



# Crowd-Based Digital Business Models

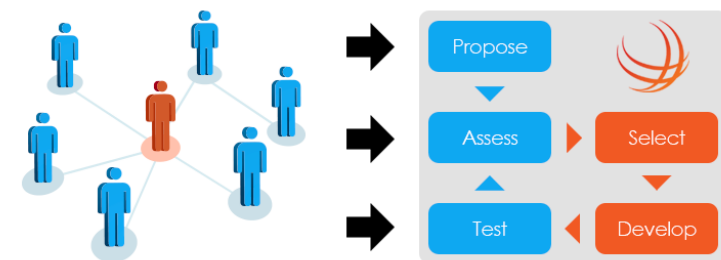
## Crowdfunding, Crowdsourcing, and P2P Online Lending

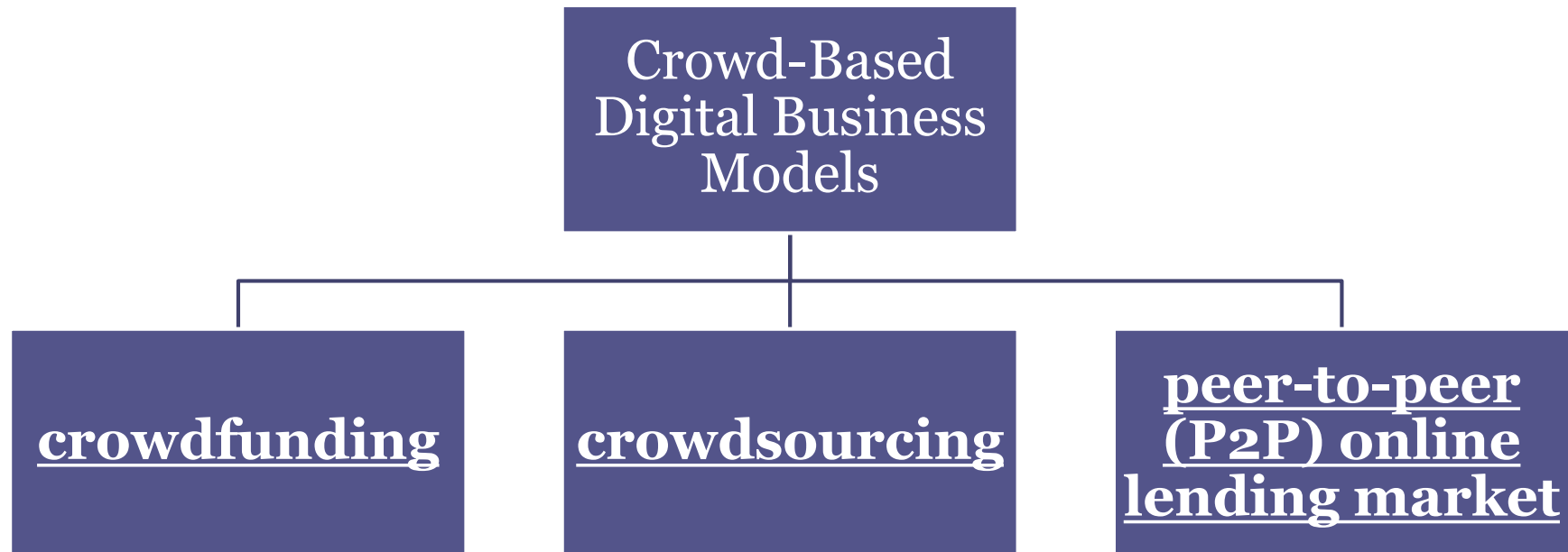
By

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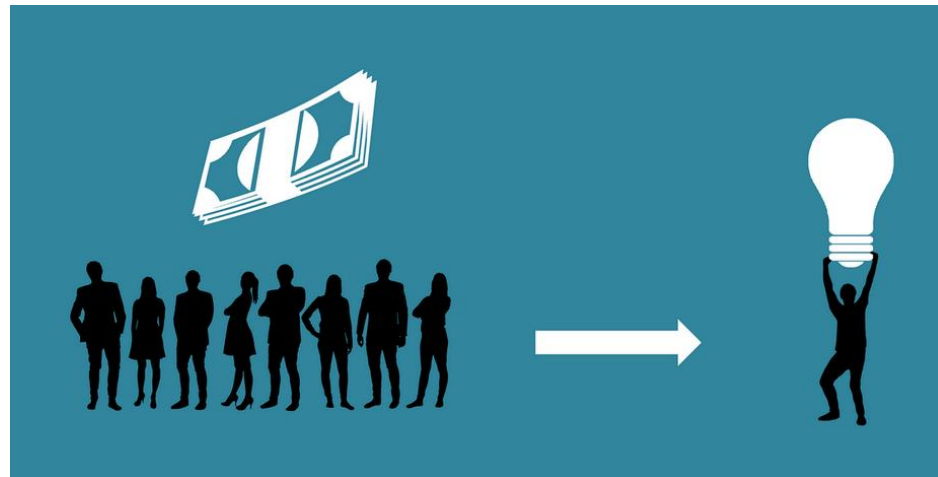


The chapter presents an in-depth discussion of the value creation in the platform-based businesses of the Web, including **crowdfunding, crowdsourcing, and peer-to-peer (P2P) online lending market**. Moreover, solution concepts that resolve potential issues of trust and fear, mainly in crowdfunding and P2P online lending, will be presented. Through intriguing facts, up-to-date data on the existing platforms, and illustrative examples, the chapter will help you understand the current state of the art.

- This is to equip the reader with the techniques on how to effectively participate in crowd-based businesses as a digital entrepreneur or investor. The chapter is organized as follows. The first section focuses on crowdfunding, examining the crowdfunding models, underlying problems, proposed solutions, and the implication for crowdfunding.

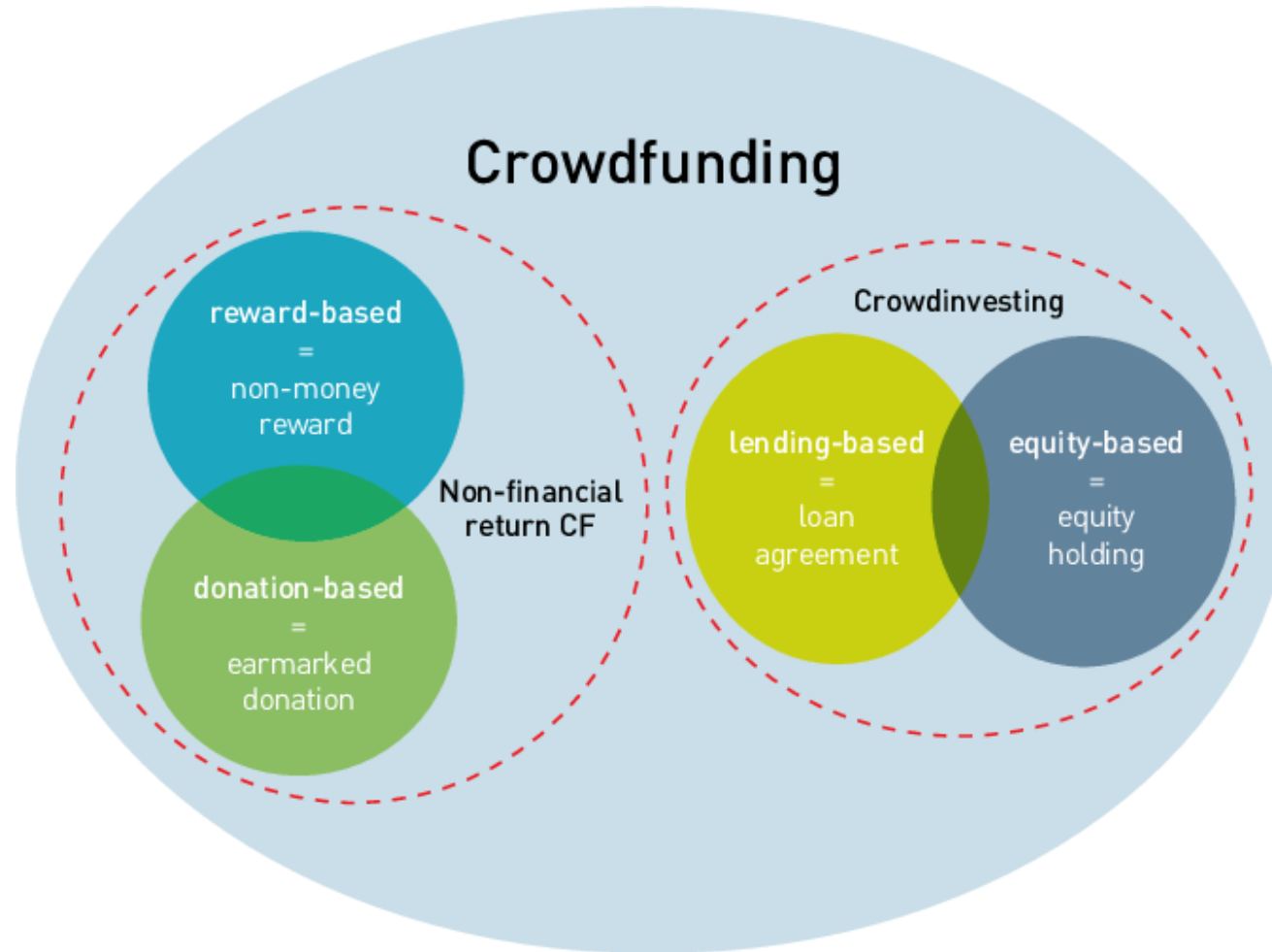
# Crowdfunding

## Section 1



# What Is Crowdfunding

Crowdfunding is shaping the collaborative economy by creating a financial market that operates as an accelerating catalyst for a wider range of investorentrepreneur relations. Crowdfunding can generally take the form of investment crowdfunding (which can follow debt-based, equity-based, profit-sharing, or hybrid models) or donation crowdfunding. In investment crowdfunding, project initiators and funders interact on the basis of expected returns.



## What are the different crowdfunding models?

### **EQUITY-BASED**

*For financial return*

Sale of registered security by mostly early-stage firms to investors.

### **REWARD-BASED**

*For non-monetary rewards*

Donors have an expectation that recipients will provide a tangible (but non-financial) reward or product in exchange for their contribution.

### **LENDING-BASED**

*For financial return*

Debt-based transactions between individuals. Mostly unsecured personal loans.

### **DONATION-BASED**

*For philanthropy or sponsorship*

No legally binding financial obligation incurred by recipient to donor; no financial or material returns are expected by the donor.



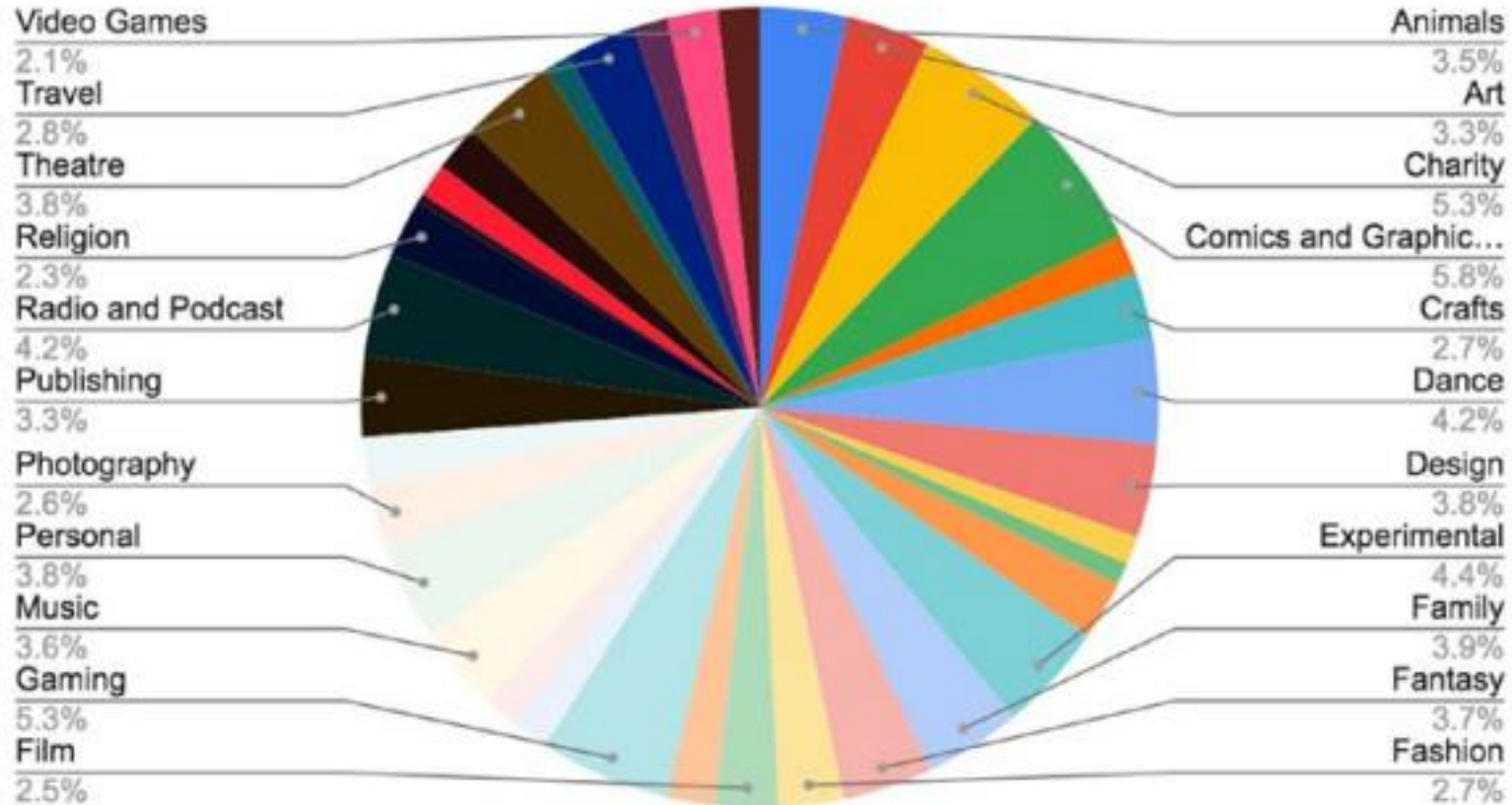
**Crowd  
funding**

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**For example,** in equity crowdfunding, several types of capital and creative projects are sold to a crowd of potential shareholders in the form of equity, while in debt crowdfunding, the crowd investors finance the debt and receive a debt instrument that pays interest return. Note that equity-based crowdfunding is one of the potentially co-utile markets in the crowdfunding industry, because it is a win-win game both for the entrepreneur who gets new financing sources and an investor backing this entrepreneur which gains by being a stakeholder of a potentially growing startup company.

A special form of investment crowdfunding is reward-based crowdfunding in which the returns are nonfinancial. In reward-based crowdfunding, the crowd collaboratively donates pre-purchases products, or buys unique expertise experiences in return for a refined set of products or rewards. A typical example here is a free software development or a scientific research project.<sup>5, 6</sup> On the other hand, a donation crowdfunding is mostly initiated for charitable projects with a social cause.

## Histogram



**Figure 2-1.** Percentage of global successful projects by category (January 1, 2014–March 12, 2020)<sup>4</sup>

## Activity (Group discussion)



Main Problems in Crowdfunding

**Working time :15 min**



- There are a number of problems that are inherent to crowdfunding, including issues of coordination and asymmetric information resulting in mistrust and fear effects. Lack of coordination between funders is one of the key deterring factors in the crowdfunding effort.
- An experiment on a simulated donation based crowdfunding platform by Solomon et al. (2015) indicates that a leadership approach is a better strategy to donate for a project of one's interest (i.e., to back a project on which you have confidence in order to signal for other potential donors) provided a time frame for a project to be funded.

- In contrast, the wait-and-see approach is a better strategy for funders with small payouts and relatively weak preferences (wait and make a small contribution at the end). In addition to this, both intentional and unintentional free riding may occur in the crowdfunding market.

# Crowdfunding Models

- The fund-raising projects from the general public through online platforms commonly rely on two basic models or a mixture of them. The two models are “all or nothing” or “keep it all.”
- The all-or-nothing (a.k.a. return rule method) model is when the fund-raising period is over, money is only collected from the contributors if a predetermined minimum amount of money has been pledged; if the target amount is not reached, no money is collected. This method is better for projects whose success critically depends on a certain minimum budget (Wash and Solomon, 2014).



# Crowdfunding Models

- **The keep-it-all** (a.k.a. direct method) model is where all the funds collected over that specified fund-raising period are handed over to the requester (entrepreneur), whether the target amount is reached or not. This model is convenient for continuous projects in which any amount of funds raised can still be used to keep the project in progress.