Crowdfunding as an Internet Tool Used for Establishing Relationships With the Customer – A Concept Paper

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Abstract

Purpose: As a conceptual paper, this article presents the idea of crowdfunding activities, crowdfunding being not only a modern tool of fundraising but also an interesting form of establishing relationships with stakeholders. The primary aim of the article is to show the role of crowdfunding in the process of creating relationships with customers.

Design/methodology/approach: The article has been divided into two parts. The first part focuses on the definition of crowdfunding as a form of raising funds and provides examples of selected campaigns. The second part presents the process of establishing relationships during crowdfunding campaigns. The author applied a qualitative approach to meet the research objectives. Moreover, the concept formulation was done through a systematic literature review.

Findings: The emotional involvement of consumers in a crowdfunding campaign constitutes a significant element in relation building and may be developed at any stage of the conducted campaign. Specific characteristics support building relations with consumers (openness, involvement, curiosity, willingness to share information, emotional connection, spontaneity, familiarity with other consumers). A major argument is the fact that during such campaigns relations are built on trust, openness and involvement.

Research limitations/implications: The model was completely built based on the literature. Thus, as a further step of this research the author strongly suggests conducting research with a quantitative approach. Furthermore, the author stresses that the presented concept requires empirical verification and such research is planned in the future.

Originality/value: This article analyzes crowdfunding activity in view of building relationships with customers. Thus, the author of the article shares the new knowledge and suggests the process of building relationships with customers by critically illustrating the created conceptual model.

Keywords: crowdfunding, relationship marketing, customer.

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Crowdfunding jako narzędzie do budowania relacji z klientami

**Streszczenie**

**Cel:** w artykule podjęto problematykę crowdfundingu, który jest nie tylko nowoczesnym narzędziem pozyskiwania funduszy, lecz także ciekawą formą nawiązywania relacji z interesariuszami. Podstawowym celem artykułu jest ukazanie roli crowdfundingu w procesie tworzenia relacji z klientami.

**Metodologia:** artykuł został podzielony na dwie części. W pierwszej omówiono ideę crowdfundingu jako formy pozyskiwania środków oraz zaprezentowano przykłady wybranych kampanii. W drugiej części przedstawiono proces nawiązywania relacji podczas trwania kampanii crowdfundingowych. W artykule wykorzystano jakościową metodę badań, a zaproponowana koncepcja powstała na podstawie przeglądu literatury.

**Wyniki:** emocjonalne zaangażowanie konsumentów w kampaniach crowdfundingowych jest istotnym elementem budowania relacji i może być rozwijane na każdym etapie prowadzonej kampanii. Budowaniu relacji z konsumentem sprzyjają charakterystyczne cechy (otwartość, zaangażowanie, ciekawość, chęć dzielenia się informacjami, więź emocjonalna, spontaniczność, znajomość z innymi konsumentami). Istotnym jest fakt, że podczas takich kampanii relacje budowane są na zaufaniu, otwartości i zaangażowaniu.

**Ograniczenia/implikacje badawcze:** model został w całości zbudowany na podstawie literatury. Dlatego jako kolejny krok niniejszych badań, autor sugeruje przeprowadzenie badań z podejściem ilościowym. Ponadto podkreśla, że prezentowana koncepcja wymaga weryfikacji empirycznej i takie badania są planowane w przyszłości.

**Oryginalność/wartość:** w artykule przeanalizowano działo crowdfundingu pod kątem budowania relacji z klientami. Tym samym autor proponuje nowy sposób budowania relacji z klientami poprzez stworzony model koncepcyjny.

**Słowa kluczowe:** crowdfunding, marketing relacji, klient.

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1. **Introduction**

The aim of this article is to present the conceptual background of crowdfunding as a modern tool used to raise funding and as a method of building relationships with the customers. The article aims to indicate how crowdfunding influences the process of establishing long-term customer relationships. The limited number of empirical and theoretical studies makes it difficult to suggest communication strategies for the internet environment (Thorbjørnsen et al., 2002; Jo & Kim, 2003; Heldal, Sjovold, & Heldal, 2004; Phuong et al., 2017). Establishing relationships with customers is currently one of the most important factors determining a company's success as strengthening long-term and mutual relations allows for reinforcing the client's loyalty. The factor conducive to the development and maintenance of relationships is the advancement of information and communication technology (ICT), including the internet, and especially social media.

One of such state-of-the-art tools, the popularity of which was enhanced due to the development of social media, is crowdfunding. The main aim of crowdfunding is raising funds for a definite goal; however, during a social...
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campaign, a unique relationship is being established between the donors (customer) and the donee (the company).

Crowdfunding is a method of raising capital with the help of others in order to put a business idea which has been considered innovative and worthwhile by a given community into practice. Crowdfunding is often defined as social financing (Farańczuk, 2014) or the process of collecting funds with the aim of conceiving projects and financing businesses (Young, 2013). Crowdfunding can also be defined as a form of accumulating and allocating capital to promote particular activities in return for rewards. Crowdfunding requires the use of modern technologies in order to stay in touch with the surroundings and to take advantage of a lower entry barrier and better transaction conditions than those offered on traditional markets (Król, 2013).

Technological progress, especially the internet, has enabled crowdfunding to develop. Crowdfunding campaigns are run via dedicated online platforms (Beaulieu, Sarker, & Sarker, 2015). Rewards are conventionally understood as do ut des\(^1\), which is an unwritten rule of reciprocity between a donor and a donee, according to which a donee commits to reciprocate. Another type of crowdfunding is donation-based crowdfunding in which the contributors do not get any return. According to Inge Sørensen’s definition of social financing, crowdfunding is the micro-financing of individual projects (Sørensen, 2012).

Crowdfunding campaigns can be classified as donations and rewards, peer-to-peer lending, and equity. Rewards comprise a share in the profits or in the project itself – equity-based (investment) crowdfunding and financial return. Existing crowdfunding platforms can be classified as general (those which raise funding to finance various projects) and specialized.

Neither Poland (Farańczuk, 2014) nor the EU has legal regulations governing crowdfunding campaigns. The USA attempted to address the issue by introducing the Jumpstart Our Business Start-ups (JOBS) Act (U.S. Securities and Exchange Commission, 2012).

In 2012, there were 452 services aimed at raising funds in order to carry out projects. Those were not, however, the only forms of support. Yet, it needs to be mentioned that crowdfunding is the only form of support which does not entail a business plan (Forjasz, 2012).

In 2018, the leading crowdfunding platforms worldwide were Kickstarter, Indiegogo, GoFundMe, Patreon, Rockethub, Teespring, CircleUp, Gusto, IFunding, Crowdfunder (Technavio, 2018). All together, they recorded the value of funds at approximately 738.82 million dollars.

According to the first report by Massolution in 2011, about one million projects were financed worldwide. In 2012, crowdfunding campaigns raised $1.5 billion, while in 2014 they raised $5 billion worldwide (Forbes, 2016). In 2017, the total volume of all crowdfunding types was recorded at 34.44 billion US dollars worldwide (Statista, 2019).
In Poland, crowdfunding campaigns attracted great interest in the years 2013–2015, and this trend is still growing (e.g. in 2014, funds increased by 300% as compared to the previous year). Moreover, in 2016 the Polish crowdfunding market reached the 0.9 million euro margin.

Whether a crowdfunding campaign will succeed, i.e. the needed funds will be raised, depends on two factors: good presentation and people involved in the project. Kaltenbeck’s research indicates that financing the project at an early stage is highly influenced by family members and friends, who are often the first contributors to the project and the closest environment of the project originator who raises the funds.

In order to use a crowdfunding tool effectively, a company needs to have the right infrastructure and community gathered around a producer, brand or company. As can be seen nowadays, one can also take advantage of crowdfunding platforms which act as intermediaries between the demand and the supply side of the crowdfunding action (Belleflamme et al., 2013). Crowdfunding platforms increased the number of crowdfunding campaigns. The most popular foreign crowdfunding platforms in Poland include crowdunder.com – for entrepreneurs and investors and Indiegogo – a kickstarter for private originators. The following platforms were started in Poland and finance all types of projects: PolakPotrafi, Wspieram.to, beesfund.com, siepomaga.pl, wspolnyprojekt. Specialized Polish platforms include wspieramkultura.pl (cultural projects), siepomaga.pl or zzrutka.pl (charity), megatotal.pl (music projects); clipontheroad.pl (music videos), crowdfunding.pl (purchase of commercial properties), stworzmistrza (sport), fundujez.pl (citizens), scienceship.com (science).

Crowdfunding is especially widespread among start-ups, local communities and open organizations. This is caused by the nature of crowdfunding, which requires entities to be open to new solutions, to understand the prosumer’s motivation, to engage in a dialogue and involve the customer, to be ready to validate their ideas and use the cognitive method in order to define the customer’s needs and expectations.

There are various rules concerning collecting funds. Kickstarter and wspieram.to require that at least 100% funding be raised before an agreed period of time lapses to finance the project. There are also platforms which agree to transfer any collected amount, but the commission paid in case the campaign fails is often higher.

Projects financed through crowdfunding involve risk of failure. According to research, raising funds is not the only objective of crowdfunding campaigns (Belleflamme, Lambert, & Schwienbacher, 2013) While 64% of entrepreneurs who took part in the research were motivated by the opportunity to promote their own projects, 36% found the crowd’s response to the project important. For 93% of entrepreneurs, the opportunity to have their project financed was the most important (Wieczerzycki, 2014).
2. Building Relationships

Building customer relationships is currently one of the most significant factors which determine the company’s success as strengthening long-term mutual relationships allows the company to foster customer loyalty. New communication and information tools, including the internet and social media (SM), contribute greatly to the process of building and maintaining customer relationships (Nikunen et al., 2017). This trend has been confirmed by managers who have taken part in the research. 65% of them consider social media a source of income for their companies (IBM Institute for Business Value, 2011). Furthermore, the same managers misinterpret the reasons for which users of social media visit companies’ websites.

The use of the internet in business activities and changes in the customer’s surroundings will modify methods of building customer relationships. Rapid development of social media will make customer relationships more social by creating more active, committed and open groups of customers (communities). In order to do that, open organizations ready to build a community around a company need to be created. Only then will it be possible to establish mutual and consolidated relationships. Online activity started to be an important source of value creation, one of these activities being crowdfunding (Bechmann & Lomborg, 2013). This confirms new research about crowdfunding as source of value creation (Aitamurto, 2011; Burtsch et al., 2014; Davidson & Poor, 2014; Hills, 2015; Lehner, 2013; Borst, Moser, & Ferguson, 2018). Other types of values, such as social and cultural value, have been described by Bourdieu (1986) (Gerber & Hui, 2013).

Such surroundings make it possible to redefine the attitude from a consumer to a crowd-consumer, who is an active participant influencing the form of the product (service), gets emotionally linked not only to the product, but also to the project in which they participate (Wang & Wu, 2012). What is more, the crowd-consumer wants to be heard, and the nature of the cooperation gives the crowd-consumer the feeling of participating in an interesting project (Verhoef et al., 2010). Relations with the company are strengthened because the crowd-consumer can possess the product before it is launched. The attitude presented by the crowd-consumer differs from the passive role of the consumer who merely responds to stimuli.

An open organization should redefine its consumer, who, if they have the characteristics of a crowd-consumer, will greatly contribute to an increase in profits, knowledge and financial resources to run new projects. Relationships established between the company and the crowd-consumer resemble those which are established while co-creating products (services). During a fundraising campaign, interaction between the customer and the company is strong and cooperation is voluntary.

The crowd-consumer finds establishing relations with the company during the crowd-funding campaign important because this is when the value suited...
to the needs is created. The customer feels that they can influence reality, develop their cooperation skills, enhance their prestige and receive rewards and distinctions (Galvagno & Dalli, 2014).

Stakeholders who influence the nature of the relations and create them also play an important role. Honest and loyal relationships with stakeholders play a significant role in crowdfunding since they form a picture of the company. It means that, although not yet analyzed enough, trust may become the foundation for relationship building (See-To & Ho, 2014; Zheng, Hung, Qi, & Xu 2016) or can even become the most important factor for creating relationships (Kang, Gao, Wang, & Zheng, 2016). Moreover, the level of trust may influence the success of crowdfunding action (Shankar et al., 2002).

3. Stages of Building Relationships in Crowdfunding

The process of building relationships in crowdfunding comprises three stages: friend-funding, getting the crowd, and last-minute funding (Ordanini et al., 2011). These three stages provided the basis for the author in determining the stages of building relations with various groups. These basic groups that occur in every crowdfunding action are defined as: friends, family, and people who want to support the project with even low chance of success. That is why they are referred to in the subject literature as “fools” or “crazy” (Ordanini et al., 2011).

The first stage is the so-called “friend-funding”, and it is the most dynamic one, since approximately half of the expected funds can be gathered during that stage, which results from a strong support of the individuals involved in a project and their environment. The actions undertaken at this stage are relatively simple since the environment knows about the project, has trust and emotional ties to the project. The main activities include providing ongoing information about the project, e.g. what stage the project is currently at, but also presenting the people who create it. The “snowball” effect is at play at this point, i.e. subsequent group members start to spread the information about the project e.g. on Instagram, Facebook. Therefore, it can be noted that at this stage the trust and interest in the project (company) is transferred from person to person, who like it and accept it, believe in its success or share similar values and perception. Because the establishment of relations with these three groups occurs naturally, the attitudes of such customers may be used to build trust and gather support for the action among new individuals.

There are interesting factors that can be identified as key elements in this stage, such as: experience, geographical mobility, number of acquaintances and gender of the person representing the project (Ma et al., 2014), but also the length of the text, product price or engagement in advertisement (Kim & Benbasat, 2010).
The second stage is the so-called “getting the crowd”. At this stage, there is a clear deceleration of funds accumulation and steps promoting the action need to be taken. In practice, projects take advantage of the power of word-of-mouth marketing. The main goal of these activities is reaching beyond one’s own contact network, making use of someone else’s contacts in order to gain interest (of investors). This is the most difficult stage and it requires constant communication with previously and newly attracted communities. It results from the fact that an undertaken crowdfunding campaign will at this stage be perceived as a question mark, as being uncertain, weak, doubtful, and these are the traits that do not contribute to relation building. To that aim, regular communication with the environment must be maintained by creating an information package about what is happening, what will be done. Additionally, it is important that promotional actions be undertaken, e.g. competitions. At this stage, we already have a small crowd supporting us, which can be used to our advantage in order to raise interest of bystanders. An attractive method of communication will constitute a value in itself, which may be appreciated (noted) by investors, for instance. Since at this stage the level of trust is the same as during the first stage, steps need to be taken to further increase visibility and to instill better understanding. It ought to be stressed that a majority of projects never go beyond the second stage.

Moving into stage three, i.e. “last-minute funding” (race to be in), means that a project starts to reach a phase proving that it can be successful. Therefore, the individuals not linked to the project, but the ones who were motivated by its increased popularity, get involved in order to become a part of its success. It is owed to the popularity effect, promotional activity and the image of individuals promoting it. The activity of this stage can be divided into two parts, i.e. before and after its success. In the first part, using positive publicity (the buzz) surrounding the campaign, relationship building with those who wish to join in the success can be started. Positive attitude and the euphoria of expectations of the end may become very successfully converted into relationship building. It is the emotional involvement in the project that turns into an emotional tie to a company, since clients associate the project with the company. It may arise both from the effect of transferring emotions from the campaign onto the company, but it is also an effect of a company opening up to the environment in actions promoting the project. Maintaining this relationship can be a very good “start” for further cooperation. Projects at this stage typically obtain the expected amount.

The author believes that it is justified to add a fourth stage, called a “follow-up”, during which despite the conclusion of the campaign, contact with participants is maintained. A positive experience and a recollection of the campaign will contribute to such contacts. It may also raise interest through reporting on what is happening with the project. This form of
acquaintance with campaign participants forms a very solid basis for sustaining an already established relationship and for its further development. A positive experience becomes a good starting point for deeper cooperation (co-creation), e.g. in developing new products, directions of a company growth, activities on the internet.

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<th>Stage I</th>
<th>Stage II</th>
<th>Stage III</th>
<th>Stage IV</th>
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<td>friendfunding</td>
<td>getting the crowd</td>
<td>race to be in</td>
<td>follow-up</td>
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Stage I: friendfunding
- attention, involvement, warm feelings, rapid increase in interest, friends/family
- community size small, new interest, new participants, low degree of engagement

Stage II: getting the crowd
- increased interest (as a result of increased number of backers), chance of success boosts activity level, new customers (hesitant)
- feeling of fulfillment, prestige, curiosity, uniqueness, interest in other campaigns, communication with company, sharing experiences, still high degree of expectation

Stage III: race to be in
- feeling of fulfillment, prestige, curiosity, uniqueness, interest in other campaigns, communication with company, sharing experiences, still high degree of expectation

Stage IV: follow-up

Fig. 1. Stages of involvement in a crowdfunding campaign. Source: Adapted from Ordanini, Miceli, Pizzetti, &Parasuraman, 2011.

The possibility of experiencing something new and something different constitutes a significant element of building an emotional relationship with participants. Creating a relation based on an emotional connection becomes an important factor of a company’s competitive advantage.

Bitterl & Schreier (2018) pointed out that self-venture has impact on positive customer behavior. Therefore, the participation in crowdfunding itself positively impacts relationship building and can be observed in consumer behavior. As an example, it might be observed that consumers’ positive attitude equals an increased number of products of a given company, greater engagement and more positive ‘word-of-mouth’ communication. (Esch, Langner, Schmitt, & Geus, 2006; Park, MacInnis, Priester, Eisingerich, & Iacobucci, 2010; Bitterl & Schreier, 2018).

According to the author, it is not only the positive behavior, but also the positive relationship between the participant (customer) and company that plays an important role. Therefore, it is important to be aware of what kind of donor involvement takes place in crowdfunding actions. Beaulieu et al. (2015) classify six distinct crowdfunding models: private equity, royalty,
microfinance, peer-to-peer, rewards, and donation. They described the most important features of each crowdfunding action and indicated types of relations between donor and donee. The indicated actions concern not only relations between the company and client (B2C), but also between companies (B2B). Therefore, empirical verification of the model proposed in this paper is related only to the relations between donors (customer) and the donee (the company). In order to verify the level of relations, Haythornthwaite’s classification may be used (2002, 2005).

Haythornthwaite categorizes strong, weak and latent ties. Strong ties are defined as family, friends, and direct colleagues. Weak ties are people we know as acquaintances and casual contacts. Latent ties are described as a technically available connection that is not yet activated. Latent ties can be formed by computer-enabled or non-computer means (i.e. e-mail contact, or in social media). The positive side of this is that according to the research from Borst et al. (2018), also a latent ties funder can positively influence current project performance. According to the author, not only a positive attitude towards project performance has a great impact on crowdfunding actions, but strong relations also have a great influence.

It is important to highlight that modern customers live in two worlds – a virtual one and a real one, seeking new and different experiences, but they themselves build equal relations in social media and in real life.

It seems that modern clients expect such activity on the part of a company, since in their opinion it proves the company’s involvement and interest in what a recipient feels.

4. Conclusion

Donors’ trust in an inventor and belief in the rightness of a given project constitute a fundamental basis for crowdfunding activities. These traits are component elements of building relations with participants.

Emotional involvement of consumers in a crowdfunding campaign constitutes a significant element in relation building and it may be developed at any stage of the conducted campaign.

The characteristics of a crowd-consumer favor relation building (openness, involvement, curiosity, willingness to share information, emotional connection, spontaneity, familiarity with other consumers). A major argument is the fact that during such campaigns relations are built on trust, openness and involvement.

Thanks to modern technologies, such as a crowdfunding platform, it became possible to connect various groups of individuals (age, gender, place of residence), and the data thus gathered provide a foundation for better recognition of different expectations. Thanks to an analysis of activities on the platform, one can very quickly assess which activities enjoyed greater
popularity and which did not. Comments and entries made e.g. at a campaign site or on Facebook page become a veritable treasure trove of knowledge.

The model was purely built based on the literature. Thus, as a further step of this research the author is strongly suggesting to conduct research with quantitative approach. Furthermore, the author stresses that the presented concept requires empirical verification and such research is planned in the future. Fundamentally, this model describes the relationship between business and customer, which means that this model is only applicable to donors (customers). The four stages of crowdfunding may be referred to as the four levels of relation building, i.e. from acquaintance to cooperation. The author emphasizes that a strong point of involvement occurs between phases two and three.

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Endnote
1 Latin “I give that you may give”.

References


