

A thick dark blue vertical bar runs along the left edge of the slide. A blue arrow-shaped banner points to the right from this bar, containing the text 'Adam Lloyd – R00117318'. In the bottom-left corner, several thin, curved lines in dark blue and light grey sweep upwards and to the right.

Adam Lloyd – R00117318

# Rewards Based Crowdfunding

Managing the Mob Mentality

Web Trends & Culture – COMP8035

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## Abstract

This paper will explore the motivation and behavior of investors in relation to crowdfunded projects and how it affects their outcome. It will explore the psychological factors that affect how individuals act within groups and how they can have a positive or negative impact on the success of crowdfunded projects.

## Introduction

Raising capital for a start-up company is an important and difficult part of the entrepreneurial process. If an entrepreneur is not already wealthy and does not wish to take out a large personal loan, pitching an idea to investors is often the only way to get the capital they need [1]. For projects with a niche interest or one that the investors simply cannot grasp the value of, this can be the end of the projects before they have really begun. Even if there is an interest in the project, before any investment can be made, financial projections, go-to-market plans and many other forms of supporting documents need to be presented. This could be daunting for an entrepreneur who doesn't have a background in business. The high cost of hiring professionals to manage this could mean that the project never gets beyond its first step.

As far back as 2013, Forbes documented a rise in entrepreneurship exceeding that of the dot.com bubble in the early 2000s [2] and the US reported to have over 27 million entrepreneurs at the end of 2016. This might be due to the increased accessibility of capital and customers provided by online crowdfunding platforms is an attractive one for any entrepreneur, specially the younger generation who lack business contacts and financial collateral.

## Crowdfunding

Crowdfunding is the practice of generating start-up capital from many small investments from many investors [3]. This removes the need for one investor to provide a large amount of capital and makes the investing process accessible to more people with the financial barrier to entry being significantly lower. This can be achieved in two main ways, equity and rewards based.

## Equity Crowdfunding

Equity crowdfunding involves investors being given equity in the company and works on the basis that, should the project succeed, the share price will rise and investors will see returns on their investment. This practice is the less popular of the two as conventional investment can be confusing to the non-business minded and, as some would argue, it does not embody the principles of crowdfunding since a crowd is not essential for success [4]. Equity crowdfunding is often just a means of connecting entrepreneurs with investors. A group of these investors, while many in number, does not meet the concept of a crowd when discussing modern crowdfunding.

## Defining the Crowd

A crowd is a large group of people, but in relation to modern crowdfunding, it also has implications that the people it contains are not overtly connected in any way. They represent a variety of values and characteristics. With equity crowdfunding, it can be assumed that the motivation of investors is to make money, so they can be exploited by appealing to this motivation with the promise of more money. This is not the case when considering the above concept of a crowd. The wide variety of

investors makes them too complex to target and exploit without appealing to the basest of behavioural desires such as rewards.

## Rewards Based Crowdfunding

Rewards based crowdfunding using online crowdfunding platforms such as Kickstarter or Indiegogo is the main way projects are crowdfunded today [5]. These platforms provide entrepreneurs with exposure to millions of potential investors who are asked to invest any amount they wish in return for a reward. Often this reward is simply to receive the product they are investing in for a discounted price or at an earlier date but for those who wish to invest more, the rewards can be significantly higher. A sample project from Kickstarter for an online game [6] shows a typical range of rewards with \$1 getting the investor simply a thank you from the project team. Moving further up the scale, the game is provided, further again, extra content for the game and a poster. This continues all the way up to the extremes of €2500+ which gets an investor a VIP ticket to the projects launch party along with all lower tier rewards. The fact that an investor will give such a large amount without getting any equity in the project may seem strange but this behaviour is core to the success and popularity and crowdfunding [7].

## The Benefits of Crowdfunding

In a recent study, many projects were surveyed in the areas of design, technology, and video games to explore the effect crowdfunding has on the outcome of projects beyond the success of their campaign [5]. This study, along with data from other crowdfunding research found that over 90% of successfully crowdfunded projects continued their ventures past the initial success to become successful businesses and many went on to complete more campaigns. This would suggest that the benefits of crowdfunding extend beyond the capital gains and project “hype” to building the foundation of a profitable business. It could also suggest that the benefits are so substantial that projects, which might have easily generated the capital they needed without the use of crowdfunding platforms, could use them simply to get the benefits they afford. This is an opinion that Indiegogo’s founder Danae Ringlemann supports.

Ringlemann states that the money a customer puts into a crowdfunded project is more valuable than a customer conventionally purchasing the same item when it is available [8]. The customer is not simply clicking a button that indicates that they would like to buy it, they are buying, and in many cases, paying more than they would for a retail product and long before it is available. It is this that Ringlemann is referring to as it shows product confidence beyond that of sales numbers.

The confidence the data indicates, leads to other behavioural benefits for the project [5]. It indicates that most projects which were successful were behind schedule and failed to deliver on promised dates. Traditionally, failing to deliver on time would be costly and damaging to a project while, on crowdfunding platforms this appears to have little or no effect outside of extremely lengthy delays.

This behaviour can be attributed, at least in part, to the endowment effect.

## The Endowment Effect

The endowment effect is the increase in value someone perceives when they own something versus something they do not yet own [9] and is aptly described by the common phrase “A bird in the hand

is worth two in the bush". When a customer buys a product from a conventional store the perceived value of the item increases due to the money they spent to purchase it.

This behaviour occurs in crowdfunding when a customer invests in a project. They have effectively purchased the item in the same way they would have in a store and the value of the item increases for them in a similar way. The difference being that they do not yet have the item "in hand" so, when delays and problems arise the crowdfunding customer is potentially more likely to tolerate them or even defend the project when others complain due to the increased value it has in their eyes.

An individual experiencing this effect may wish to tell others of the value of the product and in marketing terms they are said to be "product evangelists" [10]. This evangelism can be compared to that which takes place in some religions whereby the believers go out into the world and speak about their beliefs. This is an apt comparison as it implies the dedication one might have for something regardless of quality but rather due to its value to them as an individual, increased by a personal investment in it.

A further comparison to religion, and also politics, could perhaps be made in that, throughout history, entire cultures have followed the words on a charismatic and powerful few. Many groups throughout the world carry out good deeds and unspeakable evils in the name of both religion and politics. The groups who participate in the more extreme cases, perhaps not following out of personal value but rather, because of a mob mentality and with a diminished sense of self.

## Mob Mentality

Mob mentality refers to the psychological effect which causes individuals to experience deindividuation when part of a group [11]. In simple terms, deindividuation is when a group member's thinking is in line with the group majority as they are disassociated with their sense of self. This often results in decisions or actions being taken which are uncharacteristic of the individual and, in extreme cases, lead to otherwise decent people being part of heinous acts.

This disassociation can be caused by a variety of factors. The increased excitement some feel when part of a group who are experiencing strong emotions such as joy or hate can have a profound effect on the emotions of the individual, increasing this effect exponentially as more members join the groups [11]. In the case of more negative examples of this, such as illegal or violent activities, this disassociation may be caused by the shared responsibility of the group or perhaps a feeling of no personal responsibility at all. An individual may feel that the instigators of the action will be held responsible and their part is insignificant and, as such, they are not responsible.

Examples of extreme instances of mob mentality can be seen on either end of the spectrum. Every year in San Francisco, thousands of people attend the Burning Man festival where attendees regularly lose inhibitions and run around naked [12]. While many of the attendees may have fully intended on doing this beforehand, it is likely that, due to the prevalence of other individuals doing this, some that would not conventionally act this way would do so due to the effects of mob mentality. The happiness they feel is increased by being surrounded by other joyous individuals. The lack of inhibition which causes them to disrobe may be attributed to a lack of responsibility and deindividuation.

On the other extreme end of the spectrum, throughout history, great evils have come to pass in part due to people being incited to hatred and being disassociated with the actions of the mob. Examples of this throughout history include the Holocaust and the Salem witch trials. Lesser examples are seen regularly in schools when bullying takes place.

## Mobs and Crowds

While there is no real distinction to be made between a mob and a crowd the two words do have different connotations. A mob is typically used in a negative way while a crowd is typically a neutral description for a group of people. This difference poses an interesting question, what makes a crowd into a mob?

A crowd, as has been discussed already in this paper, might consist of individuals with differing opinions and motivation. Were some members of a crowd to begin displaying extreme behaviour, be it positive or negative, in the majority or minority, other members of the group might be less inclined to disagree. Some may simply not wish to upset the crowd but some may also be exhibiting another psychological factor that contributes to the mob mentality; bandwagoning.

## Bandwagoning

Bandwagoning is a term with roots in politics where weaker members of an organisation ally with, or supports a stronger member who may be gaining momentum [13]. This activity is often exhibited during periods of conflict or competition where there is a perceived likelihood that a winner is emerging. Instead of continuing to pursue a failing cause, it may be seen as the best option to align with this potential winner such that, at the conclusion, good standing with the winner will provide benefits. This option reduces the personal responsibility and risk involved and, similarly to other examples of mob mentality, may cause an individual or group to support another with opposing views. This effectively results in them adopting these views at least from the point of view of onlookers or others who may wish to oppose these views.

Positive or negative, major or minor, any crowd will likely have an effect on the individual within it. As such, any crowd has the potential to turn into a mob and act as such.

## Mob-Funding

Given the propensity for a crowd to turn into a mob, it could be argued that any crowd that is funding a project has the potential to exhibit extreme behaviour which is uncharacteristic of individual investors. Be it from the endowment effect once invested, a desire not to upset an outspoken minority or from bandwagoning when one group has more support, there is the potential that your crowd of investors might turn into a mob. As such, there is the potential to exploit the benefits gained from this and considerations given to preventing negative mob mentality.

## Positives and Negatives

As with any project, the opinion of potential investors and customers is vital to success. Conventionally, investors might be influenced by stocks values or news articles but, especially for small start-up projects, there is not likely to be any information like this available [14]. A failing or under promising project might go unnoticed by the majority of its investors. This is not the case with

projects funded via online platforms. All investors have an open forum to discuss the project with others, to view ongoing discussion or the history of the project founder before deciding to invest.

Were a project to fail to deliver on promises it can be expected that investors would voice concern via the platform. This concern from an outspoken few may lead to a negative mob mentality forming around the project. A minor issue from some investors or an unjustified rant by one may spur others, perhaps equally unsatisfied, to be more outspoken. This has the potential to amplify existing dissatisfaction and, if handled incorrectly or ignored, can lead to outright hatred for the project which would be disastrous. Managed correctly, perhaps by transparency or appealing to the empathy of investors, there is the potential to swing the mob mentality to the other extreme.

## Negatives into Positives

Sometimes negatives can be turned into positives. Consider a room full of people, shouting at someone for their mistake. Were one person, or group of people, to speak up and defend them, mob mentality may come into play again with the larger group not wishing to disagree in the face of an outspoken minority. Were this to happen on a crowdfunding platform, the resultant position of the project could end up being stronger than before. With its investors now outspokenly defending the project, onlookers get a very different view, one of support and confidence. This initial failure could lead to, and potentially be the reason for, a project's success.

Research on the outcomes of projects on Kickstarter shows that a large number of projects experienced delays and as many as 37% went overbudget [5]. This resulted in delays experienced by investors and broken promises are clearly defined from the outset when a platform user chooses to invest. Conventionally it could be expected that the majority of these projects, if completed, were not successful but the data shows that over 90% of completed projects remained profitable and many went on to found other projects on the platform. The only significant difference in these projects over conventionally funded ones is the online platform, indicating perhaps that mob mentality may be a factor in the success of these projects.

## Benefits of Crowdfunding

Founders of crowdfunded projects are afforded benefits that conventional entrepreneurs are not. Simply by using crowdfunding platforms, the behavioural effects it can have on customers far outweighs their capital investment. This being the case, it could be suggested that the main benefit of using crowdfunding platforms is not the funding at all but the relationship it creates with potential and existing customers. A relationship which is critical to maintaining a successful business [15].

## Conclusion

As is evident from the findings in this paper, crowdfunded projects are afforded benefits that conventional projects are not. The benefits of engaging with investors via rewards based crowdfunding platforms can often far outweigh the capital investment provided and, in many cases, the main benefit is a result of the relationship it creates with investors. A relationship not built on finance or equity but one built on enthusiasm and personal connection. A relationship which is critical to start-up business and any future projects the entrepreneur may embark upon.

The behavioural effects it has on investors allows projects to succeed after numerous delays and broken promises. The increased value they attribute to a project affords a large margin for error, if

not from all their investors, then from the ones who attribute the most value to the project. These are the ones who will speak out when the project is threatened and discourage others from being outspoken in a negative way. As it is online, their defence of the project will be visible to potential investors who may be swayed to invest in a project that inspires so much passion in its customers.

Conversely, if a negative view of a project is dominant, the chance of failure can be considerably higher. Every broken deadline or failure to deliver will fuel any existing negativity which may discourage potential investors. Furthermore, it may sway other existing investors who may find their value in the project diminished.

While this behaviour may not be the most beneficial to society, it is an inevitable result of the mob mentality present in a crowd and is unavoidable online as part of the largest crowd in the world. The size of the online crowd and the inherent variety of the individuals create a mob mentality that can be an extremely benevolent or malevolent force for a project. Managing the mob mentality correctly can afford all the benefits discussed in this paper but fail to manage it correctly and the consequences can be dire.



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