CROWDFUNDING: TRANSFORMING CUSTOMERS INTO INVESTORS THROUGH INNOVATIVE SERVICE PLATFORMS

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ABSTRACT

Consumers have recently begun to play a new role in some markets: that of providing capital and investment support to the offering. This phenomenon, called *crowdfunding*, is a collective effort by people who network and pool their money together, usually via the Internet, in order to invest in and support efforts initiated by other people or organizations. Successful service businesses that organize crowdfunding and act as intermediaries are emerging, attesting to the viability of this means of attracting investment. Employing a "Grounded Theory" approach, this paper performs an in-depth qualitative analysis of three cases involving crowdfunding initiatives: *SellaBand* in the music business, *Trampoline* in financial services, and *Kapipal* in non-profit services. These cases were selected to represent a diverse set of crowdfunding operations that vary in terms of risk/return for the investor-consumer and the type of consumer involvement. The analysis offers important insights about investor behaviour in crowdfunding service models, the potential determinants of such behaviour, and variations in behaviour and determinants across different service models. The findings have implications for service managers interested in launching and/or managing crowdfunding initiatives, and for service theory in terms of extending the consumer's role from co-production and co-creation to investment.

Crowdfunding: Transforming Consumers into Investors through Innovative Service Platforms

INTRODUCTION

While consumers have always had a special place in the marketing literature, the role assigned to them has changed over time, concurrently with developments in marketing theory and the evolution of markets. A mere target for the "Functional School" of the seventies (Barksdale and Darden, 1971), consumers become key information sources in the "Market Orientation" literature (Kohli and Jaworski, 1990), co-producers according to the "Service marketing" literature (Fisk, *et al.*, 1993), partners for innovative purposes in the "Lead User" theory (von Hippel, 1986), and, finally, key resources and co-creators of value in the "Service-Dominant Logic" perspective (Vargo and Lusch, 2004). Over the years, this trend has revealed an enrichment and empowerment of the role assigned to consumers (Lusch *et al.*, 2007).

In line with this tendency, the consumer's role has recently expanded to include investment support. This phenomenon, called crowdfunding, is a collective effort by people who network and pool their money together, usually via the Internet, in order to invest in and support efforts initiated by other people or organizations (Ordanini, 2009). The idea that some people may decide to pay for producing and promoting a product (instead of buying it), and bear the risk associated with that decision, represents a further step in the evolution of consumers' roles, that involves a mix of entrepreneurship and social network participation. The selection of the initiatives to be supported, the monetary investment from consumers, the outsourcing of entrepreneurial risk by the organization that sets up the crowdfunding activity, and the blurring boundaries between marketing and finance are only some of the new issues involved with crowdfunding initiatives.

Being new phenomena, crowdfunding initiatives and their consequences for firms and consumers are not fully understood. For instance: What drives the engagement of consumers as investors? What functions do crowdfunding service providers play? Which roles do consumers play when they participate in crowdfunding platforms?

To address these issues, we employ a "Grounded Theory" approach (Eisenhardt, 1989) and perform an in-depth qualitative analysis of three representative cases involving service innovations associated with crowdfunding initiatives: *SellaBand* in the music business; *Trampoline* in financial services, and *Kapipal* in the context of personal and social services. These businesses were selected because they represent a diverse set of relevant crowdfunding operations that vary in terms of risk/return for the consumer/investor and the type of consumer involvement.

Our analysis offers important insights about investor behaviour in crowdfunding service models, potential determinants of such behaviour, and variations in behaviour and determinants across different service models. The contribution of the research is twofold. First, we contribute to the marketing literature by improving our understanding of a new role potentially played by the consumer, that of an investor. Our research derives a first set of conditions that explain when and how potential consumers may consider taking on the role of an investor and which activities they perform. Second, we offer insights for service managers interested in launching and/or managing crowdfunding initiatives. Our findings shed light on the purposes and activities pertaining to crowdfunding models, and the latter's influence of service-value networks.

THE CROWDFUNDING PHENOMENON

Crowdfunding is an initiative undertaken to raise money for a new project proposed by someone, by collecting small to medium-size investments from several other people (i.e., a crowd) (Ordanini, 2009). Different players are involved in crowdfunding models. First, there are the subjects who propose ideas and/or projects to be funded. These people want to use crowdfunding to get direct access to the market and to gather financial support from truly interested supporters. Then there is the crowd of people that decide to financially support these projects, bearing a risk and expecting a certain payoff. These supporters co-produce the output, selecting – and sometimes developing -- the offers they deem to be most promising or interesting. A third player is the crowdfunding organization, which brings together those who want to deliver the new initiatives using crowdfunding mechanisms and those who may wish to support such initiatives through their investment efforts. Crowdfunding has been boosted by recent technological developments – Web 2.0 in particular – that offer new opportunities and scenarios where consumers can use, create and modify content and interact with other users through social networks.

Crowdfunding models have precedents. Collecting small amounts of money from many people has a history in the sphere of charity and social cooperation, but crowdfunding extends this model, because the money is invested by consumers to obtain a return, mostly financial, but sometimes intangible (e.g., status, social esteem, identification, etc.). Secondly, crowdfunding models include elements of crowdsourcing frameworks (Dell, 2008), in which the members of a community share ideas to solve a problem or pool their efforts to create favorable exchange conditions for the community's benefit. However, in crowdfunding, it is not idea generation or bargaining power that emerges from the crowd's collective efforts; instead, what the crowd generates is financial support for already proposed initiatives. The crowdfunding mechanism is also related to social networking, where consumers actively participate in online communities to share information, knowledge and suggestions about a new initiative and/or brand. However, crowdfunding goes beyond conventional social-network participation by incorporating more proactive roles for consumers, such as selecting new initiatives to support and providing financial backing for them. Therefore crowdfunding, although sharing some characteristics of traditional resource-pooling and social-networking phenomena, has some unique elements related to creating service platforms through which individual consumers can pool monetary resources to support and sustain new projects initiated by others.

Crowdfunding initiatives are surfacing in a variety of markets. In the music sector, crowdfunding makes possible connections between music lovers and artists. Music lovers can choose to contribute funds to a favorite artist or music group, who can then record a professional album when the collective funding level reaches a specified target. *SellaBand*, *Slicethepie* and *Bandstocks* are examples of crowdfunding platforms for the music industry that enable new and established artists to raise money directly from music fans. Similar crowdfunding models have been used to finance independent movies. *Artemis Eternal* and *El Cosmonauta* are two movie projects in which patrons can become co-producers of the movie by investing a small amount of money.

Crowdfunding initiatives are also being used fund fashion designers. *Cameesa*, a clothing company based in Chicago, was the first site to pioneer “crowdfunding fashion”. In Cameesa, the designers submit their T-shirt designs, and supporters choose their favorite design and fund it with a minimum amount of $10. When the cumulative funding for a proposed design reaches a target of $500, the T-shirt is produced and goes on sale on the website. Another example of this type is *Catwalkgenius,* where designers can upload images of their existing collections for a wide range of products (clothes, jewelry, lingerie, shoes, etc). Potential supporters check out the collection, choose their favorites and invest in them. Profits from the sales of the chosen offerings are shared among the designer, Catwalkgenius, and supporters.

Yet another application of crowdfunding is in the financial sector. *Trampoline Systems*, a social analytics software house, is attempting to raise 1 million pounds from up to 100 investors through crowdfunding in order to finance the development and commercialization of solutions and applications related to its software. *MyBar* is another example of applying this innovative approach to raise capital. The aim of this project is to build a bar in Beirut owned by a crowd of investors. The board of directors ensures the right mix of owners by interviewing each potential investor, who can then buy "Barnotes" or memberships for prices ranging from $2,000 to $20,000. *Grow VC* recently used the crowdfunding model to help startup entrepreneurs find capital for their businesses. The aim of *Grow VC* is to provide a platform for mobile and Web 2.0 startup companies that connects them with investors, and to offer tools to help entrepreneurs efficiently communicate and manage ideas in order to reach successful funding outcomes.

Finally, the crowdfunding model has been also used for collecting money for non-profits. *Fundable*, *CreateaFund* and *Kapipal* are examples of websites on which people can create pages to collect money for any project, from charity in the strict sense of the word to personal projects or gifts. In this context, the website works as a platform that enables donors to give money to their pet projects or causes.

BACKGROUND LITERATURE AND RESEARCH QUESTIONS

Some extant literature streams are helpful in providing an appropriate backdrop for understanding crowdfunding, although insights from each stream only address some but not all aspects of this emerging phenomenon. The Service Marketing literature has a long tradition in highlighting the customer's role in service provision (Zeithaml, 1981; Murray, 1991; Bitner *et al.*, 1997; Blazevic and Lievens, 2008). Each act of the service delivery always includes a certain degree of customer participation (Dabholkar, 1990; Meuter *et al.*, 2000), which may involve providing information to the service organization, or more direct involvement in the service provision itself (Lengnick-Hall, 1996; Fang, 2008). While customer participation may contribute to greater efficiency, better customization, and improved experience, it also has some drawbacks for consumers, such as increased uncertainty and responsibility over the outcome (Bendapudi and Leone, 2003). While the aforementioned facets of customer participation are relevant to crowdfunding as well, customers involved in crowdfunding are not only integrated in the service delivery phase, but also contribute to the design and set up the entire crowdfunding offering (Edvardsson and Olsson, 1996; Moeller, 2008). One of crowdfunding's foundational and distinguishing traits is that customers, with their evaluative decisions and monetary support, are the key players who make possible the generation of the offering. Moreover, while service marketing theory focuses on contexts where the individuals participating in the service provision and in consuming the service are the same, in crowdfunding the customer-participants help in developing an offering (i.e., funding) that is later consumed by someone else.

Lead User theory (von Hippel, 1986) and Open Innovation literature (Chesbrough, 2003) do focus on customer involvement in developing new offerings intended for other customers at large. Both propose that some users have the ability to anticipate needs months or years before they are evident in the marketplace, and that firms can capitalize on such lead users sense of innovation and expertise in developing successful new products (von Hippel and Katz, 2002). However, although lead users reflect some characteristics of participants in crowdfunding initiatives (e.g., scouting and screening of ideas seeking funds), it should be noted that lead users are scarce and invariably only a few of them can be involved in innovation because of coordination constraints (Lilien *et al.*, 2002). In contrast, another foundational trait of crowdfunding models is that a relatively large number of people participated in deciding what should be offered.

Other literature streams, such as those focusing on Open Source (Lakhani and von Hippel, 2003) and Crowdsourcing phenomena (Kleemann *et al.*, 2008) share some features with crowdfunding. In an open source setting, production and development aspects of an offering are outsourced to potentially many people who are given access to the offering's source materials (von Krogh and Spaeth, 2007), while in crowdsourcing a job is outsourced in the form of an open call to a large but undefined group of people (Howe, 2006). In both these contexts, a crowd of people collaboratively contribute to some aspect of the production process or the solution to a design issue or problem. The crowds participating in open sourcing and crowdsourcing are motivated by such things as learning, direct compensation, self-promotion, and social benefits (Leimeister *et al.*, 2009). Crowdfunding models, however, require participants to not only contribute knowledge and effort but also to play promotional and investment roles in support of the initiatives being crowdfunded; this more extensive different type of participation is likely to be driven by other types of motivations.

The literature on Brand Community also suggests some aspects that relate to crowdfunding contexts. This literature that suggests consumers who are deeply involved with a brand that offers them symbolic benefits, can develop "a common understanding of a shared identity" (Muñiz and O'Guinn, 2001; p.413) and actively engage in activities such as new product development, quality reassurance, experience sharing, and joint consumption (Ouwersloot and Oderkerken-Schroder, 2008). Brand-community members are typically motivated by fun, learning, identification, and status, especially when the activity is shared in social networks (Bagozzi and Dholakia, 2006). They may use online communities to generate "a process of collective value creation" (Schau *et al.*, 2009; p.30). However, again, the literature on brand community does not capture the element of monetary support from users, which is a key characteristic of crowdfunding models.

One literature stream that does reflect the element of monetary support is the literature on Donor Behavior (Guy and Patton, 1989; Kotler and Andreasen, 1991; Cermak *et al.*, 1994). This literature suggests that people who contribute to charitable causes are motivated by self-esteem, public recognition, satisfaction of expressing gratitude for one's own wellbeing, and relief from feelings of guilt and obligation (Hibbert and Horne, 1996; White and Peloza, 2009). In a similar fashion, the literature on Microfinance (Rutherford, 2000) highlights the role of crowds in trying to sustain small projects having a social meaning. However, these literature streams focus exclusively on donors motivated by noneconomic benefits, and are not capable to explain the majority of crowdfunding initiatives that involve monetary payoffs and risks for the participants.

Although the marketing literature discusses risk and uncertainty from a customer's perspective, those discussions focus on risks associated with purchase and product-choice decisions [e.g., the risk of receiving inappropriate products (Dowling and Staelin, 1994)], rather than on risks concerning investment decisions supporting the generation of the offering, which is a key feature of crowdfunding models. The literature on Private Equity does address investment risks. In particular, the phenomenon of "business angels" appears to relate to crowdfunding initiatives, because it represents situations in which a few individuals, who possess liquidity and expertise and operate outside of formal financial institutions, provide funding for entrepreneurial ventures proposed by someone else (Freear *et al.*, 1994). This informal venture-capital activity is motivated by economic goals, as well as by hedonic and altruistic considerations (Sullivan and Miller, 1996). However, the activity of business angels typically involves only a few experienced people who are accustomed to sharing investment opportunities with close friends and business associates (Wetzel, 1983), and not large groups of potential participants that are involved in crowdfunding projects. As such, the cost (and associated risk) per investor-participant in a crowdfunding initiative is significantly lower than in the case of traditional venture-capital-funded projects (Ordanini, 2009).

The literature on Network Organizations offers some insights pertaining to the structure of service firms that facilitate crowdfunding by bringing together customers -- who are the key players by virtue of their roles in the selection of projects and the provision of monetary support for the selected projects – and the seekers of funding (i.e., project-proposal initiators) in an online network structure. However, the extant literature in this domain only partially explains the structure of crowdfunding models. For instance, both marketing (Achrol and Kotler, 1999) and management (Parkhe *et al.*, 2006) literature streams discuss the growing trend of firms' organizing their activities through dispersed networks. In such networks some players act as "orchestrators" of the network without playing a direct role in specific activities (Iansiti and Levien, 2004). While the orchestrator metaphor is in line with the role of the service firms that facilitate crowdfunding, bringing together project proposers and potential funders, the investment role of customers, a fundamental trait of crowdfunding models, has not been considered a key element of such organizational networks.

Finally, the emerging Service Dominant Logic (Vargo and Lusch, 2004; 2008) has introduced the idea that consumers should be considered as resource integrators in service systems, thus extending the role of consumers in the service value networks. However, even the most recent contributions in the realm of Service Dominant Logic (see, Lusch *et al.*, 2010), do not consider the possibility of consumers playing an active role in value networks by virtue of their investment activities.

In summary, while several extant literature streams are relevant for understanding some aspects of the crowdfunding phenomenon, either from the perspective of participating consumers or that of the service firm that organizes and facilitates the activity, each stream only offers a limited set of insights pertaining to just a single or narrow facet of this nascent phenomenon. There is a lack of a unifying conceptual framework for enhancing our understanding of crowdfunding, and for providing managerial guidance and directions for further research related to this phenomenon.

The purpose of our study is to attempt to fill the aforementioned knowledge gap by developing and discussing a overarching framework that captures and synthesizes the key characteristics of different types of crowdfunding initiatives. Specifically, our study addresses two broad research questions:

RQ1: *How and why do consumers turn into crowdfunding participants?*

RQ2: *How and why do service providers set up a crowdfunding initiative?*

METHODOLOGY

Given the novelty of the phenomenon under investigation, and the inductive nature of our research questions, we employed a qualitative, case-based approach in our research. Such an approach to research facilitates the exploration of a phenomenon within its context, using a variety of data sources (Yin, 2003a). It is based on the constructivist paradigm, according to which truth is relative and dependent on one's perspective: hence, there should be a collaboration between researchers and participants, enabling the latter to tell their stories and describe their views of reality, so the researcher can better understand the participants' actions (Spiggle, 1994).

The case-study approach is especially appropriate for addressing 'how' and 'why' questions (Meredith, 1998; Yin, 2003a). Its usefulness is magnified when the research objective is to achieve deeper understanding of a novel phenomenon, the concepts and contexts pertaining to which are ill-defined because of a lack of previous theory (Eisenhardt, 1989), and when the phenomenon has not yet received adequate coverage in the extant literature (Yin, 2003a). Crowdfunding exhibits the above features and, therefore, we considered the case-based approach to be suitable for investigating it.

A case-study analysis “typically uses multiple methods and tools for data collection from a number of entities by a direct observer(s) in a single, natural setting that considers temporal and contextual aspects of the contemporary phenomenon under study, but without experimental controls or manipulations” (Meredith, 1998, p. 442-443). Given the variety and complexity of current crowdfunding initiatives, we studied multiple cases in order to have sufficient robustness to capture the diversity and distinct characteristics of the observational units of analysis (i.e., the different crowdfunding platforms) and the explanatory units of analysis (i.e., the drivers of investor behavior and the activities of the service organizations that orchestrate the crowdfunding initiatives) (Ragin, 1987). Our research methodology paralleled the steps proposed by Yin (2003b) for conducting multiple-case-study research:

- definition of the content;
- case selection;
- data collection;
- interview protocol;
- data analysis;
- findings and discussion.

The first five steps of the methodology are described in this section. Findings and discussion are presented in subsequent sections.

Definition of Analysis Content

Our qualitative analysis seeks “analytical generalization”, i.e., we build upon previously developed theory as a template against which to compare the results of our empirical study (Tellis, 1997). This part of the methodology describes the problem under investigation, and justifies the use of a qualitative case-based approach to address the research issues. In order to properly address our research questions, data collection focused on two broad areas: i) Motivations and roles of consumers participating to crowdfunding initiatives; ii) Objectives of and roles played by service firms organizing the crowdfunding initiatives.

The first part of the analysis addresses RQ1, dealing with consumer involvement in crowdfunding initiatives. Specifically, it aims to shed light on the characteristics of the participating individuals, the motivations that drive them to participate, the activities they perform in crowdfunding, and the process through which the target investment is reached.

The second part of the analysis shifts the perspective to firms that organize the crowdfunding initiative, and addresses RQ2. Its objectives are to identify the firms' motivations for setting up a business model based on crowdfunding, the different roles they play, and the structural effects of crowdfunding on service-supply chains.

Case Selection

We selected cases using the "theoretical replication logic" to produce contrasting results in a cross-case fashion (Yin, 2003a). Based on this principle, and in order to find a balance between consistency and variation, we chose cases that had in common certain crowdfunding features, but also included sufficient contextual and structural diversity (Corbin and Strauss, 1990; Flick, 2006). During the case-selection process, we endeavored to ensure that the selected cases covered all theoretically relevant categories of the phenomenon under investigation.

A novel and defining characteristic of crowdfunding is that it involves consumers who act as investors, providing monetary support to others' proposals and expecting some payoffs (either monetary or nonmonetary). As such, our sample selection was guided by insights from the theory of the investment behavior of individuals (Copeland and Weston, 1988; Hansen and Schrader, 1997; McLachlan and Gardner, 2004), together with extensive information we gathered from secondary sources (e.g., press reports about crowdfunding and information available at crowdfunding websites). In particular, our case selection was based on two primary criteria related to investment behavior (Iyer and Kashyap, 2009): i) the risk/return ratio associated with the monetary investment, which is a proxy for the depth of investment requested of individuals, and ii) the type of payoff expected by the consumer/investor (i.e., purely monetary rewards or those involving nonmonetary elements such symbolic or social value).

Based on the aforementioned investment criteria and the information we gathered from secondary sources, three types of crowdfunding initiatives seemed to emerge: i) models characterized by high levels of risk/return with predominantly material payoffs for consumers, whose activity is close to that of venture capitalists; ii) models characterized by a low-to-medium risk/return ratio with a broader set of potential payoffs for customers, including emotional rewards; iii) models with little or no risk for customers who expect only non-material payoff and which are closer to charitable activities. Figure 1 shows the three most prominent types of crowdfunding initiatives, along with a list of service firms whose current operations fall under each type.

FIGURE 1 ABOUT HERE

Within each type, we selected one case whose current structure and activities we considered to be most robust and relevant for our study (the three selected cases in bold in figure 1): *SellaBand* (www.Sellaband.com), *Trampoline* (www.trampolinesystem.com), and *Kapipal* (www.kapipal.com). These three start-ups have developed diverse crowdfunding service platforms with varying degrees of sophistication, and have garnered favorable reactions from consumers.

SellaBand applies the crowdfunding model to the music market. The mission of this Bocholt (Germany)-based company is “to unite Artists and Fans in an independent movement that aims to level the playing field in the global music industry." It was one of the first crowdfunding initiatives to appear on the market (active since August 2006), and one of the most cited by the press. Since its launch, SellaBand has realized recording sessions for almost 40 artists whose albums were funded by their fans. Over $3,000,000 has been invested in artists via SellaBand.com. Currently there are almost 3,000 artists to support and more than 60,000 potential believers registered on the website.

Through the online platform, artists can raise the money from the SellaBand community in order to record a professional album. Artists upload their music and profile, and music lovers can select artists they like and believe in. Anyone can invest in a SellaBand artist. Once an artist reaches the investment target, the album is recorded and all those who have invested receive a free limited edition copy of the CD and a share of the revenues generated by the artists. The investment target is decided by the artists, who have the freedom to choose not only the target budget but also the incentives for the "Believers" (label used for consumer-investors) and the percentage of revenues shared with them. Initially established for unsigned artists trying to promote their first album, recently SellaBand has opened up to established artists, and has introduced more opportunities for revenue sharing and for accommodating different types of music projects such as music tours and live concerts.

Trampoline is a more recent case, launched in Spring 2009, and represents the first example of crowdfunding in the financial sector. The Trampoline crowdfunding platform is associated with a London (UK)-based technology company. This firm sells a software program, called SONAR, which is able to understand each employee's expertise and map relationships inside a corporation, analyzing email, blogs and other data in order to enhance employees' skills. Trampoline aims to financially support the commercial application of this software using a crowdfunding model, instead of using the conventional model of raising money from venture capitalists.

Trampoline is the first technology-based firm to use the crowdfunding process. Its goal is to raise one million pounds from investors, with a minimum investment of £10,000. Trampoline has worked closely with legal advisors in order to ensure its crowdfunding process complies with the UK Financial Services Authority (FSA) regulations. People who wanted to invest in the Trampoline project need to be certified as high net worth individuals or sophisticated investors in order to meet FSA qualifications. Within about two months from the launch of the crowdfunding project, Trampoline was close to completing the first stage of fund raising, having collected about half a million pounds.

Kapipal, launched in 2009, is a website that allows people to collect money for any purpose, from a group purchase to charity, from a personal project to a birthday or wedding present. Kapipal is a start-up of Tailmedia, an Italian company specializing in Web 2.0. A Kapipalist (a person who wants to collect money on Kapipal) can create a web page and manage the money collection by setting the target amount, the duration of collection and the reason why she/he is asking for money. Once the page is created, the URL address is shared with friends and anyone else who might contribute. The Kapipalist can decide to create a public or private fundraising page. If private, the page is not visible to search engines, and is only navigable by those who know the URL address. If instead the page is public, Google and other search engines may access it and include it in their search results.

Whoever decides to donate money through Kapipal is called a Contributor. Contributors visit the page and decide how much money to send. Every contribution is a donation, and usually there is no material return for the contributor, although one may be proposed. Kapipal does not charge a fee. It merely acts as a connector between Kapipalists and contributors. Since its launch, Kapipal has raised more than $300,000, mainly for personal fundraising, for everything from birthday gifts, to wedding lists, to medical treatment.

Data Collection

We organized our qualitative data collection from a variety of data sources, following Yin (2003b). Using multiple data sources is a fundamental aspect of the analysis because it ensures the variety of perspectives required by the constructivist principles on which qualitative analyses are based.

The data analyzed include both primary data, gathered through in-depth interviews, as well as secondary data taken from internal company records, company websites, press reports and other published sources. The extensive desk research we conducted to collect secondary data resulted in 35 pages of internal documentation that our research team studied to gain a good understanding of the crowdfunding phenomenon in general as well as the main features of the three crowdfunding initiatives under investigation. The documentation from the secondary research was also helpful in designing the interview protocols we used in our primary data collection, and in providing context for interpreting the data gathered from our interviews.

Detailed semi-structured interviews with key informants in the three selected firms constituted a significant portion of our data collection effort. We performed seven in-depth interviews with the founders and other managers of SellaBand (three interviews in total), Trampoline (two interviews) and Kapipal (two interviews). The interviewees were selected on the basis of their high involvement with and knowledge about the crowdfunding initiatives. The total number of respondents was sufficient to achieve saturation, in that the emergent categories and relationships tended to converge and were thus “saturated” (Glaser and Strauss, 1967).

Interview Procedure

The interview protocol we used is detailed in the appendix. Consistent with recommendations in the literature (Yin, 2003b), we designed the protocol to cover the main topics pertaining to the research questions, but at the same time leaving room to both the respondent and the researcher to extend the discussion to other unexpected issues. We also ensured that the respondents were free to interpret each question from their own perspectives as required in this type of research (Yin, 2003b).

Since qualitative inquiry is necessarily an iterative process, the question wording changed slightly over the course of the interviews and evolved over time. Moreover, some of the questions were added to capture additional issues that surfaced during discussions in the early interviews. Because the interviews were only semi-structured, and in order to accommodate interconnections among topics that might emerge naturally during the interviews (Fontana and Frey, 2000), in some instances deviations from the ordering of questions shown in the appendix occurred.

Each interview lasted approximately two hours, with at least two members of the research team present. Interviews were conducted both personally (five) and by telephone (*via* Skype) (two) from July 2009 to November 2010. The interviews were tape recorded to minimize data loss. The recordings were immediately transcribed for subsequent analysis and shared with other members of the research team in both full and excerpted form. Overall, the research team developed 86 pages of interview transcripts. Informal follow-up questions were sent to some respondents to clarify and refine issues that emerged during the transcription, often through email exchange.

To enhance the reliability of the information derived from the interviews and to strengthen support for the constructs and relationships emerging from our analysis, we triangulated the interview information with the previously described secondary data, as recommended by Eisenhardt (1989). We also continuously monitored the firms' websites, to keep abreast of available projects and their investment flows, as well as consumer participation and website improvements. Throughout the project we also kept track of news published about crowdfunding in general and about the particular websites analyzed.

Consistent with the recommendations of Eisenhardt (1989), the research team spent considerable time as a group sharing impressions and interpretations in order to achieve a consensus view of the consumer's role as investor (RQ1) and the organizational structure of crowdfunding initiatives (RQ2). Discussion sessions consisted of face-to-face meetings, conference calls, emails, and interpretative documents such as PowerPoint plots sent as attachments. The impression- and interpretation-sharing period lasted over three months, from the last interview to the attainment of consensus concerning the study's basic findings.

Data analysis

Consistent with grounded theory, we employed two key data analysis processes: coding and categorizing (Glaser and Strauss, 1967). In coding we broke down the interview data into interpretable units and compared them, while in categorizing we organized the units into meaningful categories to facilitate conceptual development. Our coding, again consistent with grounded theory, was an iterative, inductive process from which we constructed descriptive summaries of the basic facts in order to "gain familiarity with data and preliminary theory investigation" and "to look beyond initial impressions and see evidence through multiple lenses" (Eisenhardt, 1989, p. 533).

We used the coded and categorized data to perform a thematic content analysis through an inductive process in which we progressed from categorization to abstraction, comparison, and integration as recommended by Spiggle (1994). Specifically, all authors participated in categorizing the case-study data (interview transcripts and secondary data) into content themes related to crowdfunding, followed by abstracting higher-order conceptual constructs from the content-theme categories. This iterative, inductive process ultimately resulted in seven categories nested into two higher-order dimensions broadly related to the two research questions (see table 1, column 1). We used the resulting broad categorization to compare and contrast the three crowdfunding cases, and to identify and summarize the similarities/differences among them (see table 1, columns 2-4). Finally, we moved to conceptual integration, which involved lengthy discussions about the different emerging themes and led to the implications stemming from our analysis. Because some authors had developed a close relationship with the three companies whereas other authors remained more distant, there was some "interpretive tension," which enriched and strengthened the integration process (Blazevic and Lievens, 2008).

TABLE 1 ABOUT HERE

FINDINGS AND DISCUSSION

The key findings from our analysis are summarized in table 1, which organizes the findings according to our conceptual categories and research questions.

Crowdfunding participants

Purposes

Consumers participating in our crowdfunding cases seem to have different motivations for their participation and decision to invest. In SellaBand, consumers' desire to participate is motivated primarily by the opportunity to be actively involved in making a recoding possible through their financial support. According to a SellaBand manager, by investing in an artist "*you (the consumers) do not only buy music, you also buy the idea that you have made it possible, you are the one that discovered the artist, so you are part of the whole thing*". Here, *patronage* – the support, encouragement, and financial help that an individual bestows another – seems to emerge as key purpose of the crowdfunding participation.

In contrast, the main purpose that drives consumers' engagement in crowdfunding initiatives organized by Kapipal can be labeled as *social participation*. Kapipal's founder calls this element "*participation spirit*", underlining a desire to be taking part in something that helps a friend or someone else needing money for a social or a personal cause. According to the founder: *"Either in the case of social initiatives, where the charitable dimension dominates, or for more personal initiatives, the Kapipalist feels a strong sense of belongingness to the initiative, and gets satisfied because he senses the project is achieved, thanks to his contribution".*

In Trampoline, people who participate in crowdfunding are instead motivated by the idea of realizing a monetary return from their *investment*, and contribute a non-trivial amount of money to a new way of funding an early-stage new venture. In this case, the participants are attracted by the novelty of the crowdfunding model, but it is the economic return that appears as the main reason for the investment, because they can become shareholders of the company. According to Trampoline's founder, *"[although] people (participants) are telling us that we've been an innovator in our way of raising finance…..[they are attracted] because there is a potential to make very good returns on their investments".*

Characteristics

Some characteristics of consumer-investors in crowdfunding surfaced consistently in the three cases. All interview respondents agreed that consumers participate in crowdfunding websites because they like engaging in *innovative* behavior. Although interested in the content of the crowdfunding initiative, these participants are attracted by the novel way to use the underlying technology platform, particularly in the context of social networking. They perceive the potential of the crowdfunding business model, but they decide to invest because they want to be first, and they like the idea of using highly interactive tools. A Trampoline manager described these people as being *"experience investors"*; a SellaBand executive said that "*they are innovators in the way they use technology to interact*"; and Kapipal's founder said that *"while charity always existed, many people are attracted not only by to whom they donate and for what reason, but also by how to do it .*

In contrast, the presence and prevalence of other participant characteristics varied across the three cases. A significant proportion of crowdfunding participants in both SellaBand and Kapipal shared a strong sense of *identification* with the proponents and/or projects being funded. In these cases, crowdfunding is a way to contribute to a cause in which participants believe, and typically people with the highest levels of identification are the first ones to invest. A manager from SellaBand described them as "*real dedicated people, really connected with the artist; for them the return on investment is not the main driver*", and the Kapipal founder said that "*the idea of making it possible, being part of it, having a connection with the project is what matters*".

Another participant characteristic emerging from our interviews is economic *exploitation*, the inclination of those who decide to invest in crowdfunding mainly for the monetary payoff. This characteristic did not surface in the Kapipal interviews, since Kapipal projects rarely involve monetary returns. However, it was dominant in the case of Trampoline and, to a lesser extent, in the SellaBand case. These investors do not have any inherent interest in or attachment to the content of the crowdfunding initiative, other than as a means for gaining a monetary payoff from their financial support. For instance, according to one of our interviewees in Trampoline (wherein the firm actually subjects potential participants to a screening and qualification phase): *"Since our crowdfunding mechanism attracts people who are mainly interested in the potential monetary reward, and, given the importance of the involved sum, only persons who meet the UK Financial Security Authority qualification criteria as qualified investors are eligible to participate".*

<u>*Roles and tasks*</u>

Our findings reveal the existence of different roles played by crowdfunding participants. In SellaBand, the "believers" basically act as *agents* of the artists, *selecting* and *promoting* offerings that merit patronage, and being rewarded with a royalty on future sales. In contrast to traditional music–industry practice, where *"a small and select group of people in the music industry were deciding which artists were allowed to record an album"* and *"more and more artists were not able to record (their)album,"* SellaBand creates the conditions for consumers to discover new artist and to *"hear the music they wanted [to hear]."*

In Trampoline, the main activity is that of supporting the *growth and development* of the initiative by contributing, as a *shareholder* and potential entrepreneur, to the future decisions of the company. As the founder of Trampoline pointed out, the investor gains ownership of the company and "*will have ordinary shares with full voting rights, […] therefore they will have authority in the governance structure of the company*" and *"we (Trampoline) welcome investors' input into product strategy."*

In contrast to both SellaBand and Trampoline participants, the primary role played by Kapipalists is that of *helping* in the realization of a small project, and the consumer who contributes is mainly a *donor* because she/he gives money without necessarily expecting or receiving any monetary reward. As Kapipal's website emphasizes, *"all money transfers are donations and there is no (economic) return for contributors."*

<u>*Investment size*</u>

Looking at the investment process, the analysis reveals differences in the levels of monetary effort – i.e., *investment size* – required for crowdfunding participation across our three cases. Kapipal does not have a minimum target for individual investment and, given the social content of the projects, it largely attracts participants aiming to contribute for a small amount of money. At the other extreme, Trampoline initiatives require a minimum, relatively large, level of investment for participating. This, of course, reflects the venture-capital nature of this Trampoline investments. SellaBand does ask for a low minimum investment in order to participate ($10); however, a one manager told us "*there are situations in which, especially when the target is going to be reached, people decide to invest more than $1000.*"

Findings from our analysis also suggest that, regardless of the differences in the required investment size per participant, the overall investment path, reflecting the collective investment behavior of consumers' over time, seems to follow a similar pattern in all three cases. This common pattern is portrayed by Figure 2, which plots the typical growth trajectory of the cumulative amount of investment (y-axis) over time (x-axis),

FIGURE 2 ABOUT HERE

As Figure 2 shows, the cumulative investment process has three distinct phases. The first phase is characterized by a quick and significant flow of investment that reaches approximately half of the target capital. This rapid accumulation is mainly due to the investment decisions of persons who are directly connected to the project or connected to the network of the project creator. Our informants depicted this as the "*friend-funding*" phase. The emphasis in this phase is on the project's novelty, and the high involvement of people who are close to the proponent facilitates the accumulation of investment. However, achieving the final target once the initial phase is over is a more challenging task.

The second stage of the process is characterized by a slow-down in investment growth. Sustaining the project at the stage calls for triggering a cascading process to continue the funding, by motivating and involving other people through word-of-mouth communications. We labeled this phase "*getting the crowd*" because, as Trampoline's CEO stated during our interview, in this phase "*it is the social networks of people who are involved in the business and recommendations made from person to person through the networks…. can make the difference in this case.*" The project creator has to assume a great deal of responsibility in this stage. As the Kapipal founder observed, "*It depends on the Kapipalist's skills; in other words project creators are the ones that have to begin to post on Facebook, on Twitter and on other social networks in order to gain visibility […] and determine a donation peak.*" This is the most delicate phase because, as our informant noted, many projects never leave this stage and the primary reason for the failure of crowdfunding projects is the inability to trigger the crowding process. Moreover, according to a SellaBand manager, there is a vicious cycle that sets in as time goes by, because "*a project that shows a long stagnation in the accumulated investment looks less attractive in the eyes of potential contributors,*" due to their inferring that investing in the project will be very risky.

Only for a few projects is there the so-called "*engagement moment,*" which triggers a chain reaction and facilitates rapid growth toward the investment target. According to SellaBand's founder, "*artists who pass beyond $25,000 usually get pretty fast to $50,000*" (assuming that $50,000 the investment target). The investors in this last phase are usually "*people who did not have any original connection to the initiative, but they just start talking to us because they read about the crowdfunding process and got interested,*" according to one of our Trampoline interviewees. After the engagement moment, a *"race to be in"* stage begins, and people speed up their investment decisions because, once the target is reached, the opportunity to invest will no longer exist. As one SellaBand manager told us, "*when people realize that 'ok, these artists will get to their goal pretty fast,' the flow of investment dramatically increases because no one wants to be excluded.*"[1] While less important, this phase is also present in the case of Kapipal, because "*when you see that a charity project on which you are particularly interested in is close to reaching the target for being funded, there*

[1] Given SellaBand's revenue model, which links investor payoff to the sales realized by funded projects, in this case there is another stage of the process that starts after the investment phase has been completed. This phase directly involves the investors, who are called on to promote the project they funded in order to gain larger revenues.

is an extra incentive to participate in order to not miss the opportunity to be part of it," as one executive told us.

The Crowdfunding Firm

<u>*Purposes*</u>

Turning to our findings relating to the perspective of the firm that organizes the crowdfunding initiative, the key informants in all three cases shared the broad view that crowdfunding is a way to engage consumers in social networks and virtual communities, and to stimulate their financial participation in projects proposed by someone else. However, as might be expected, the specific crowdfunding objectives mentioned by our interviewees differed across the three cases.

Kapipal is "*a service to easily collect money from individuals through the Internet in order to fund social projects*". It was created because the founder felt "*the absence of a simple tool which could give the opportunity to everybody to use crowdfunding in personal life*". The purpose of Kapipal is thus to set up a method to *fund social initiatives online*.

SellaBand's purpose is instead to "*empower artists and fans in a global community*"; This initiative is positioned as a service that provides an alternative to the traditional music industry by enabling artists to execute promising music projects with support and financial assistance from their fans. As stated in SellaBand's website, "*the idea of SellaBand came from a love for music and the frustration of hearing the same artists always on the radio, while so many talented artists remain unnoticed by the traditional music industry.*"

As for Trampoline, its aim was described as follows by one executive: "*(we) look at alternative ways to raise financing for the business [by] directly involving people*". According to another Trampoline manager, the firm "*has pioneered an unconventional approach to finance its growth. Instead of raising money from venture capital firms we use crowdfunding, raising smaller stakes from a community of smart private investors*". Thus the overall purpose of this firm is to *raise alternative venture capital*, in the form of direct investments of relatively smaller sums by a group of interested people, in contrast to traditional funding models that rely on large commitments from a relatively small number of institutions.

Service Roles

Paralleling the differences in purpose and delivered content across the three investigated crowdfunding initiatives, our findings reveal the presence of fundamental differences in the roles played by the corresponding service firms. SellaBand's role is that of a *relational mediator.* As one SellaBand manager told us, "*we essentially offer a bridge between supply and demand of music.*" New artists typically face significant hurdles in approaching regular recording companies because their only option is to deal with a few big "Majors" that are difficult to contact and negotiate with in trying to get a contract. Moreover, given the high risk associated with producing and promoting a brand new artist, such contracts are hard to get and often do not favor the artists. At the same time, since most of the music available in the marketplace is limited to that selected by the big recording companies, "*fans are treated as passive users with no role in deciding which music should be delivered,*" as one SellaBand interviewee put it. SellaBand thus acts as an intermediary (between music supply and demand), with the primary role of linking new artists with committed music lovers who believe in the artists strongly enough to provide them with monetary support. According to a SellaBand manager, "*This will give them (music lovers) both monetary and emotional rewards and should increase the number of new and successful artists launched in the market.*"

The founder of Kapipal described a similar role to that of SellaBand, but with some differences. Kapipal acts as an intermediary that "*helps people to collect money for personal reasons.*" However, its crowdfunding platform is not industry-specific and does not facilitate any business purpose. Instead it is a service that supports a variety of individual purposes, ranging from charity to social initiatives to personal projects. Kapipal serves as a consumer-to-consumer financial platform that is highly flexible from the Kapipalist's perspective. In effect, Kapipal acts as a *social gatekeeper.* As one Kapipal manager stated, "*we assist people who need to collect money by exploiting their social network connections; the Kapipalist decides who to invite among friends, parents, etc., involved in her/his social networks, and if some rewards are expected for participation. Then, the amount of money gathered from these people (and those in turn invited by them) within a certain time limit is available to the Kapipalist for her/his initiative.*"

The interviews with Trampoline reveal a third role, not based on intermediation but on the strong *inclusion* of investors. The main difference with SellaBand and Kapipal is that the crowdfunding platform in Trampoline's case is not a separate entity, but is organized by the supplier itself to fund its proposed initiative, and thus acts as an *engine of growth* for the initiative. A Trampoline informant stated: "*There is no intermediation [between supply and demand] in Trampoline, but crowdfunding is used to seek for potential entrepreneurs on a specific and unique innovative project*". While the SellaBand platform acts as a distribution channel, and Kapipal leverages the potential of social networks, Trampoline directly proposes the project to be crowd funded, and acts in order to facilitate its realization.

Network effects

Our analysis reveals that crowdfunding models can significantly affect value networks, by modifying the intermediation functions played by service organizations involved in those networks. The financial involvement of consumers in SellaBand and Trampoline affects traditional intermediaries in the market; namely, recording companies and private-equity firms, respectively. In the case of SellaBand, the crowdfunding firm itself acts as a new kind of intermediary, and becomes a *substitute* for the conventional intermediary (i.e., recording company). SellaBand aims to create *"an alternative to the traditional music industry,…. [a] new distribution channel where consumers are responsible for the selection of the offering and the related investment.*"

In contrast, the crowdfunding mechanism in Trampoline helps supply and demand to *disintermediate* the venture capital market, rather than merely substituting the traditional intermediaries. According to Trampoline's website, the crowdfunding model "*is not going to replace venture capital, private equity, debt finance or stock-markets. These traditional models will continue to provide the most efficient solution for certain financing needs;… [but crowdfunding] could establish itself as the best solution for many early and mid-stage ventures."* Moreover, Trampoline's founder suggested that new technology makes the entire crowdfunding process more transparent. Information about the flow of funds from current consumer-investors is readily available to anyone, for each project and at any time, thereby facilitating the decisions of other interested individuals regarding whether to join the crowd.

In the case of Kapipal, the crowdfunding platform acts as a *new intermediary* that "*should integrate existing networks and improve the traditional personal connections.*" In other words, a previously-absent intermediary function is added. According to Kapipal's founder, while collecting donations from groups of individuals has a long history in the domain of fund-raising for charity, the advent of Web 2.0 made it possible for crowdfunding "*to live a second life*" because it "connects people in a better way, enhancing contacts, knowledge and word-of-mouth." According to the Kapipalist Manifesto, published on Kapipal's website, social-network friends and contacts are fundamental for raising capital and extending the benefit from participation.

DISCUSSION AND IMPLICATIONS

Limitations

What can these findings about crowdfunding phenomena add to existing literature? Before discussing our analysis and proposing some considerations and contributions about the new role of consumers as investors and the evolution of crowdfunding service models, we want to note the limitations of our analysis. First, all findings should be viewed in the light of the qualitative and exploratory nature of our inquiry. Although we provide a clear rationale for sample selection, and took great care in adhering to well-established procedures during data collection and triangulation, we can only offer an inductive discussion of and preliminary insights about the crowdfunding phenomenon. Future research could extend these insights in a quantitative fashion, e.g., by investigating the drivers of success of crowdfunding initiatives. For instance, using one crowdfunding platform as a study context, researchers could analyze and compare funded vs. non-funded initiatives so as to identify factors that distinguish between the two types.

Second, our research design did not include the collection of data directly from consumers involved in crowdfunding. Instead we only have the perspectives of managers of service firms organizing crowdfunding initiatives. While investigation of the phenomenon from a consumer perspective is beyond this paper's scope, this limitation should be taken into account in considering the implications of our findings. There is a need and opportunity for future research to focus on the consumer side and investigate the personal or contextual traits that make one individual more or less likely to become a participant in crowdfunding initiatives.

Despite these limitations, however, we believe our analysis offers some interesting insights for beginning to build a knowledge base about the nascent phenomenon of consumers acting as investors, and the evolution of innovative service models related to this phenomenon.

Theoretical Contributions: Consumer's role

Findings from our analysis of crowdfunding offer some new insights to the service literature pertaining to the role played by consumers in the service process. First, the motivations for consumer participation in crowdfunding initiatives, and the participants' key characteristics of participants, contribute to the recent coproduction literature calling for more research on understanding the consumers' active engagement in the service provision (Etgar, 2008). A feeling of being at least partly responsible for the success of others' initiatives (desire for *patronage*), striving to be part of a communal social initiative (desire for *social participation*), and seeking a payoff from monetary contributions (desire for *investment*) extend the set of motivations for consumer collaboration discussed the extant literature, such as differentiation (Song and Adams, 1993), customization (Firat and Venkatesh, 1995; Wind and Rangaswamy, 2001), saving (Sheth *et al.*, 1999), experience (Prahalad and Ramaswamy, 2004), and self expression (von Hippel, 1986; Holt, 1995). Moreover, while the current literature on coproduction focuses the drivers of *individual* consumers' participation in a service activity, our analysis highlights the need and the potential for generating new insights by focusing on how consumers participate and interact in collective contexts such as crowdfunding initiatives, where the service outcome depends on group, rather than individual, participation.

In addition, while the current coproduction literature indentifies information, knowledge, and labor as the primary resources that consumers can use when coproducing a service offering (Lengnick-Hall, 1996; Fang, 2008), our analysis reveals that in collective contexts such as crowdfunding, consumers' monetary funds and project-screening capabilities represent important additional resources that trigger the service process and determine the extent of consumer participation. Furthermore, our findings reveal several distinct traits of consumers who are likely to participate in crowdfunding-like initiatives: *innovative orientation*, which stimulates the desire to try new modes of interacting with firms and other consumers; *social identification* with the content, cause or project selected for funding, which sparks the desire to be a part of the initiative; and (monetary) *exploitation*, which motivates consumers to participate by expecting a payoff from their monetary support for the initiative. These traits may co-exist in consumers, although the relative importance of each in motivating participating are likely to vary across consumers and types of crowdfunding initiatives.

Another contribution from our analysis is to the burgeoning literature on Service-Dominant Logic (Vargo and Lusch, 2004; 2008). Specifically, our findings demonstrate and give concrete meaning to two of SDL's fundamental propositions: "All actors are resource integrators" (FP9); and "The customer is always a co-creator of value" (FP6). Crowdfunding participants' roles and activities uncovered in our study suggest that in crowdfunding contexts consumers are the key players in: i) activating the process, and ii) the influencing the ultimate value of the offerings or outcomes of the process. These roles and activities lend credence to theoretical arguments claiming that the separation between production and consumption activities is becoming increasingly blurred (Firat and Venkatesh, 1995; Xie *et al.*, 2008), and that what consumers do is much more important than what they purchase (Xie *et al.*, 2008). Crowdfunding participants do indeed engage in a variety of tasks: they act as *agents* of the offering, selecting and promoting the projects in which they believe (as in the case of SellaBand); sometimes they play a *donor* role oriented towards providing *help* on social projects (e.g., Kapipal); in some cases, consumers in effect become *shareholders*, contributing to the *development* and *growth* of the offering (e.g., Trampoline).

With varying emphases depending on the type of crowdfunding initiative, consumers screen and evaluate potential projects, then choose the ones to support financially, and finally disseminate information about them in online communities to generate further support for the projects. Consumers thus become integrators of talent (of others), financial resources (their own), and promotional efforts (through social networks) in their role as crowdfunding participants. Without their participation no value can be created in the initiative—either for the suppliers (they cannot see their projects/causes reaching fruition), or for other (non-participating) consumers (they cannot find the product or service that was not crowdfunded), or for the firm organizing the crowdfunding initiative (it cannot realize revenues from the initiative). In this sense, crowdfunding initiatives constitute one of the first concrete applications and extensions of SDL's foundational principles pertaining to consumers' roles as co-creators of value.

Theoretical Contributions: Service Firm's Role

Findings from our investigation also offer some additional theoretical insights from the perspective of service firms that set up and manage crowdfunding initiatives, First, our findings once again demonstrate and extend two key foundational principles of the Service Dominant Logic (Vargo and Lusch, 2004; 2008) that relate to the role of service organizations: "All actors are resource integrators" (FP9); and "The enterprise cannot deliver value, but only offer value propositions" (FP7). Our analysis shows that in some crowdfunding initiatives, resource integration happens because the service firm acts as a *relational mediator*, linking the supply of creative projects with a crowd of individuals who may decide to invest in them, and with the marketplace at large that generates the final demand for the crowdfunding initiative's offerings (as in the case of SellaBand). In some other cases, the integration process is similar but occurs in a customer-to-customer context, where the service firm acts as a *social gatekeeper*, matching social or personal projects with potential donors (e.g., Kapipal). In the case of venture-capital initiatives (e.g., Trampoline), the resource-integration process is quite different. In such initiatives the crowdfunding firm does not have an intermediary role (i.e., external to that of suppliers and consumers); instead it represents an "internal" service, an *engine of growth* for entrepreneurs/innovators who aim to integrate financial resources and expertise from other interested investors. In all cases, our analysis reveals that the service firms set up important “pre-conditions” (Edvardsson and Olsson, 1996) – technological, organizational, and relational – to allow crowds of interested consumers to participate in the crowdfunding initiative. In other words, the firms’ resource-integration role takes the form of creating an infrastructure to facilitates interactions among the other value co-creators—namely, the crowds of people who participate, and the subjects who propose projects or causes to be funded.

Our findings also contribute to the literature on networks (Achrol and Kotler, 1999; Parkhe *et al.*, 2006) by extending the theoretical streams that deal with the organization of value-chain activities through dispersed networks. Firms that organize crowdfunding initiatives serve as a typical “network orchestrator,” in that they do not execute specific activities, but create the necessary organizational systems and conditions for resource integration among other players to take place. However, our findings extend this perspective, in that crowdfunding firms orchestrate a unique type of network, in which the key activator is a group of consumer-investors and not the organization. Our findings also suggest that service firms in crowdfunding contexts have different orchestration options. The firm (i.e., orchestrator) can either *add* an intermediary role that was previously absent (as in the case of Kapipal and its consumer-to-consumer funding), or *substitute* a traditional intermediary (e.g., SellaBand taking the place of traditional recording companies), or *disintermediate* by eliminating the activity of a service provider previously involved in the network (e.g., Trampoline’s approach avoids the use of traditional venture-capital services). Crowdfunding is thus a phenomenon that has the potential to significantly alter the roles of service organizations in value networks.

CONCLUSIONS

This paper develops a qualitative analysis of the emerging crowdfunding phenomenon, for the purpose of understanding the (new) role of consumers as investors in these crowdfunding models, and discusses the implications of crowdfunding for service organizations. The inductive investigation of three cases of crowdfunding facilitates a clearer, more comprehensive understanding of this phenomenon. Findings from the investigation contribute some novel concepts and theoretical frameworks to the service literature that can guide both managerial practice and future research pertaining to crowdfunding.

Keeping in mind the limitations that characterize qualitative and exploratory inquiries, we wish to conclude this paper by coming back to where we started: the evolution and progressive accumulation of different roles by consumers as portrayed in the literature.

FIGURE 3 ABOUT HERE

As Figure 3 shows, over time, different theoretical perspectives have portrayed consumers as “targets”, “information sources, “co-producers”, and “value co-creators.” Our investigation of the crowdfunding reveals a new potential role for consumers – namely, as *investors* – that extant literature has not yet fully captured or discussed. Our research takes a first small step in this direction.

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Figure 1 – Crowdfunding Models According to Risk/Return Intensity and Type of Payoff: Sample Selection Criteria

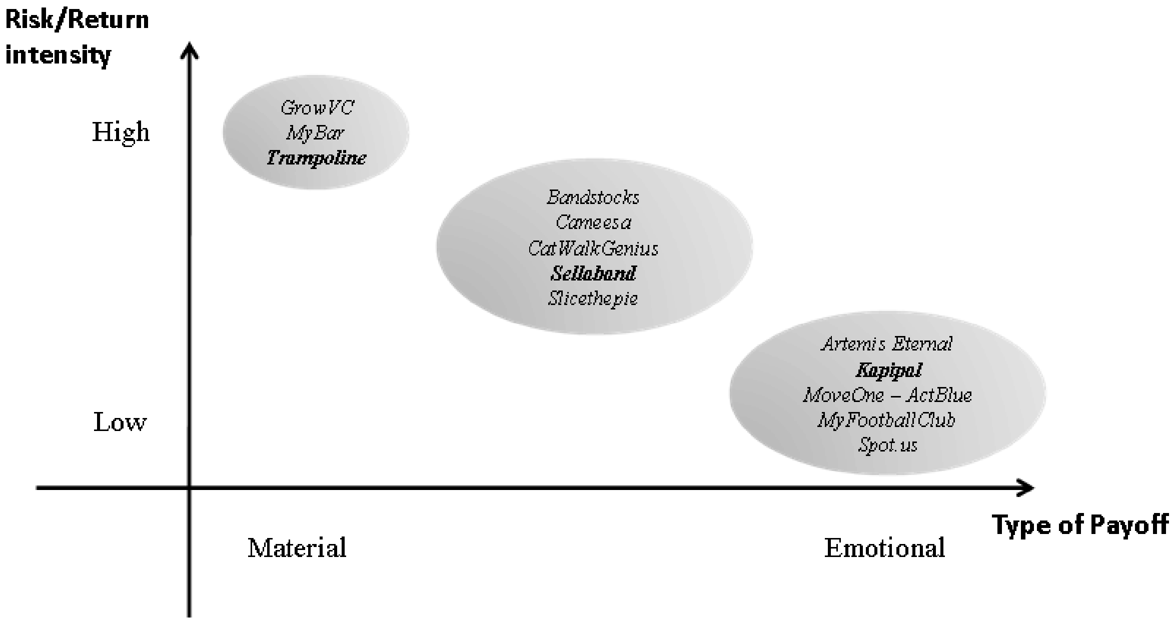


Table 1 – Main Findings from the Analysis

		SELLABAND	**TRAMPOLINE**	**KAPIPAL**
CROWDFUNDING PARTICIPANTS	***Purposes***	Patronage	Investment	Social participation
	Characteristics	Innovative Orientation Identification (*dominant*) Exploitation	Innovative Orientation Identification Exploitation (*dominant*)	Innovative Orientation Identification (*dominant*)
	Roles and tasks	*Agent*: selection and promotion	*Shareholder*: growth and development	*Donor*: help
	Investment size	Small, but potentially significant	Large	Small
CROWDFUNDING FIRM	***Purposes***	Empower artist and fans	Raise alternative venture capital	Fund social projects online
	Service roles	Relational mediator	Engine of growth	Social gatekeeper
	Network effects	Substitute an existing intermediary	Disintermediate from an existing intermediary	Add a new intermediary

Figure 2 – Typical Path of Consumer Investment via a Crowdfunding Platform

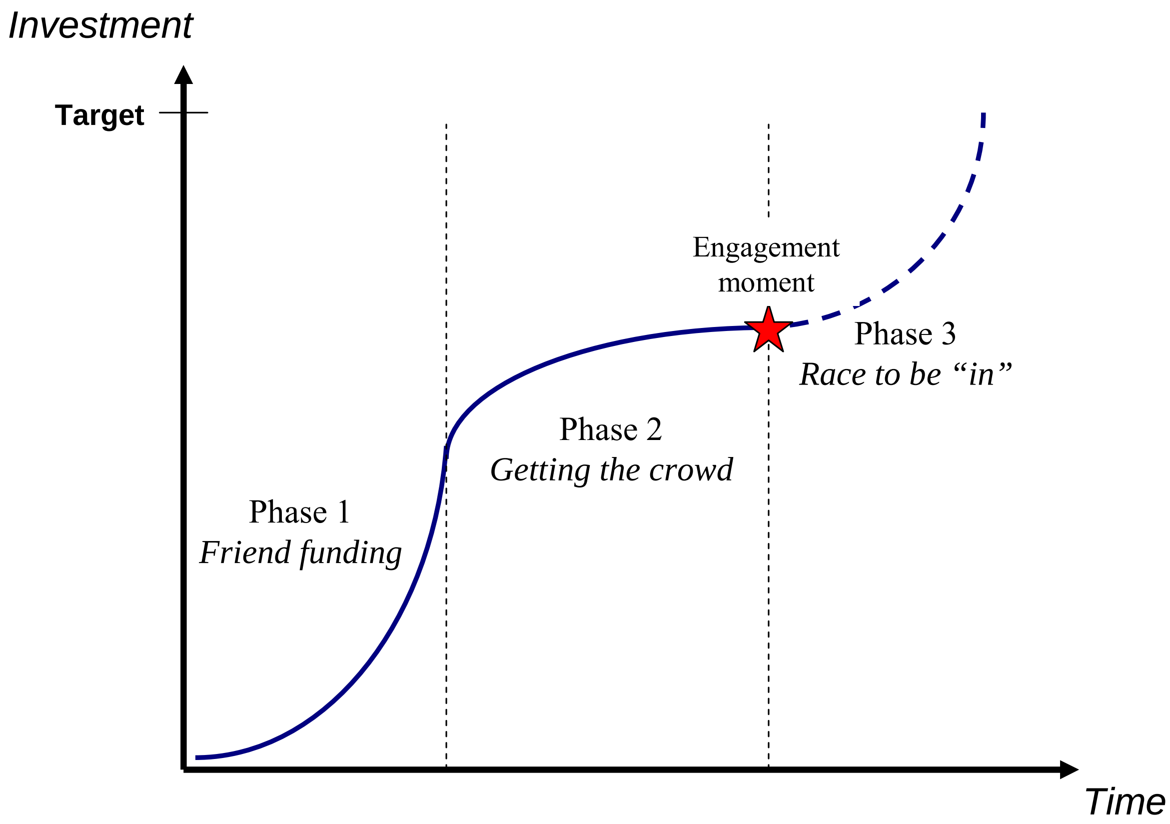
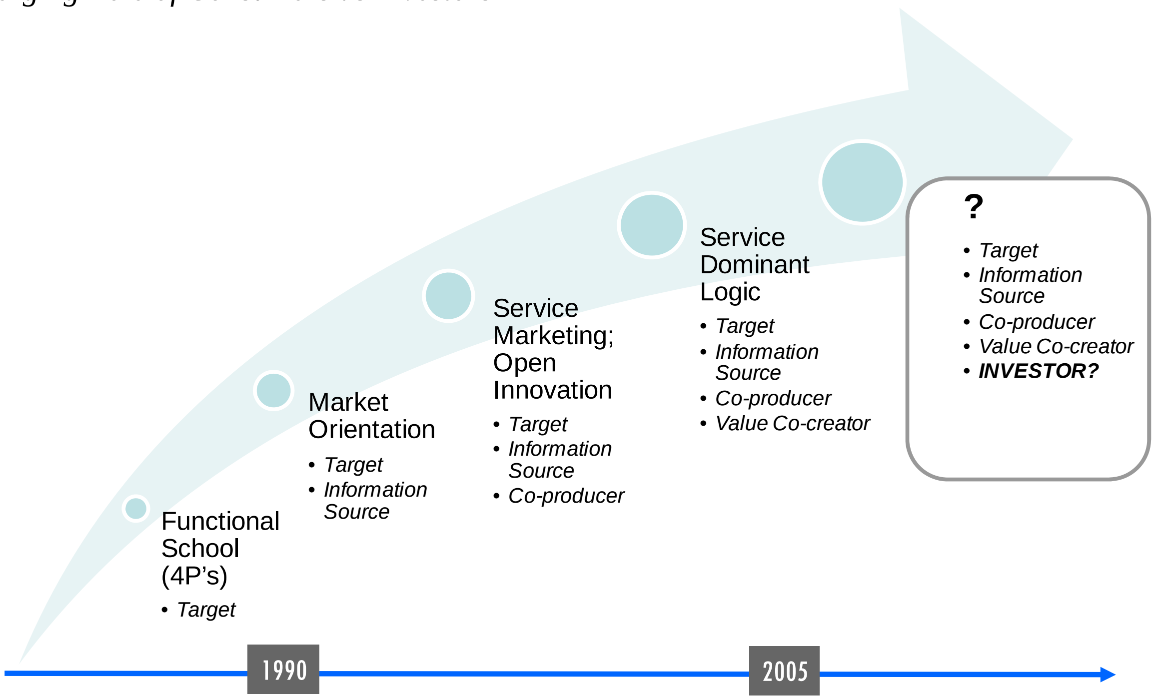


Figure 3 – The Accumulation of Roles Played by Consumers in Marketing Literature: The Emerging Role of Consumers as Investors



APPENDIX
The Interview Protocol

1. *[SellaBand and Kapipal]* In your opinion, which are the success factors of *SellaBand/Kapipal*? On the other side, do you think are there some elements to be improved?

2. What are the aims?

a. *[SellaBand and Kapipal]* In a few words, can you describe the philosophy and mission of *SellaBand/Kapipal*?

b. *[Trampoline]* Why did *Trampoline Systems* decide to adopt the crowdfunding business model?

3. *[Trampoline and Kapipal]* How does your crowdfunding process work?

4. *[Trampoline]* In literature (and also in your website), crowdfunding is described as the collection of money through small donations from ordinary people. However, *Trampoline* seems to dissociate itself from this definition, because you ask for a huge amount of money and you select the investors. In your opinion, is *Trampoline*'s crowdfunding model a different type of crowdfunding?

5. From our point of view, crowdfunding websites seem to act as "orchestrators", in other words firms that are focused on the network and work like guest conductors in an orchestra, coordinating a highly skilled set of independent musicians.

a. *[SellaBand and Kapipal]* Do you think your firm acts as a pure network orchestrator? Is your role only the coordination of artists/kapipalist and believers/contributors?

b. *[Trampoline]* In our opinion, this definition is appropriate for *Trampoline*. Do you agree with us? How can you define your role?

6. Can you describe your product/project?

a. *[SellaBand]* Why is music suitable for the crowdfunding business model?

b. *[SellaBand]* Do you think this business model can be successfully applied to other type of products?

7. *[Kapipal]* What are the main types of project created (charity, gifts, etc…)? Analyzing the different possible features, we noted that fundraising can be public or private. Why does a Kapipalist decide to create a private fund?

8. *[SellaBand and Kapipal]* Do you have some criteria for the initial screening of the projects?

9. In the crowdfunding model, the economic risk is taken by investors.

a *[SellaBand and Trampoline]* Does *SellaBand/Trampoline* take a risk too? If so, how?

b *[Kapipal]* What is the profit for *Kapipal*?

10. In the light of all these considerations, what might be the future development of the crowdfunding phenomenon?

11. Can you describe the main features of the typical investor?

a. *[SellaBand]* From your point of view, what are the differences between a believer/supporter and a music/fashion lover?

b. *[Trampoline]* Are they firms or individual investors?

12. *[Trampoline]* Why did *Trampoline* decide to establish standards (FSA qualifications) for the investors?

13. Do you think your actual investor have a high innovative orientation in their behavior [*lead user*]?

14. *[SellaBand and Kapipal]* If yes, in your opinion, does *SellaBand/Kapipal* risk becoming a niche phenomenon? Do you think that in the future crowdfunding websites will be supported by other kinds of consumers?

15. Why does an investor decide to put money in a website as *[website name]*?

a. *[SellaBand]* There are many websites where new artists upload their songs, and where a consumer can choose and rapidly receive the products selected. In your opinion, why does a consumer prefer *SellaBand,* where he has to wait for product production before receiving it?

b. *[Kapipal]* In your opinion, why does a consumer decide to put money in a website such as *Kapipal*? Why does he participate in these charity or personal projects?

c. *[Trampoline]* Why does an investor decide to put money in your innovative project, instead of simply make a traditional investment?

16. What are the main motivations of the investment?

a *[SellaBand and Trampoline]* Do you think the economic return is the main determinant of the investment? If there are any, what are the other psychological motivations?

b *[SellaBand]* On your website, the consumer actively participates by putting money in in order to sustain artists. However, there are many other websites where the consumer has an active role, without funding, but voting on artists and then contributing to their success. Why is a consumer interested in funding artists, instead of simply supporting them by voting?

c *[Trampoline]* What are the differences between crowdfunding and traditional investments?

d *[SellaBand]* Although little risk is taken on average, is it appropriate to consider the believer an "entrepreneur", in other words like someone who assumes accountability for the risks and the outcome of a venture?

17. *[Trampoline and Kapipal]* Can investors/contributors make suggestions or improvements to the project funded?

18. *[SellaBand and Kapipal]* In your opinion, how does a potential believer/contributor select the project to fund among the wide choice of available projects?

19. *[Trampoline and Kapipal]* Are there some protections or guarantees for the investors/contributors?

20. With the advent of Web 2.0, consumers have become more active, and some phenomena, such as crowdsourcing or crowdfunding, have spread. According to you, could crowdfunding exist without Web 2.0? If so, how could it be possible?

21. Analyzing the crowdfunding phenomenon, we noted there are strong connections between crowdfunding websites and social networks. What is their role in *[website name]?*

22. *[Trampoline]* If none, how does *Trampoline* create the investor network?

23. Can you describe the investment flow? Are there stages/phases? Are there moments of stagnation or speeding up?

24. Are different consumers involved depending on the stage of the investment flow? Who are the consumers who invest in the first phase/at the beginning? And in the last phase?

25. What is the average investment? The minimum share or more?

26. *[SellaBand and Kapipal]* Does a consumer usually invest in one project or more? What is the average number of projects funded by a consumer?

27. Achieving the target:

a *[SellaBand]* Considering the artists who have reached their target, did you note similar features among them? (if there are similar features) Why do you think believers prefer to fund this kind of artist?

b *[Trampoline]* When do you expect to achieve the target?

c *[Kapipal]* How many fundraisings reached the target?