but the likelihood is they will shop at both. In crowdfunding, the mall analogy holds up only on one side. Backers who come to crowdfunding sites, as mentioned above, are overwhelmingly driven there by a particular campaign. The likelihood of being distracted and coopted by another campaign is large (especially to the mega-site's "staff picks" which highlight a particular campaign and distract the visitors a particular campaign has spent resources on attracting). Moreover, while a mall visitor will often spend money at four or five stores, a crowdfund backer is far less likely to distribute their "shopping" and, even if they do, this is almost certainly a zero-sum that will negatively affect the campaign that drew them in the first place.

By 2020, the industry is expected to reach $500 billion in project funding per year.

PROBLEM # 6. Lack of Features

Existing crowdfunding mega-sites do not offer additional functional components for users, such as loyalty rewards, gamification, voting and charitable components, draws, customized and branded mailers, sponsorships, advertising, interoperability and other features. More importantly, existing Crowdfunding mega-site are specific in not allowing users to utilize their sites as an ecommerce or fulfillment system. Therefore, campaigns seeking additional revenue streams – or even simply to retail the very products they are crowdfunding for – will need to have an ecommerce site prior to launching their crowdfunding campaign. The ecommerce site will need to be up and running and have fulfillment and payment capabilities, supply chain and distribution networks, and methods to handle fulfillment, warehousing and customer relations. Failure in any of these functions could result in serious repercussions.

These significant shortcomings in the crowdfunding mega-sites that dominate the sector today are the seeds we discussed above, which could bring destruction to the way crowdfunding is currently evolving.

DIY Crowdfunding

The six big problems with crowdfunding in the last section are all serious issues. Yet none is more potentially deleterious than the issue of inherent competition.

As mentioned, effectively the only real benefit that crowdfunding mega-sites deliver is a platform – an online place to post a campaign.

What they take – in addition to fees and what should be proprietary data – is most hope for a competitive advantage. On the contrary, as soon as a campaign is posted on a mega-site, it goes up against hundreds, often thousands, of directly competing campaigns. The more the mega-sites grow – and right now they are expanding like the universe as crowdfunding goes mainstream – the bigger this inherent flaw becomes. The more campaigns on a site, the more competition for each campaign, the less value the mega-site delivers.

We have addressed the term “DIY crowdfunding” in its generic sense, above, in the context that success for a crowdfunding campaign always means a lot of DIY elbow grease. The PR, virality, publicity – everything about the campaign is handled by the proponents except for the comparatively minor role of actually hosting it.

By 2020, the industry is expected to generate $3.2 trillion in economic value.

The new iteration of the term "DIY crowdfunding" means avoiding the mega-sites altogether. There are a few Band-Aid solutions available, like a WordPress plug-in that allows site managers to tack on a crowdfunding component.

The real revolution in crowdfunding will emerge when a good example of a crowdfunding platform becomes available as a "software as a service" (SaaS). The right combination of options in a SaaS-model crowdfunding platform could tear up the industry as it now exists.

To quickly clarify the term SaaS, consider the examples of Spotify, a music subscription, Dropbox, which effectively rents "space" in the cloud, Netflix, a video service, and a lot of familiar names in payroll processing, HR management and accounting.

Alleviating the Pain

The DIY crowdfunding sector will expand as site consumers (that is, campaigns) recognize and reject the restrictive, controlling, unfair practices and limited ecommerce fulfillment functionality of the mega-sites. The overcrowding of these sites by competition from thousands and, eventually, millions of other campaigns will erode the value of the mega-sites. Not only is "discoverability" – the likelihood of being discovered by chance and gaining backing – small and shrinking, (especially when a campaign is relegated to the far reaches of the site) but with every new campaign that joins a mega-site, every other campaign suffers a greater likelihood of losing backers to competitors or being lost in oblivion. It is the law of diminishing returns – the more campaigns that get launched on crowdfunding mega sites, the less likelihood your campaign will get noticed as the site is increasingly filled with competitors and competing offers.

At the beginning of crowdfunding, when there were a much smaller number of campaigns, there was a possibility of being "discovered." Even then, having existing social capital – networks that can be mobilized through online sharing – was crucial to success. Now it is the only avenue through which campaigns can succeed. As "discoverability" has ceased to be something the mega-sites can truly offer, their only value now is as a medium, as a platform, even with all their associated benefits and faults. Given the option of a brandable, customizable, interoperable, comprehensive DIY option, mega-sites should disappear like some of the once-promising, now-forgotten innovations of the early online period, like AltaVista, Friendster and Myspace.

Concurrently, more and more start-ups and established businesses, non-profits, causes, social enterprises and individuals are identifying crowdfunding as a legitimate and viable funding option on par with angel funding, debt and equity.

This organic expansion will collide with dissatisfaction with existing options to create a perfect storm for DIY crowdfunding. And it will begin as soon as a viable DIY platform, in the form of a SaaS, is on the market.

To ride this wave, DIY crowdfunding must also acknowledge and ameliorate one of the serious downsides of existing mega-sites: time-limitedness. The mega-sites punish users on two fronts: with arbitrary timelines and control of proprietary information. The timelines most mega-sites impose strangle campaigns just at the moment when proponents are mastering the learning curve. Succeed or fail (and most fail), campaigns are cut off at a time determined by the mega-sites. Then the information accumulated – backers, their contact information and other data points – are subsumed by the mega-sites (to be monetized in future by the mega-sites) and withheld from the campaigns whose efforts attracted them in the first place.

The DIY model leaves this information in the hands of proponents, allowing successive rounds of fundraising, stretch goals, on-going revenue and network development. This model permits and encourages the nurturing of the crowd – the networks built and sustained by the campaign initiators – as an on-going asset and community. This is the least that should be expected in a customer service-driven culture. Yet it is fundamental to the crowd-funding mega-sites that this crucial data be withheld from the campaigns and exploited by the mega-sites. This is not sustainable and campaigns will soon be demanding fairness on this front.

There is also the not-insignificant matter of costs. Most existing mega-sites slice a good chunk of the revenue raised off the top. Again, this varies widely, but can go as high as 9% in addition to other possible related service costs, such as transaction fees. A SaaS model is based on a monthly or annual subscription structure.

As crowdfunding becomes more widely viewed as a revenue and capital source for every range of project, the limitations of existing mega-sites will become even more accentuated. The diversity of campaigns will eventually outstrip the narrow parameters of many mega-sites. Real estate is among the first breakout examples of this phenomenon. An industry that unexpectedly has turned to crowdfunding did not find any appropriate platform, leading to a new category of industry-specific sites. Even so, while these more industry-specific sites will alleviate some of the problems of the mega-sites, they are also likely to exhibit some of the same issues as they grow.

Whatever the industry orientation of a site, the inability to extend or adapt campaigns based on changing needs is the antithesis of the sort of flexibility consumers demand and expect in a technologically open internet age where social capital is the purview of the user.

Finally, as a concept intended exclusively to raise revenue, it is plainly ridiculous that crowdfunding mega-sites have steadfastly resisted incorporating ecommerce and other revenue-generation functions into their structures. Successful crowdfunding platforms of the future will incorporate multiple revenue-generation points, including advertising, product placement, enhanced ecommerce and independent communications and loyalty programs for break-out programs.

The Future

The six big problems with crowdfunding each present major challenges to the crowdfunding mega-sites. Dedication to addressing the faults could allow some of the mega-sites to correct some of the most egregious problems.

There are solutions, which could satisfy consumers – that is, crowdfunders (campaigns) – but each of them entails a compromise from the mega-sites. Until there is a form of competition that moves the crowdfunding mega-sites to make their offerings more user-centric and fair, the mega-sites will not be motivated to act.

The six big problems with crowdfunding could be alleviated by mega-sites, but at some cost to their bottom lines. On the other hand, for a SaaS DIY crowdfunding model, all these solutions are inherent in the structure:

SOLUTION # 1. Time Limits

Mega-sites insist that time limits are motivating factors for backers. Perhaps this is true, in some instances, but it may be self-defeating for campaigns to take the advice of the mega-sites on this matter when more than half of all campaigns fail. While time limits may have some measurable advantage in creating a sense of urgency, that value must, in far more cases, result in failure when the campaign is snuffed out prematurely, just as the initiators are getting a handle on the technical and publicity aspects of the campaign. Mega-sites could change this model – some already offer no time-limits. But DIY crowdfunding leaves the decision to the campaign. Put a time limit on it. Put no time limit on it. Put a time limit on and then change it. DIY crowdfunding is about the initiator setting the rules.

SOLUTION # 2. All or Nothing

There is some logic to an "all or nothing" strategy. Backers might like to know that their funds will be accepted only if the project they back goes ahead. Fair enough. But there is a changing attitude toward crowd funding. When it is used by start-ups, businesses and nonprofits, it is not necessarily simply to fund a single project. Like any other source of capital, crowdfunding is being seen as a viable avenue for funding stretch goals, successive projects or iterations of a product. Mega-sites have not adapted to this organic progression. More importantly, as crowdfunding becomes accepted as another avenue for capital raising, it is becoming just one of the several options, including debt, equity and angel funding. Therefore, success or failure on a crowdfunding campaign does not mean that the project will not move forward. If a campaign can raise 50% of the money, which leads an angel investor to throw in for the other half, the project gets completed, even though the crowdfunding campaign did not meet its goal. Under an all-or-nothing strategy, the project would not happen. There are advantages and disadvantages to the all-or-nothing approach, but it should be left to individual campaigns — and their backers — to decide which works best for them. This is central to DIY crowdfunding — let the campaigns and their networks select what works best for their purposes.

SOLUTION # 3. Secrecy and Control

This is one of the bugbears that will almost certainly turn campaigns against the mega-sites as alternatives emerge. Crowdfunding is all about raising funds, right? That is the end goal, certainly, but the process through which campaigns reach that goal is, by definition, the development of networks and communities. These networks and communities, usually emerging in concentric circles from the project initiator's family and friends, then outward, are as valuable over the long term as their pledges are over the short term. At present, the mega-sites maintain and control all the information – in effect "owning" the networks and communities built by their campaigns. Social networks are an asset brought to the mega-sites by campaigns – and kept by them. When the campaigns end, in most cases, that information remains with the mega-sites, not the campaigns that built them. This is blatantly unfair. The mega-sites could change this rule, but it would severely undermine their bottom line in the long-term, as they intend to monetize the networks others have built for them. DIY crowdfunding leaves those networks' and communities' information with the campaign itself, allowing for natural, organic cultivation and development over time, not just for a single project, but as a circle of supporters who may be interested in additional projects from the same proponents, further developments of the original project, stretch goals of any sort or even just updates on what has happened since a campaign was completed. All of these options are available through DIY crowdfunding. This is central to why people will eventually gravitate toward DIY and away from the controlling nature of the mega-sites.

SOLUTION # 4. Onerous Acceptance Barriers

Every crowdfunding mega-site has its own target market, audience and interests. That's fair. But, when a newcomer — and almost everyone is a newcomer to crowdfunding — needs to find the place where their campaign would most likely succeed, they are faced with an ocean of information to wade through. The Internet is now clogged with comparison charts and reviews comparing one crowdfunding mega-site with another. It is sort of like comparing checking account or mortgages, except rather than four or five banks to choose from, there are 450 crowdfunding platforms in the world today. Even if a campaign finds the platform they deem ideal for their purposes, there is still the matter of being accepted. Some mega-sites accept any campaign, others are far more particular. This is the prerogative of the mega-sites, of course, and consumers are free to wade through all the information in hopes of finding the site that is best for them. But DIY crowd funding eliminates all of that by allowing campaigns to set

their own rules and instantly launch campaigns that might have been rejected or delayed by an approval process of one of the mega-sites.

SOLUTION # 5. Inherent Competition

As we have discussed, the crowdfunding mega-sites offer very little to campaigns except a place to hang their shingle. Far worse, every campaign that joins the mega-site is pitching itself against hundreds, possibly thousands, of competing campaigns. There is simply no way for the mega-sites, as they exist now, to overcome this fundamental and potentially fatal fault. DIY crowdfunding's most valuable inherent characteristic may well be the fact that there is no inherent competitiveness on the site. A campaign builds its own site, drives its own traffic — just like it has to on the mega-sites — and when their backers arrive on the site, there is no chance of them being drawn away by shiny objects a mouse click away on the same site.

SOLUTION # 6. Lack of Features

The crowd funding mega-sites are intended as a one-size-fits-all platform. Most have almost no ability to turn on and off additional functions, offer cool features or gadgets, permit unique branding or other customization. Essentially, what the crowdfunding mega-sites offer the customer is free to either take or leave. Crowdfunding mega-sites are about as accommodating and flexible as low-cost airlines. Most egregious, given that the objective of crowdfunding to raise funds, is the apparent unwillingness or inability to incorporate ecommerce or other additional revenue-generating points into the crowdfunding platforms. When a SaaS model DIY crowdfunding platform emerges, consumers will demand the kind of customizability expected in the customer-centric culture we live in (a culture the mega-sites seem to not have caught up to yet).

Beyond the Six Big Problems

The previous section looks at how DIY crowdfunding can alleviate the six big problems of crowdfunding mega-sites. But DIY offers more than just the fix for what is wrong with the mega-sites. DIY crowdfunding has the potential for endless evolution and innovations.

Because DIY crowd funding offers the potential for users to add or remove components at any time, the potential is literally boundless for the creators of DIY crowdfunding platforms to continually add new innovations. Unlike universal changes to platforms to which every user must adapt (think of the uproar every time Facebook changes a component or Windows launches a new "upgrade") users can explore additional add-ons at their leisure and comfort. So, without adding any unnecessary complexity or forcing anything on a campaign that wants to keep it simple, DIY crowdfunding can offer campaigns the right and ability to be as simple or complex as they wish. The variety of components that could be added through a DIY model far exceed anything that a bulky, inflexible mega-site can offer, including control of the communication, logistics and fulfillment centers, the integration of charity and corporate social responsibility (CSR) components, loyalty rewards, tracking of social networks within the platform, a blog site and other important features that will assist with the launch of successful crowdfunding campaigns.

DIY: Freedom and Flexibility

To resolve all six to the satisfaction of users in a customer-service-focused environment will take a revolution.

It is not inconceivable that crowdfunding mega-sites could adapt their business models in order to address these major faults, but each one, in its way, would impact on the bottom line, particularly when addressing the proprietary issues around consumer data. While the commissions mega-sites charge are a major revenue-generator, it is clear the longer-range strategy for these sites is the monetization of user data.

DIY crowdfunding offers freedom, flexibility and the possibility for campaign initiators to customize campaigns, with the added feature of maintaining control of their social networks, and adding customizable tools like customer relationship management (CRM) modules, built-in communications, rewards, contests, up-selling opportunities, sponsorship programs, advertising modules, logistics and other highly functional components. This allows for the emancipation of crowdfunding.

The next disruptive innovation in the sector will be the creation of a SaaS model that allows initiators the freedom to develop stand-alone, branded, customizable crowdfunding sites that integrate seamlessly with the complete online presence of the start-up, non-profit or business.

[1] http://www.startupvalley.com/blog/the-role-of-equity-crowdfunding-globally.htm
[2] http://magazine.coassets.com/2015/01/06/why-donation-based-crowdfunding-is-here-to-stay-and-growing/
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