

# Crowdfunding and Nonprofits: Creating Successful Campaigns

Megan McGowan

Elon University

Meganmcgowan5@gmail.com

## ABSTRACT

As crowdfunding platforms grow and nonprofit organizations look for new means of fundraising, it is essential that technology and support develop into a viable environment for nonprofit crowdfunding. The understanding of donor demographics, transactional trust, incentives, components of success and areas for improvement are critical to improving the current landscape. Nonprofit organizations must realize their investor's motivations, patterns, and demographics, so they can tailor campaigns. Trust needs to be developed between organizations and crowdfunding platforms, between donors and crowdfunding platforms and between donors and nonprofit organizations. There needs to be incentives for both nonprofits and donors to move from traditional means of online fundraising to crowdfunding platforms. Research into the components of a successful campaigns are useful but have shown a lack of resources to develop funded projects. For nonprofit fundraising to be viable, these needs must be addressed.

## 1. INTRODUCTION

Fundraising is the backbone of nonprofit organizations. Funds collected from individuals, corporations, and the government sustain nonprofits and allow them to work towards their cause. Nonprofit organizations are tax-exempt business entities that use their revenue to achieve goals rather than distribute profits. Much of a nonprofit's status relies on their name recognition and history of success. Most often, nonprofits use long-term means of fundraising, such as collecting from individuals, requesting government grants, selling their own products through a business service, or requesting corporate contributions. Crowdfunding is the practice of funding a project or business venture by raising small amounts of money from a large number of people. The invention of crowdfunding platforms, such as Kickstarter, indigogo, and Crowdrise are driving nonprofits to reinvent the way they view traditional fundraising and create avenues of business to take advantage of these new technologies.

Crowdfunding online is a newer social practice but has roots in older forms of technology. Previously, nonprofits used crowdfunding in the form of telethons and were highly successful in raising money and awareness. Crowdfunding online has the potential to be equally successful, but it also increases competition. In the past, users were less aware of nonprofit organizations if they were outside of their social realm; the average distant between donors and organizations was 70 miles (Agrawal, Catalini, & Goldfarb, 2011). The Internet has allowed individuals to connect to causes they believe in and focus their donations to organizations helping towards their interest. This shift in giving has both positive and negative side effects. It allows smaller nonprofits to become more popular than previously possible and increases the growth of niche organizations. However, studies show that larger nonprofits have suffered from a decrease in donations since the increased popularity of online crowdfunding (Hansen, et al., 2014). To alter the decline in

funding, nonprofits of all sizes must learn how to identify and connect with their audience and how to best develop and execute crowdfunding campaigns.

Due to the relative youth of crowdfunding, there is little access to support tools. A lack of feedback systems has limited the research of success indicators and prevented the development of a tool to increase chances of success. This paper provides an overview of success indicators and offers a look at how to capitalize on the use of crowdfunding as a means of fundraising. The research follows that by understanding donor demographics, how to establish trust, the benefits offered and reaped, markers of success, and the lack of development resources, nonprofits will be better equipped to develop successful crowdfunding campaigns.

## 2. UNDERSTANDING THE DONOR

The most important construct of fundraising is understanding the donor. Nonprofit organizations must realize their investor's motivations, patterns, and demographics so they can tailor campaigns to meet donor needs. A study of campaigns on the platform Kickstarter showed that 56% of campaigns are not funded (Hui, Gerber & Gergle, 2014). The ability to recognize the correct donor pool and to leverage this demographic can increase the chances for success.

A study of 6,000 nonprofit websites through Directhelp.org found that the average age of an online donor was 38 years old in comparison to the average age of 60+ for those donating offline. The study also found that the highest concentration of online donors was in New York and California (Andresen, 2006). Pischner and Pitschner-Finn (2014) determined that the average donation to a nonprofit campaign was \$12.50 helping to reach the average nonprofit goal of \$14,755. They also found that donors were more likely to donate to a project that had an average length of 36 ½ days (Pitschner & Pitschner-Finn, 2014).

These studies allow campaign creators to realize the standard online donor demographic. Understanding the age, location, and donation patterns of potential investors creates potential markers of motivation for a crowdfunding campaign, but is not enough to ensure success. Creators need to better understand the motivations of donors. Donors are motivated by their desire to connect to a project (Gerber & Hui, 2013). This desire to connect gives nonprofits an advantage in the market because their very nature is to promote a cause or goal. Nonprofit organizations need to exploit the market potential of attracting donors by allowing them to connect to a project. Donors are also more likely to give to a project that has a high level of transparency (Gerber & Hui, 2013). Gerber's study showed that the understanding of how a project is functioning and the ability to see how the funds are used motivates donors (Gerber & Hui, 2013). Hayes (2011) also found the second most influential value in attracting donors is showing where donations are going and how the funds are used. These markers of donor motivations give nonprofits direction for creating new projects. To increase the chance of funding, it is important to create a project that meets the

needs of the nonprofit organization and the desires of the donors to increase chances of funding.

It is also in the best interest of the campaign creator to understand where donations come from. A three-year study of the crowdfunding platform Sellaband, found that initial donations are usually from friends and family of the campaign creator. A second wave of donations come from local investors who receive community benefits, and the third wave of investors come when a campaign has reached a threshold where risk is diminished (Agrawal, et al., 2011). The patterns of these donations help create a realistic timeline of when donors interact with fundraising, and can be beneficial in creating goals. Hui et al. (2014) found that a majority of donations come from weak ties, highlighting the need to grow social networks to expand the donor pool.

The first step in creating a successful campaign is realizing who the audience is. Research has given creators markers for understanding the average donor and their donating habits. This information provides influence to campaign creation, so that each campaign can match the motivations of creating a personal project with high levels of transparency. It also helps determine campaign timelines, by highlighting when donations from different sources are realized and from what sort of relationship these donors come. Having now presented a picture of donor demographics, it is important to comprehend how relationships are built between organizations and their donors.

### **3. ESTABLISHING TRUST**

As crowdfunding is a developing technology, there are hurdles to surpass in order to lower risk and increase participation. Trust needs to be developed between nonprofit organizations and crowdfunding platforms, between donors and crowdfunding platforms, and between donors and the nonprofit organizations. This trust needs to be developed quickly and without negative repercussions. Crowdfunding platforms need to mitigate the risk towards nonprofits, in regards to trying a developing technology. Nonprofits need to increase transactional transparency to attract donors and establish trust. When high levels of trust between all parties are established, crowdfunding can be a beneficial means of fundraising for nonprofit projects.

By definition, nonprofits lack the financial resources to take monetary risk. In the current fundraising landscape, the risk for nonprofits entering the online fundraising market is too high to make it a viable option (Olsen, Keever, Paul, & Coyington, 2001). It found that the best fundraising resources for these organizations are low-cost, personalized, dynamic, interactive, and measurable. This study is relevant to nonprofits looking to enter the crowdfunding market. Nonprofits lack the time and resources to produce a project that will fail. Hemer (2011) theorized that nonprofit crowdfunding is best for small budgets and low capital projects. He also found that crowdfunding is better for larger organizations with a bigger reputation, as it minimizes the risk. There is a need for resources to establish the reputation of crowdfunding and to help create successful campaigns, especially for smaller organizations and budgets.

Nonprofit organizations are also fearful of losing traffic to third party fundraising sites (Hansen, et al., 2014). Hansen et al. (2014) found that many local nonprofits lacked trust in third party sites because it diminished their physical presence in the local community. This study correlates with Olsen's findings that many nonprofits want their projects to be personalized and dynamic (Olsen et al., 2001). These two studies provide an

avenue for campaign creators to follow. To build relationships between crowdfunding platforms and nonprofits, there needs to be an avenue to drive traffic back to the organizations website for the crowdfunding site to be beneficial.

It is also essential to establish trust with the donor. On average, a donor spends 42 seconds on a donation page (Burt & Gibbons, 2011). This means that campaign creators have 42 seconds to establish trust and entice the donor. It was shown that transactional trust could be enhanced by images demonstrating the use of funds shown in association with the donate button. The images go back to donor motivations by increasing transparency and increasing trust between the donor and the organization (Burt & Gibbons, 2011). Trust also needs to be formed between the crowdfunding platform and donors. Some crowdfunding platforms have instituted a return rule, which returns donations given to projects that are not fully funded at the end of their promotion time. Sites using the return rule have a higher rate of donation because they mitigate the risk of donating to a project that is not successfully funded (Wash & Solomon, 2014). These studies provide a basis of forming trust with donors. As trust in organizations increases and the reputation of crowdfunding grows, crowdfunding platforms need to capitalize on the risk diminishment by offering benefits to its users.

### **4. BUILDING BENEFITS FOR THE CROWD**

Nonprofits and donors need incentives to move from traditional means of online fundraising to crowdfunding platforms. These benefits need to satisfy donor motivations, establish trust, and lead to successful campaigns. Benefits offered by nonprofits to donors will be very different from benefits offered by for-profit campaigns and need to design ways to attract donors and create long-term investors.

The study of nonprofit organizations in Nepal, finds that many organizations using crowdfunding believe the number one benefit is the building of local and global reputations. The findings show that, in addition to building global reputations, crowdfunding allows nonprofits to work outside of the policy and time restrictions of traditional grants and increases the visibility of smaller organizations that often lack institutional funding (Amtzis, 2014). The benefits of widespread reputations and the ability to work on their own timelines are avenues to explore further as incentives for nonprofits to enter the crowdfunding realm.

Nonprofit status is a benefit in its own right, when it comes to online fundraising. Glaseser and Shleifer (2001) determined that when customers, employees and donors feel protected by nonprofit status, the organization has a competitive advantage in the marketplace. Furthermore, donors are more likely to give to nonprofit creators because they believe there is less risk of fund diversion. Research also shows that nonprofits are able to offer larger community benefits and have a higher credibility rating that attracts investors (Belleflamme, et al., 2013). These studies show that nonprofit organizations have a higher market value for their services and access to a viable pool of donors looking to fund nonprofits specifically to avoid risk.

Currently, crowdfunding does not facilitate the transformation of one-time donors into long-term investors. Nonprofit organizations need to offer tangible benefits to compete with the benefits offered by for-profit organizations on crowdfunding platforms. Nonprofit donors are not looking for monetary or

service benefits (Fisk, et al., 2011). Donors want to feel a personal connection to a project or cause so the best benefit to offer is involvement. Belleflamme et al. (2013), found that the most successful incentives for growing donor pool are allowing investors to volunteer time, permitting donors to offer expertise, and engaging the donors in decision-making. Shareholder creation, which is the creation of benefits for investors, is a viable option for long-term investments (Fisk, et.al, 2011). A 2014 study of entrepreneurs offering nonmaterial benefits, found that profit sharing increases the investor pool and strengthens the organization's reputation (Belleflamme, et al., 2014). These studies are important in demonstrating that there are incentives beyond capital gain that draw donors and create long-term investors from one-time donors.

The creation of long-term investors is essential to sustainable success. To compete with for-profit campaigns, nonprofit organizations need to recognize the value of their services and offer meaningful benefits to their donors. Benefits that engage the donors and aim at increasing trust and motivation will be most successful. Crowdfunding platforms need to present opportunities to organizations that minimize the risk of using their services and increase donor accessibility. Crowdfunding platforms can achieve both of these goals by providing organizations with tools to improve their chances of success.

## **5. IDENTIFIED MARKERS OF SUCCESSFUL CAMPAIGNS**

While understanding donors, trust, and benefits is important, it is still difficult to create a successful campaign. The relative youth of crowdfunding and the lack of external resources make it hard to determine what factors influence success. Despite these difficulties, researchers have identified some components of campaigns that are more influential than others are. Through the use of resources such as [thekickbackmachine.com](http://thekickbackmachine.com), researchers have identified commonalities in successful campaigns. By understanding these commonalities and using them effectively in their campaigns, nonprofits can increase their chances of successful funding. Campaign creators need to focus on the scope of the project, the accessibility, and the strength of an organizations social group to increase the chance of funding.

Retaining investors is vital to long-term success. A crowdfunding campaign should inform users of the nonprofit organization's cause and be easily accessible. Accessibility, accountability, and education are constructs of a campaign or organization's website that are highly correlated with success. Donors are more willing to donate when they understand and connect to the cause, which makes it essential for the campaign to educate donors. Success is also tied to trust which can be demonstrated through means of accountability (Sargeant, West & Jay, 2007). Campaign creators should use these constructs and more to tailor a campaign message and increase the probability of project funding.

Mitra and Gilbert (2014) found that phrases pertaining to reciprocity, scarcity, social proof, and authority had the highest chance of success. Grabbing a donor's interest is paramount and to this end, the language of a campaign can be vital in ensuring funding. Creators need to study which phrases best reflect the beliefs of their campaign and will draw in investors.

Donation patterns and timelines are markers of funding as well as donor needs. Crowdfunding is a time-based technology that is reliant on setting a goal and rapid execution (Lu, Xie, Kong & Yu, 2014). Newly posted projects with a shorter project timeline are more likely to receive donations. This study also provides a link

between crowdfunding and social media by noting that success connects to the early use of social media to promote project (Lu, et al., 2014). Shorter project durations and effective mapping of promotions increase the likelihood of funding.

The crowdfunding campaigns that do succeed do so by narrow margins (Mollick, 2014). Wash (2013) studied Donors Choice and indicated that 97.48% of successful campaigns are funded exactly. He also notes that organizations that have completed a previous project receive a 16% increase in donations. The line between success and failure is thin and the stakes for success are high. Completing projects, increases the trust a donor has in an organization, leads to higher donation values, and leads to long-term relationships with investors.

Identifying markers of success and integrating them into a campaign will aid in creating a funded campaign. By recognizing the range of a project, creating a realistic timeline and effectively promoting the material, nonprofit organizations will increase their chance of success. Creating a resource of this information will help lower the risk for nonprofits shifting from traditional fundraising to crowdfunding. Unfortunately, the current environment lacks the resources needed to effectively use these success markers.

## **6. THE LACK OF DEVELOPMENT RESOURCES**

To further develop crowdfunding into a positive means of fundraising for nonprofits, there are issues with crowdfunding platforms and nonprofit organizations to address. To better support creators and donors, crowdfunding platforms and nonprofit organizations need to develop better infrastructures and support tools. There are obstacles to overcome before a successful and beneficial relationship matures.

Currently, there is a lack of feedback tools to support the different crowdfunding platforms. Available data forecasting tools are only 68% accurate in determining success (Greenberg, Pardo, Hariharan & Gerber, 2013). The researchers cited a lack of feedback on failure, lack of planning tools, and narrow datasets make it difficult to create forecasting tools. The lack of support is not a new issue. Goecks, Volda, Volda and Mynatt (2008) indicated the need for improved planning tools and matching technology to connect donors with shared project interest. Platform designers and researchers need to work together to develop planning and support tools. The development of technology to increase funding and grow donor connections will be vital to the progression of crowdfunding as a whole.

Nonprofit organizations need to develop the technology and media skills necessary to capitalize on new fundraising means (Goecks et al., 2008). In recent years, the number of donors decreased, leading to reliance on a few key investors. This has had an adverse effect on smaller nonprofits and eliminated the use of outside markets (MacMillan, Money, Money, & Downing, 2005). Nonprofits need to look beyond their traditional fundraising options and increase nonmaterial benefits to reverse the diminishment of resources (MacMillan, et al., 2005). As the market for donors becomes increasingly competitive, it is crucial for organizations to develop new tools.

The development of new tools is a risk for nonprofits that lack the excess of funds to fail. Nonprofits need to create a sustainable definition of success and learn how to approach it. The development of technical skills is not inherit to nonprofit

organizations, but the need to work on their internal resources to create long-term technical plans and implement new campaign strategies is critical (Merkel, et al., 2007). The lack of forward-looking technical departments creates detriments and inhibits improvement. Nonprofit organizations need to look to the advantages of crowdfunding and generate resources capable of managing this technology.

## 7. CONCLUSION

As crowdfunding platforms grow and nonprofit organizations look for new means of fundraising, it is essential that technology and campaign creators come together to create a viable environment for nonprofit crowdfunding. The understanding of donor demographics, transactional trust, incentives, components of success and areas for improvement are crucial for moving forward and improving the current technological landscape.

There is a demand for resources to facilitate the link between donors and campaigns. The more personalized crowdfunding becomes, the more productive it will be for the organizations using the platforms. The increase in benefits to user organizations will increase the reputation and trust of crowdfunding platforms and generate a diversified donor group that is better connected to their beliefs and ideals. This same demand is applicable to support technologies. Campaign planning tools, accurate forecasting, and evaluation tools are necessary to the progress of crowdfunding.

Nonprofit organizations and crowdfunding platforms need to maximize the benefits they offer. Nonprofit organizations need to realize what non-materialistic benefits they can offer to transform one-time donors into long-term investors. Without this transformation, crowdfunding will be a temporary solution to the larger problem of decreased donor pools and lack of investment options. Crowdfunding platforms need to sort out what benefits are applicable to nonprofit organizations and realize how to maximize these benefits. If the benefits of crowdfunding outweigh the risk in changing fundraising mediums, the platforms will increase their user groups and employ a new demographic that has limit their donations to direct donations.

Nonprofit organizations need to evaluate the future of fundraising and the technological means of improvement. Crowdfunding platforms need to develop support tools and increase visibility to strengthen their reputations and grow trust between them and their users. The future of nonprofit crowdfunding is reliant on the development of new tools and the capitalization of new markets. As crowdfunding technology progresses, organizations will need to personalize their donor pools and create dynamic marketing plans to ensure success.

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