SUBSCRIPTION-BASED CROWDFUNDING: AN EMERGING ALTERNATIVE CROWDFUNDING MODEL FOR CONTENT CREATORS

57160512-0 NG RUEY AUN
MARKETING STRATEGY
c.e. PROF. NAGAI, TAKEHI
D.E. PROF. MANO, YOSHIKI  D.E. PROF. KIM, PILJOONG

Summary

This master thesis is a study of the burgeoning subscription-based crowdfunding model. Currently, this model of crowdfunding had been relegated as a subcategory of reward-based crowdfunding. However, one of the main purposes of this paper is to propose that subscription-based crowdfunding is functionally different from reward-based crowdfunding and thus deserving its own categorization alongside other community crowdfunding (reward-based crowdfunding and donation crowdfunding). The other purpose of this paper is to study the circumstances which fostered the growth of subscription-based crowdfunding.

Unlike reward-based crowdfunding where backers contribute to fundraisers in a singular transaction, subscription-based crowdfunding allows backers (Patrons) to contribute to fundraisers (Creator) in an ongoing basis. This slight change in mechanism fundamentally changed the function of subscription-based crowdfunding and sets this model apart from the others. This form of crowdfunding is also based on the traditional pay membership or subscription services such as newspapers and magazines. However, by combining traditional subscription payment with the crowdfunding model, it became something more than a simple subscription service.
The current online media was powered financially by advertising. Due to the abundance of information on the internet, advertisers were able to attain higher negotiation power. In order for online content creators to thrive, they must attain scale in viewership. The value of a creator’s fan base is only the numbers. This revenue model is exemplified by YouTube, one of the largest and most dominant platforms for online videos. Over the course of its development, YouTube had to balance its relationship with advertisers and its content creators. The tension between the parties came to a head in 2017 in an event known as the “adpocalypse” when large number of brands withdrew from the platform due to alleged advertisements appearing on controversial contents. In turn, YouTube implemented mass demonetization and harsh filtering policies reduce controversial contents on its platform, this put many content creators’ career on the platform at financial risks and hardship.

During this time, more creators started to join Patreon, one of the most popular subscription-based crowdfunding platforms, to redirect their core fans to financially support their work with periodic pledges. As the subscription-based crowdfunding model provides an alternative revenue stream for content creators, Patreon and this crowdfunding model drew more mainstream attention. Starting from late 2017, many established players launched their version of subscription-based crowdfunding, such as Kickstarter’s Drip and YouTube’s channel membership program.

This thesis explores this new phenomenon and provides a comprehensive understanding regarding subscription-based crowdfunding. The paper will differentiate subscription-based crowdfunding from reward-based crowdfunding in function and risks. It will also seek to show subscription-based crowdfunding’s relation to online mediascape and how this form of crowdfunding provides a new way of content financing that may prove to be the start of a major industry shift.
SUBSCRIPTION-BASED CROWDFUNDING: AN EMERGING ALTERNATIVE CROWDFUNDING MODEL FOR CONTENT CREATORS

57160512-0 NG RUEY AUN
MARKETING STRATEGY
c.e. PROF. NAGAI, TAKESHI
d.e. PROF. MANO, YOSHIKI  d.e. PROF. KIM, PILJOONG
Table of Contents

CHAPTER 1. INTRODUCTION .................................................................................................................... 1
  SECTION 1. MOTIVATION AND BACKGROUND ..........................................................1  
  SECTION 2. RESEARCH OBJECTIVES AND QUESTIONS ........................................2  
  SECTION 3. INTENDED AUDIENCE AND IMPACT .............................................2  
  SECTION 4. STRUCTURE OF THE THESIS ..........................................................3  
  SECTION 5. RESEARCH METHODOLOGY ..........................................................3  

CHAPTER 2. LITERATURE REVIEW .................................................................................................5
  SECTION 1. DEFINITION OF CROWDFUNDING ..................................................5  
  SECTION 2. REWARD-BASED CROWDFUNDING ................................................8  
    Section 2.1. Incentives of fundraisers ................................................................. 9  
    Section 2.2. Incentives of backers ..................................................................... 11  
  SECTION 3. YOUTUBE: A MAJOR PLATFORM FOR CONTENT CREATORS ..........13  
    Section 3.1. Rise of YouTube ........................................................................... 13  
    Section 3.2. Youtube’s advertising-based revenue model ..................................... 16  
    Section 3.3. YouTube and its influence over content creators ............................. 18  

CHAPTER 3. FINDINGS .......................................................................................................................20
  SECTION 1. SUBSCRIPTION-BASED CROWDFUNDING: AN INTRODUCTION TO THE  
    MECHANISMS .............................................................................................................. 20  
  SECTION 2. ADVERTISING-BASED REVENUE MODEL VS. FAN-BASED REVENUE MODEL .... 22  
  SECTION 3. SUBSCRIPTION-BASED CROWDFUNDING VS. REWARD-BASED  
    CROWDFUNDING ...................................................................................................... 24  
    Section 3.1. Incentives .......................................................................................... 25  
    Section 3.2. Risks .................................................................................................. 27  
    Section 3.3. Price discrimination ......................................................................... 31  

CHAPTER 4. DISCUSSION AND CONCLUSION ..............................................................................35

REFERENCES .........................................................................................................................................40
CHAPTER 1. INTRODUCTION

SECTION 1. MOTIVATION AND BACKGROUND

Since the early 2000s, with ArtistShare being the first online reward-based crowdfunding platform (Freedman and Nutting, 2015), the online crowdfunding platforms had become an ever increasingly accessible alternative for entrepreneurial financing. Kickstarter (www.kickstarter.com), founded in 2009, had successfully launched more than 144,000 projects as of the time of writing (Stats, 2018). Indiegogo, another prominent crowdfunding platform, founded in 2008, stated it launched an approximately 19,000 projects per month (Indiegogo, 2018). Most of the prominent and established online crowdfunding platforms were built on the basis of singular fundraising for single time projects, or also known as reward-based. Consequently, most academic studies into the field of online crowdfunding had been about reward-based crowdfunding models, and their impact on early stage entrepreneurial financing.

As the internet became a more connected and popular space, artists, authors, and other media content creators, often collectively referred to as content creators, saw an opportunity to bring their talents to a worldwide audience and to capitalize on their work to sustain their livelihood (Madden, 2004). Many creators started building audience and branding on online media platforms such as YouTube. Yet as the internet matures and becomes more incorporated into the mainstream, content creators soon saw that online media is not as liberating as before (Jakulin, 2017). The current main source of capitalizing on media content online is advertising which poses potential creative restrictions for content creators. Advertising revenue model also pay according to the scale of viewership which is often difficult for niche creators who do not have the scale needed (Anderson, 2016). Further, the existing reward-based crowdfunding model is not suitable for content creators that produce periodic contents such as episodic videos, serial publications and other forms of frequent uploads.

These unmet needs have thus spun a new model of crowdfunding which will, for the purpose of this thesis, be referred to as subscription-based crowdfunding. Due to the recency of this new model,
existing academic literature has yet to produce significant studies on this subject. Furthermore, the rising popularity of this model has urged the need for an overarching analysis into the dynamics of subscription-based crowdfunding model, and how this compares with that of the established reward-based crowdfunding model.

SECTION 2. RESEARCH OBJECTIVES AND QUESTIONS

The objective of this paper is to conduct an exploratory research on the subscription-based crowdfunding model, mainly from the perspective of Patreon, which is the biggest subscription-based crowdfunding platform as of the time of writing. This paper will also explore how subscription-based crowdfunding model is distinct enough to be a separate category from the reward-based crowdfunding model. To this end, this article attempts to address the following research questions:

(1) How does subscription-based crowdfunding fulfill the unmet needs of the current revenue model for content creators?
(2) What are the fundamental concepts of subscription-based crowdfunding?
(3) What are the similarities and differences between the reward-based crowdfunding model, such as Kickstarter, and the subscription-based crowdfunding model, such as Patreon?

SECTION 3. INTENDED AUDIENCE AND IMPACT

As of the writing of this thesis, a quick search for “subscription-based crowdfunding” on Google Scholars yielded 316 results with only 1 result specifically on subscription-based crowdfunding. In comparison to a quick search for “crowdfunding”, a term only first cited in 2006 (Startups.co, 2014), it yielded 47,300 results in Google Scholars. This indicates the lack of academic studies on this new subset of crowdfunding, known as subscription-based crowdfunding. To address this gap, this article shall serve as an initial foray into the subject of subscription-based crowdfunding to help establish a foundation for future scholars to expand upon and aspiring entrepreneurs to reference.
SECTION 4. STRUCTURE OF THE THESIS

This thesis is designed as an exploratory research with a phenomena-based approach to address the relatively unexplored field of crowdfunding. The paper will first review existing academic literatures on reward-based crowdfunding to establish a fundamental understanding of the crowdfunding model. Then, a comprehensive exploration of YouTube, and how it shaped the online peer-generated video content sphere and revenue system, will be conducted based on a mix of academic literature, industry reports, news reports and market trend analysis. This literature review will serve to provide readers a general concept of both reward-based crowdfunding and YouTube, and draw the relations between these 2 spheres. Upon laying down the circumstances that contributed to the growth of subscription-based crowdfunding, the author will compare the three funding models: reward-based crowdfunding, advertising-based revenue, and subscription-based crowdfunding models. With these main findings, this study aims to tie the first two aforementioned models together and show how they attribute to the rise of the subscription-based crowdfunding model. This paper will conclude by discussing the implications for research and practice, limitations inherent to this study, and possible future research directions.

SECTION 5. RESEARCH METHODOLOGY

As an exploratory study, the goal of this paper is to investigate the concept and dynamics of subscription-based crowdfunding, a relatively unexplored, yet emerging type of crowdfunding. A comparative analysis of this type of crowdfunding against the well-studied and popular reward-based crowdfunding will be conducted. These methods are appropriate because, as of the writing of this paper, existing academic literature on subscription-based crowdfunding is still lacking in comparison to reward-based crowdfunding, and therefore has not been clearly defined.

The author will first review crowdfunding in general, followed by a comprehensive review of the literatures on reward-based crowdfunding to provide a basis for the comparative analysis. Since online video content sphere is closely linked with subscription-based crowdfunding, and YouTube being the key platform for the online video ecology, this paper will also conduct a comprehensive analysis of
YouTube, its revenue model and how it contributed to the emergence of the subscription-based crowdfunding model. Basic research on subscription-based crowdfunding will be conducted based on the information given on Patreon, online articles/news reports, vlogs and online interviews.

The author will use non-participant observation as a data collect method to extensively and directly understand the crowdfunding platforms in its current and natural state. To obtain a reliable perspective on the two crowdfunding methods, data will be extracted from Kickstarter and Patreon, which are the largest reward-based and subscription-based crowdfunding platforms, respectively. Valuable information about crowdfunding campaigns will be extracted directly from these sites as they are openly-accessible.
CHAPTER 2. LITERATURE REVIEW

SECTION 1. DEFINITION OF CROWDFUNDING

The concept of crowdfundng stemmed from crowdsourcing, a term coined by journalist Jeff Howe in a June 2006 Wired article, in which information, solutions and other inputs for a project are sourced from a large pool of networked individuals who are not fully employed by said project (called the “crowd”; Howe, 2018); or as Schenk and Guittard (2009) had so succinctly put it, “outsourcing to the crowd”. In the case of crowdfunding, the goal is to raise the financial resources for a project by pitching to a crowd.

While the term “crowdfunding” is only coined in 2006 (Green, 2015), the raising of funds by way of relatively small donations from multiple and often individual investors to finance a clearly stated enterprise with or without returns, is not a new concept. In 1713, Alexander Pope sought to finance his passion project of translating and publishing a book spanning 6 volumes of ancient Greek poetry solely by individual contributions (Kazmark, 2013; Stephen), who were in turn promised a copy of the finished work. Pope’s crowdfunded works, especially his translation of Homer’s Iliad, was successful and still remain a classic today. For a more recent example, in 1987, the then 18-year-old Mike Hayes successfully raised enough money for university tuition by appealing to readers of the Chicago Tribune to send him a penny by post (Braswell, 2014). The pre-internet examples of crowdfunding were such novelty due to barriers to communication and financial transaction. Pope’s project was funded mostly through social circles he was part of and information was disseminated through limited printed advertisements and word of mouth. Although Hayes’ crowdfunding was at the end successful, he had doubted the viability of his campaign as it would cost a donor 22 cents on postage to mail Hayes the one penny he appealed for. However, with the advent of the internet, networked global communication and expansion of online payment had brought the concept of crowdfunding from a novelty idea to a viable alternative for financing projects (Chichy and Gradoń, 2016).
Crowdfunding has recently become a valuable alternative source of venture financing, distinct from traditional forms of entrepreneur financing, such as professional investors and personal connections (Belleflamme et al., 2014). It has allowed entrepreneurs to circumvent problems related to finding funds from bank loans and equity capital (Cosh et al., 2009). Crowdfunding’s global total funding volume grew from 2.7 billion USD in 2012 to an estimated 34.4 billion USD in 2015 (Cfxtrading, 2016). Modern crowdfunding has evolved to become almost unrecognizable from its pre-internet form. Indeed, with its popularity and potential, many academics have tried to define this phenomenon in a clearer manner. Belleflamme et al. (2014) defined crowdfunding as “an open call, mostly through the internet, for the provision of financial resources either in the form of donation or in exchange”. In addition, Mollick (2014) focused on the entrepreneurial aspect of crowdfunding and defined it as “... the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries”. Modern crowdfunding is irrevocably intertwined with the internet and crowdfunding platforms were created to link fund-seeking entrepreneurs with potential investors.

Crowdfunding activity is usually conducted through online platforms, such as Kickstarter, Gofundme, and Lendingtree. These platforms would often cater to a specific type of crowdfunding and/or industry. Crowdfunding is commonly classified into the following 4 categories (Wilson and Testoni, 2014):

1. Donation-based, where donors contribute for altruistic reasons and do not receive any monetary or material returns for their contribution. Notable examples of donation-based crowdfunding platform are Gofundme and Youcaring.

2. Reward-based, where investors would fund project proposals and receive goods or services once the project is successfully funded and completed. Notable examples include Kickstarter, Rockethub, and Makuake.
3. Lending-based, also known as peer-to-peer lending, where lenders would finance a project with stated rate of return and maturity rate in exchange for regular interest payment. Notable examples of such platform are Lending Club where it facilitates unsecured personal loans online.

4. Equity-based, where people would fund an enterprise in exchange for a share, akin to joint-stock companies. In many cases, the most notable example is Indiegogo Ventures, an intermediary agent, usually an accredited financial institute, that would serve to provide some level of due diligence for prospective investors prior to the investment.

The former two, donation-based and reward-based crowdfunding, are grouped as community crowdfunding; the latter two, lending-based and equity-based, are categorized as financial crowdfunding. The difference being that community crowdfunding does not provide financial returns whereas financial crowdfunding provides investors with yield or return on investment (Wilson and Testoni, 2014). Financial crowdfunding is also often subjected to higher levels of governmental oversight, and platforms may be required to register with governmental agencies such as the Securities and Exchange Commission (U.S. Securities and Exchange Commission…., 2017).

The real world applications and financial implications of crowdfunding for small businesses and entrepreneurship are optimistic. As opposed to traditional financing, crowdfunding’s decentralized nature provides alternative ways for entrepreneurs to bypass gatekeepers and appeal to the crowd who are motivated to invest based on shared conviction or interests (Vitins, 2012). Traditional venture financing venues, such as venture capital or angel investors, do not represent the diversity of today’s connected global consumer market (Brush et al., 2014). Research indicated that investors or decision makers are more likely to invest in projects they can personally relate to (Hewlett et al., 2013). This is further exacerbated after the recent financial crisis, where banks and other traditional establishments were more conservative in funding new ventures (Hempell and Kok, 2010).
On the other hand, crowdfunding can tap into not only the underutilized financial resource of the common person but also the diversity of a large globalized market. People can contribute to the realization of innovations that they support. From high tech product research and development, like Oculus VR (Chen, 2016), to humble neighborhood coffee shops (Houck, 2015), entrepreneurs are now able to reach out directly to potential end users, not just to provide the funding needed but also to prove product/market fit for niches overlooked by large financial establishments.

SECTION 2. REWARD-BASED CROWDFUNDING

Reward-based crowdfunding has gained a lot of mainstream attention in recent years, with many high profile successes such as Oculus Rift virtual reality device and Pebble smartwatches (Kerrigan, 2018). Reward-based crowdfunding democratized the entrepreneurial finances by allowing entrepreneurs, thereafter referred to as fundraisers, to pitch their ideas directly to the crowd, and thereafter referred to as backers (Mollick and Robb, 2016). For the purpose of this paper, the author will use Kickstarter as a representative when discussing the reward-based crowdfunding model due to its mainstream popularity as well as being one of the most explored platforms by academic literatures.

Reward-based crowdfunding, also known as pre-ordering or pre-selling crowdfunding (Vulkan, 2016), is a form of crowdfunding that allows backers to contribute to project proposals in return for rewards when the project is completed. As opposed to donation-based crowdfunding, the distinguishing draw of reward-based crowdfunding is the promise of receiving actual goods and/or services proposed by the fundraiser, though depending on the reward tiers, a token donation to show support but not receive any tangible returns is possible.

Reward-based crowdfunding activity takes place on a mediating platform, in this case Kickstarter. The platform serves as a hub for fundraisers to propose their projects to the crowd free of charge. It is common practice for reward-based crowdfunding platforms to publish project proposals with little to no screening. In the project proposal, also known as a “campaign”, the fundraiser will set a target funding goal as well as a deadline. Fundraisers are encouraged to provide as much details about
the project as possible, including but not limited to: how they plan to achieve it, project timeline (including estimated delivery date), video introductions, prototype demonstrations and team background. In addition, fundraisers would set reward schemes. While reward-based crowdfunding is often described to be a pay-what-you-want model, platforms often encourage fundraisers to set clear and distinctive reward tiers as the proposal’s reward scheme to encourage backers to contribute more. (Giudici et al., 2012)

Reward schemes are divided into tiers. Ordered from the lowest value to the highest, reward tiers are the different amounts of contributions backers can pay to receive a corresponding reward (Kickstarter, 2018a). While the product proposed by the fundraiser is the main reward for the scheme, the tier system allows fundraisers the flexibility to maximize potential contributions by price discrimination (Benson, 2013). Backers can contribute to the amount they want to pay for the specific level of reward they wish to get upon the fruition of the project. Here it is important to distinguish the difference between the completion of the project and the completion of the crowdfunding campaign. A campaign is the period of time, usually 2 to 4 weeks (Wood, 2015), in which the crowd can become backers of the project. Upon deadline, if the amount raised exceeds the goal set by the fundraiser, the campaign is considered successful; the platform takes a fee of 5% of total amount raised as well as a 3% to 5% payment processing fee, the rest is transferred to the fundraiser (Kickstarter, 2018c). Crowdfunding platforms can be divided into “keep it all” or “all or nothing” when it comes to the receipt of funds (Cumming et al, 2015). While most platforms allow the fundraiser to receive any amount after passing the set goal, some platforms such as Indiegogo allows fundraisers to have the option to keep however much they raised at the end of the campaign, regardless of whether the total funded amount reached the goal or not. (Hurst, 2014)

Section 2.1. Incentives of fundraisers

There are many reasons for choosing crowdfunding over other forms of venture financing, as it can offer unique support for entrepreneurs on multiple levels. According to De Buysere et al. (2012), “no
other investment form, be it debt or equity, can provide the benefits of pre-sales, market research, word-of-mouth promotion, and crowd wisdom without additional cost.” Benefits that fundraisers get from crowdfunding go beyond simply covering financial needs (Gorman and Sahlman, 1989; Hsu, 2004). In one study, it was found that although 90% of fundraisers use crowdfunding for “raising money”, up to 85% and 60% of fundraisers use crowdfunding to “get public attention” and “obtain feedback for their product and services”, respectively (Gabison, 2014).

The most obvious incentive for fundraiser to use reward-based crowdfunding is the financing aspect. Yet, this by itself is also multi-faceted. Financial support is an evident benefit for not only smaller campaigns that often seek to raise less than $1000 (Mollick, 2014), but it has also been proven to be advantageous to ventures seeking for seed capital (Evans and Leighton, 1989; Schwienbacher and Larralde, 2010). For example, there were 45 out of 50 funded projects on Kickstarter in 2012 that successfully got spun into firms (Mollick, 2014). By using crowdfunding to raise money, fundraisers also have the additional benefit of having the freedom to make decisions on their own and own the start-up, which is otherwise impossible if the fund is obtained from traditional methods (Macht and Weatherston, 2014).

Some entrepreneurs may not use crowdfunding platform just for the sake of raising money from the crowd. Some entrepreneurs take advantage of the crowdfunding platform to prove the attractiveness of their proposed product to secure more funding, possibly from traditional sources such as business angels and banks. One such goal of using crowdfunding was for the Pebble “smart watch”, whereby funding was originally rejected by venture capitals but eventually succeeded in securing a large amount of venture capital funding after launching a successful campaign on Kickstarter (Dingman, 2013).

Crowdfunding increases exposure of a product or service; it helps promote a brand or campaign to a larger, international audience. Press and media attention usually follows after the launch of a crowdfunding campaign, which helps quickly build network and backer’s attention. More than 12 million people from over 177 countries have previously backed a Kickstarter campaign (Evans and
Davies, 2014) and therefore pitching your idea on Kickstarter may help you reach these potential investors and consumers. By reaching out to such a geographically diverse crowd, fundraisers can also make use of the platform as a free market research opportunity to evaluate the potential success of post-campaign sales and in which part of the world their product or service will be most appealing. Crowd interest in a campaign can also signal to fundraisers about the potential success of a project, allowing them to evaluate whether or not to continue to invest time, effort and resources (Mollick, 2014).

Section 2.2. Incentives of backers

As for backers, there are many reasons for one to commit financial resources to a reward-based crowdfunding campaign. As reward-based crowdfunding campaigns often are about bringing a product into a market, it would be easy to see it as simply a pre-ordering scheme. However, research has shown that this is not always the case. Given that reward-based crowdfunding has inherent risks higher than conventional pre-ordering schemes, why do backers still invest in this form of crowdfunding projects? According to Gerber and Hui (2013) and Steigenberger (2017), backers’ motivation to support reward-based crowdfunding campaigns can be separated into three broad groups: consumption, altruism, and social belonging.

Consumption

Several studies that investigated the behaviors of backers showed that one reason behind the decision to support a campaign lies on the “expected utility derived from consumption of the product to be developed” (Steigenberger, 2017) or the reward obtained in return for the financial support provided (Adner and Zemsky, 2006; Bellaflamme et al., 2014; Gerber and Hui, 2013). Most reward-based crowdfunding campaigns reward backers by offering their products at a discounted rate of the envisioned market price, making it an attractive option for early adopters (Mollick, 2014). Some fundraisers may even provide backers with product customization, which is a service that may not be available when the product is on the market in the future (Colombo et al., 2015). Since reward-based
crowdfunding allows two-way communication between backers and fundraisers, backers have the ability to provide feedback and influence the product development process, and therefore increase the expected utility derived from consumption (Ordanini et al., 2011; Gerber and Hui, 2013; Colombo et al., 2015). To further increase the total amount of funds provided by backers, fundraisers sometimes promise to provide additional rewards once a certain collective goal has been reached (Steigenberger, 2017).

**Altruism**

While many backers are motivated to “receive” rewards, others are motivated to “give”, and this is where altruism comes in as a potential motive to fund a reward-based crowdfunding campaign. Even when there is no physical reward associated, donating to support a campaign for the development of a potentially useful product has been shown to be psychologically rewarding for backers (Andreoni, 1990; Henderson and Malani, 2009). As Harbaugh (1998) explains it, backers with altruistic behaviors are indirectly “buying” what has been called “warm glow”, which refers to the internal satisfaction that emerges from the act of contributing to something that one believes has a good cause. However, sometimes backers’ decision to support a campaign might not be simply to support a cause, but rather to support a specific person or group out of sympathy or social relationships (Ordanini et al., 2011; Gerber and Hui, 2013; Colombo et al., 2015). Knowing a fundraiser personally also helps in making a decision to support a campaign because backers may obtain more information about the project, therefore decreasing the information asymmetry between the backers and fundraisers (Gerber and Hui, 2013).

**Social belonging**

In addition to the above motives to “receive” or “give”, crowdfunding also provides backers a feeling of being part of a community of like-minded people. Some backers may even stay and participate in these communities because their initial drive for participating has turned into a hobby (Shah, 2006). Being part of these communities also gives backers the opportunity to have a say in the design of the final product.
This motivation plays an especially important role for the support of products that are very much in need but still lacking on the market. There seems to be a common motive among supporters of charity and crowdsourcing, that is to obtain social prestige within a group (Harbaugh, 1998; Nambisan and Baron, 2009). Interestingly, a study by Gerber and Hui (2013) suggests that this motive might also play an important role in driving backers to support reward-based crowdfunding campaigns.

SECTION 3. YOUTUBE: A MAJOR PLATFORM FOR CONTENT CREATORS

Section 3.1. Rise of YouTube

With the increasing number of people utilizing social media sites like YouTube for both information and entertainment, digital content creation is on the rise. In a report on selected countries¹, representing 65% of the world’s population, 66% of all individuals will own a smartphone in 2018 with many developed nations having an 80% or above market penetration (Zenith, 2017). In the same report, 73% of all time spent on internet will be on mobile devices. With 63% of digital content creators using YouTube and Vimeo as their medium (Elder, 2017), and with YouTube having 76.86% of the online video platform market share (Datanyze, 2018), YouTube has significant influence on the sphere of online content creation.

Headquartered in San Bruno, California, YouTube was founded in 2005 and acquired by Google in 2006 (Sorkin and Peters, 2006). Created during the cusp of the rise of online social network, YouTube realized early on the importance of networking effect in the platform business. YouTube encouraged member registration through incentives such as the Nano-a-Day-Giveaway, where YouTube would give out one free iPod Nano everyday by registering, inviting friends or uploading video, as well as features such as sharing videos, friend list, creator channel and subscription (YouTube, 2005).

¹ The 52 countries included in the source report are Argentina, Australia, Austria, Belarus, Belgium, Bosnia-Herzegovina, Bulgaria, Canada, China, Colombia, Czech Republic, Denmark, Ecuador, Estonia, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Malaysia, Mexico, Netherlands, New Zealand, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovakia, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Ukraine, the UK and the USA, representing 65% of the world’s population.
However, it was clear since its inception that YouTube had a creator-focused approach. Features such as monthly video contests and video response function encouraged users to contribute to the video content of the platform and foster a connected creator community. YouTube made a significant move by piggybacking on Myspace, allowing people to easily embed videos on their Myspace (Platformthinkinglabs, 2015). Myspace was not just the biggest social network website in early 2000s but also a hotbed of music band engagement (Nardo, 2016). Thanks to YouTube’s ease of use, bands would upload their music and videos on YouTube and share the videos on Myspace, thus accumulating YouTube’s mass of content, creator and recognition. By 2006, YouTube held 29% of US multimedia entertainment market, had 20 million unique users per month, and accounted for 60% of all videos watched online (Reuters, 2006).

In October 2006, Google acquired YouTube for $1.65 billion USD (La Monica, 2006). The acquisition marked the platform’s shift from homecasting to broadcasting (Cunningham et al., 2016), where the business actively moved away from its original focus on community-based social networking to become more viewership based (Van Dijck, 2013). From this point on, YouTube transform from an amateur media platform to a legitimate institution in the media entertainment industry (Cunningham et al., 2016). By tapping into Google’s technological and financial resources, YouTube was able to legitimize itself in the entertainment industry in multiple ways.

First, YouTube implemented measures to professionalize its user content creators. The Partner Program, which started in May 2007 (Biggs, 2007), offered qualified content creators a percentage of advertising income generated from advertisements placed on the page of the creator’s content. These advertisements include display ads, overlay ads, bumper ads and various forms of embedded video ads (Youtube, 2018d). To further incentivize content creators to turn video making into a profession, YouTube categorizes all content creators, whether partners or not, into tiers: Graphite (1 to 1000 subscribers), Opal (1000 to 10,000 subscribers), Bronze (10,000 to 100,000 subscribers), Silver and above (100,000 subscribers or more) (Youtube, 2018b). Each tier unlocks increasing benefits and
support from YouTube that would help creators improve the quality of their videos, such as online lessons on how to abide copyright regulations, events and workshops on building audiences, video editing and filming techniques at physical venues called YouTube Space and accessing professional production facilities in YouTube Space (Youtube, 2018a). For Silver and above, YouTube will distinguish creators with Creator Awards, physical plaques commemorating the respective milestones (Youtube, 2018b); Silver Creator Award for surpassing 100,000 subscribers, Gold Creator Award for reaching 1 million subscribers, and in 2015, a Diamond Creator Award was made available for selected creators who have over 10 million subscribers (Brouwer, 2015). Along with the plaque and a congratulatory letter from YouTube, additional gifts may be included to further aid the creator’s channel. According to a recipient of a Silver Creator Award in 2013, the package he received also included a gift card with the stated intention from YouTube to help invest in production equipment upgrade (Cutlerylover, 2013).

Second, to transform itself from a fringe internet video haven for pirated content to a legitimate player in the media industry, YouTube dramatically improved copyright enforcement and created an ad friendly environment. Prior to Google’s acquisition, YouTube had not been in the radar of established media companies despite their copyrighted content being illegally uploaded on the platform. During that time, the internet was still young but more importantly, YouTube was a small venture therefore companies knew that taking legal actions against it would be a waste of time and resources since the owners would not be able to pay much compensation (Kim, 2012). Once Google purchased YouTube, media companies started to sue YouTube for copyright infringement knowing that Google will be able to pay. The court case Viacom International, Inc. v. YouTube, Inc., highlighted the need for YouTube to address copyright issues promptly (Stempel, 2014).

With increasing pressure from the industry, in 2007 YouTube introduced Video ID, a tool to help copyright holders find and claim any content that infringed their intellectual property. Combined with the later introduced Audio ID, YouTube introduced the Content ID tool in 2010, a complete and
constantly updating “copyright and right management tool” for copyright holders (Kim, 2012). This tool is only available for entities that applied for and qualified by YouTube (Youtube, 2018f). Content ID scans uploaded content for any copyright infringement and notifies the copyright holders (Youtube, 2018d). Once notified, the copyright holders have 3 courses of action: block, track or monetize. Copyright owners may block the entire video from being viewed, mute the video, or restrict the video on certain platforms such as phones, websites or apps (Youtube, 2018g). The owners could also track the video’s performance but not impose any actions. Finally, the copyright owner could monetize the claimed video, thus instead of the uploader earning the advertising revenue, it would be the copyright owner who benefits. In some cases, both the copyright owner and uploader/content creator could share the advertising revenue instead ( Youtube, 2018g).

By these 2 methods, YouTube fostered its own ecosystem of content creators that creates original video contents while allowing traditional media firms to also share in the convenience and profit of this popular online platform. In the matter of years YouTube merged with the existing media entertainment industry, and in many ways became one of the most dominant players in the market. YouTube is able to take advantage of its network effect to create a moat that blocks new market entrants. While Hulu and Netflix are gaining traction in the online streaming market (Morris, 2018; Vena, 2018), there is still no player that can challenge YouTube in providing a platform for independent video content creators.

Section 3.2. Youtube’s advertising-based revenue model

YouTube’s main source of revenue comes from selling advertising opportunities on its website. The revenue model is based the traditional advertising revenue metrics known as cost per thousand (CPM) (Leppänen, 2017). In this metric, the platform (YouTube) charges advertisers a certain amount of money per 1,000 views of their advertisement. By utilizing Google’s technological advantage in search algorithm, big data and machine learning, YouTube can provide targeted advertising to specific demographics and automated ad purchasing for advertisers on the platform (Google, 2017; Google,
In essence, YouTube’s machine-learning technology enabled seamless platform for advertisers to put their advertisements on available spaces to targeted demographics for the best price and best chances of viewer engagement possible at a scale previously impossible to achieve or imagine. (Cunningham et al., 2016)

Different from traditional media entertainment industry, YouTube does not seek to own or co-own any intellectual properties regarding the media on its platform, nor does it offer backend residual or profit participation for its content creators. These measures would only serve to fetter the scaling potential a democratized content publishing medium could achieve with administrative, legal, production and other operational obligations associated with traditional media companies. Instead, YouTube allows the copyright holder of the video content to enter into agreements where YouTube and the copyright holder split the advertising revenue (Cunningham et al., 2016).

However, not everyone can get a share of advertising money immediately. Since May 2007, all users hoping to get a piece of the advertising money have to be members of the YouTube Partner Program. Though details about the inner workings of the algorithm and actual CPM amount are a closely guarded secret, industry estimated the CPM to be within 0.25 USD and 4 USD (Urgo, 2018). The actual CPM one could get depended on many factors such as geographic location of the viewer and creator, genre of the video, and degree of advertising friendliness (Schmoyer, 2016). These factors are determined by YouTube’s algorithm which employed advanced artificial intelligence or machine learning to handle the sheer amount of content added to YouTube every day.

As for content created by institutional media companies, such as Warner Bros. or Sony Music Entertainment, YouTube opted for an interesting management system. Broadcast networks that managed their own official YouTube channels for content distribution are often premium tier partners which follow similar advertising revenue schemes but it is strongly suggested by circumstantial evidence that premium tier partners have back channel negotiations for better policies (Alexander, 2017).
Section 3.3. YouTube and its influence over content creators

Given YouTube’s massive market leadership and cultural relevance, it held tremendous sway over the fate of content creators’ business and livelihood (Lagiovane, 2018). Coupled with its reliance on advertising revenue, YouTube had various controversies that caused tensions between its relationship with content creators and advertisers. The recent “adpocalypse”, when many companies pulled their advertisements from YouTube after finding out their advertisements were displayed on controversial videos, was perhaps one of the tipping points for many content creators to seek alternative revenue streams (Stanford, 2018).

YouTube algorithm is a vital factor of YouTube content creators’ success and even had a butterfly effect influencing the success of businesses outside of YouTube. YouTube’s algorithm not only determines CPM but also YouTube videos’ exposure to viewers, and in turn, affecting viewership count. Therefore, any change in its bias could promote one type or category of videos while shunning others. One such example would be in 2012 when YouTube’s search engine optimization shifted from being view based to favor watch time, or how long a viewer watches the video (YouTube, 2012). According to an analysis done by a content creator and YouTube consultant, the previously dominant genres such as sketches, music covers and animation videos, which are generally shorter, declined in popularity and long form content such as compilation videos (videos that combined many but thematically related short clips into one long video) and lets plays (videos of video games played by YouTubers) shot up in popularity. The rising stars were all long form videos that could be produced daily and attracted viewers to binge watch (Patrick, 2017).

Tension between YouTube, creators and advertisers came to a head in 2017 which is now known as the adpocalypse (Stanford, 2018). The adpocalypse is a series of events that started around March of 2017, and the term is a combination of advertisement and apocalypse as many content creators were afraid this may be the end of their career on YouTube. Due to Wall Street Journal’s reporting of controversial content on YouTube, many advertisers and corporations began to pull their advertisements
from YouTube for fear of damaging their brand (Statt, 2017). In response, YouTube initiated a wave of policy changes and demonetization in which programs were employed to screen contents for potentially controversial contents (Sloane, 2017). During this period, many creators, including top YouTubers, suffered dramatic cut from their advertising revenue prompting many to seek out other sources of income to sustain business (Weiss, 2017). Many stars turned to their following to attain revenue directly from fans, such as moving their contents to Twitch, a livestream platform that allows fans to tip to creators, and Patreon, a subscription-based crowdfunding platform (Weiss, 2017). After this period, creators’ trust with YouTube had been significantly damaged as creator felt YouTube was not transparent with their policies (Alexander, 2018). YouTube continued to enact many policy changes to bolster advertiser confidence, while content creators begin to diversify its revenue sources.
CHAPTER 3. FINDINGS

SECTION 1. SUBSCRIPTION-BASED CROWDFUNDING: AN INTRODUCTION TO THE MECHANISMS

This section will analyze the function and mechanisms of subscription-based crowdfunding, using Patreon as the point of reference. At the time of writing, Patreon is the most iconic subscription-based crowdfunding platform, therefore a reasonable benchmark of the business model. In its most generic form, subscription-based crowdfunding shares similar functions and mechanisms as reward-based crowdfunding (Canada Media Fund, 2018b). Nevertheless, this form of crowdfunding provides a certain degree of customizability and serves a markedly different market than reward-based crowdfunding or other forms of crowdfunding. Canada Media Fund defined subscription-based crowdfunding as such, “contributors finance a project or creator on an ongoing basis rather than through one-off donations.” (Canada Media Fund, 2018a) Following Patreon’s example, in the context of subscription-based crowdfunding, the corresponding term for fundraiser is Creator while backer is Patron. This will serve to distinguish between the actors in the reward-based and subscription-based crowdfunding models.

Patreon was founded by Jack Conte and Sam Yam on May 7, 2013 (Crunchbase, 2018). The objective of Patreon, according to Jack Conte, was to “…empower creators, to help them make what they want to make and say what they want to say” and that “with a transition to digital they have the publishing tools and the ability; it’s just about financing it.” (Levitz, 2013) As Patreon, along with many members of the subscription-based crowdfunding community, is oriented towards artists, those who seek funding do not often see themselves as fundraisers or entrepreneurs; this business-like connotation is often applied to other forms of crowdfunding. Instead, fundraisers on subscription-based crowdfunding view themselves as content creators and their fans are not customers or investors but patrons of their content, a term referencing back to the art patronage system famous in Renaissance Europe (Hollingsworth, 2994).
Creators launch campaigns on the subscription-based crowdfunding platform to seek funding from the crowd on an ongoing basis. Similar to reward-based crowdfunding, Creators may create reward tiers and provide additional benefits for Patrons that contribute over certain levels of money per time. While subscription-based business such as newspapers often charge on a monthly basis, Patreon allows Creators to charge either by month or by creation. By-creation campaigns collect funds from Patrons only after each work is completed. This work could be a completed project such as a video, song or painting, or could be a major milestone for a larger project such as a major update for a program.

Subscription-based crowdfunding platforms also take a percentage as service fee, just like reward-based crowdfunding platforms; financial institutes will also charge a processing fee to facilitate the transfer of money. Patreon, specifically, takes 5% service fee from all pledges while processing fee is estimated at 5% as well (Patreon, 2018).

While the monthly campaign is by far the most popular form of fund collection on Patreon, representing 77% of all campaigns compared to only 23% which were per-creation campaigns in 2016, per-creation campaigns provide additional flexibility for Creators (Church, 2016). As opposed to the more orthodox monthly campaign method, per-creation campaigns allow Creators to initiate fund collection from his/her Patrons when he/she makes a “paid post” with the work that was created. A Creator can make any number of paid posts per month. Patrons, however, can set a cap to the amount they will contribute. Depending on the Creator’s business model, charging Patrons per creation may be more suitable than per month. Often, projects with more sporadic output frequency or output with clear and definitive nature would adopt this form of billing. As of 2016, the Music category had the highest percentage of per-creation campaigns (42%) and the Games category had the lowest (16%) (Church, 2016). The reason behind could be that musicians often have a sporadic but shorter production period for each definitive result than game creators, where creating a full game could take years to create one finished game, not accounting for patching and updating the game after it is published.
Creators using Patreon to build their own exclusive membership service would set multiple reward tiers, each tier offering progressively more exclusive or better benefits such as early access to content, members-only content, online hangouts or having the Creator visit the Patron in real life. While there are campaigns that are completely exclusive, in which only Patrons have access to the output of the Creator; many if not most Creators produce publicly accessible output and Patreon campaign as extra contents for passionate fans. This is particularly prevalent with creators of episodic or periodic contents such as podcasts, videos, or webcomics. Campaigns that are purely exclusive and do not put out publicly available work are generally regarded as rare. Though this form is often used in niche groups such as, but not limited to, games, non-profit charities, or dance lessons.

Other Creators opted to use Patreon like a tip jar, allowing fans the opportunity to become Patrons as a way to express appreciation and support (Sterling, 2018). Campaigns of this nature would either not have any reward tiers or just a singular $1 tier with no actual rewards or benefits from the Creator. The Creator will continue to produce content on his/her preferred medium for the public free of charge. Maura Church, Patreon’s data science manager, stated that data analysis indicated that, on average, this form of Patreon campaigns do not perform as well financially as the membership approach (Polich, 2017). In line with this finding, my investigation into the top 20 campaigns in each 14 categories on Patreon shows that only 40 campaigns out of 280 have 1 or 0 reward tiers, with the Podcast category having more campaigns using the tip jar approach in the categorical top 20 than other categories. This suggests that the membership approach tends to outperform the tip jar approach.

SECTION 2. ADVERTISING-BASED REVENUE MODEL VS. FAN-BASED REVENUE MODEL

Online content market has always been very reliant on the advertising-based revenue model. The democratized nature of the internet meant easy access to publishing and lower barrier to enter; combined with the online content ecosystem being overly dependent on advertisers’ money meant there is an imbalance in the dynamics. In fact, over the years, there has been a decrease in the price for online
ads and CPMs due to the oversaturation of media content compared to the amount of advertising needs. This was observed across the online mediascape as early as 2016 (Anderson, 2016).

Often, the individual content creator possesses little control or bargaining power and therefore the victim in the dynamics between platform and advertisers. The content creator must grow a large scale audience to earn any meaningful income from advertisers, therefore must create content that the fans want. However, the advertisers, hoping to protect the brand, must make sure their advertisements are not shown on controversial contents. The platform, needing to appease advertisers, must create an ad-friendly environment within the platform, therefore enacts policies that in turn would impose creative restriction for the creators. The creators, having to change format or content, may therefore risk losing fans as they are no longer creating the type of contents the fans originally love. This tension between advertisers, platforms and content creators had been a point of grievance for some time but the recent adpocalypse publicized this issue and propelled it to mainstream awareness.

Patreon, and by extension the current subscription-based crowdfunding sphere, had been a response to this issue. Jack Conte had wanted to improve the way “artists” are compensated (Conte, 2017). Subscription-based crowdfunding has a more direct financial loop. The Patron contributes to the Creator to produce what the Patron likes. Also, with the average CPM at around 0.25 USD to 4 USD, each view is individually insignificant. In comparison with Patron, the lowest contribution is 1 USD per period, therefore 1 Patron is worth many thousand times more than a view.

As a platform, YouTube has grown to a size where it is facing reverse network effects. With its popularity as an online video site and low barrier to entry, all manners of content creators will be entering YouTube. This meant YouTube must constantly and increasingly curate its contents or the platform may lose value (Lunn, 2009). This is seen in the case with the 2016 adpocalypse, where more than 250 brands pulled out their advertisements from the platform and was estimated to have costed Google 750 million USD in just the first wave (Rath, 2017). YouTube’s curation had also been subject of controversy, as YouTube’s algorithm tried to create an ad-friendly platform, many videos that are not
considered offensive are being demonetized or labelled not ad-friendly (Kain, 2017). Justified or not, this meant many creators have fluctuating CPMs or have their work demonetized due to changes in algorithm and policies.

Subscription-based crowdfunding’s direct financing loop gives Creators freedom to create content they want, or as Patreon stated, “predictable income from your patrons means you can create on your terms. No strings attached.” (Patreon, 2018) Unlike advertising-revenue model, subscription-based model does not require scale in viewership but is dependent on Creator’s relationship with fans, therefore niche Creators with passionate fans can carve a living for themselves. One such example is InRangeTV which makes firearms-related content. This channel was constantly hit by demonetization as firearms are considered as not advertiser-friendly, so it stopped monetizing its videos and the channel is now completely funded by its small but ardent fans through Patreon (VICE News, 2018). Subscription-based crowdfunding allows small and/or niche Creators to sustain their venture and without compromising their contents for advertisers.

SECTION 3. SUBSCRIPTION-BASED CROWDFUNDING VS. REWARD-BASED CROWDFUNDING

This section will explore the similarities and differences inherent between the two types of crowdfunding methods: reward-based and subscription-based. The dynamics involved in reward-based crowdfunding has already been widely explored in several studies (Belleflamme et al., 2014; Mollick, 2014; Bi et al., 2017 Kuppuswamy and Bayus, 2017; Steigenberger, 2017). By incorporating the findings in previous studies and an explorative research into the dynamics involved in subscription-based crowdfunding, a comparative analysis will be presented and discussed. Although the two methods of crowdfunding may seem to be similar, the differences observed are substantial enough to allow one to conclude that subscription-based crowdfunding may be a new and distinct fundraising method from the more traditional reward-based crowdfunding method.
Section 3.1. Incentives

While fundraisers and Creators both use their respective crowdfunding method and platform ostensibly for acquiring financial resources to sustain their projects from the crowd, the differences in the workings of the two models dictated a significant rift between the incentives of the parties involved. Why do some choose to put start a campaign on Kickstarter rather than Patreon? What, if any, is the difference in motivation between a backer and a Patron? This section will attempt to shed some light on the similarities and differences between the incentives involved in subscription-based crowdfunding and reward-based crowdfunding.

First, as opposed to many projects on reward-based crowdfunding that uses the platform to raise seed capital to establish as legitimate firms or for startups to raise early stage finance (O’Kane, 2017), there are no notable examples of flipping a subscription-based crowdfunding campaign into a business. The nature of subscription-based crowdfunding is different to that of reward-based crowdfunding. Furthermore, for subscription-based crowdfunding, content creators are often established business such as the The Valleyfolk campaign (https://www.patreon.com/TheValleyfolk) or Chapo Trap House podcast (https://www.patreon.com/chapotraphouse). Content creators become Patreon creators to tap into a new line of revenue stream that is dependent not on advertisers but on their relationship and influence with their existing fans. In short, most reward-based crowdfunding campaigns uses capital to produce what essentially is a prototype mass production as a proof of concept for their idea; while most subscription-based crowdfunding campaigns have already proven their concept but are just diversifying their income stream to fund their project.

Second, while fundraisers uses reward-based crowdfunding platforms to validate their ideas’ product-market fit and gain publicity, Creators on subscription-based crowdfunding platform simply want to take advantage of a convenient and simple site to collect financial support from Patrons and engage exclusively with their most ardent fans. By its nature, reward-based crowdfunding projects are new and seek not just monetary resources but also market validation. The crowd utilizes the platform to
find new projects to support. This exploration aspect is not as dominant, if at all, in subscription-based crowdfunding. Most Creators do not pitch their venture with the crowdfunding platform, instead brings existing fans from their main medium of publishing to Patreon. As such, Creators utilize the platform more as a method to monetize their influence over their fan base; the stage where Creators convinces fans to consider becoming Patrons happens off the site. Unlike in reward-based crowdfunding, fundraisers utilize their respective platform as the main way to access potential backers. This difference is reflected in Patreon and Kickstarter’s website layout. Patreon focuses on convincing content creators to start a Patreon page. Upon first entering Patreon’s homepage, the visitor is greeted by the tagline “Creators, come get paid” in large font, with the rest of the page detailing the tools available for Creators and “transparent fees”; finally ending it with a large banner stating “Let’s get you paid” and an orange icon to “start your page”. The “explore creators” page, features big and popular internet content creators that are Patreon Creators, and going into the 14 different categories only shows the top 20 campaigns of the respective categories. The only way to find Creators that are not featured or in the top 20 of each category is by searching with the search bar, which requires the inquirer to know the name of the Creator. This indicates that Patreon is not a site for the crowd to find Creators but for Creators to bring their fans in to become Patrons. This is heavily contrasted by Kickstarter’s website layout where it features many ways to find projects that the visitors may like, such as access to trending projects, projects curated by Kickstarter, nearly funded projects as well as access to all projects of a certain category. The site is evidently design to be browsed.

Third, while it is established that there is a portion of backers of reward-based crowdfunding campaigns that contribute because it gives them a feeling of belonging and community to people with similar interests (Steigenberger, 2017), this sense of belonging is far more influential in motivating Patrons to contribute to subscription-based crowdfunding projects (Steigenberger, 2017). In fact, Maura Church had stated in an interview that the key to a more financially successful subscription-based crowdfunding campaign is if the Creator actively engages with Patrons, and that this close relationship is
the main motivator for fans to become Patrons of their favorite content creators (Polich, 2017). This is further reinforced by a quick look of the benefits listed on many Creator’s reward tiers. One of the most common rewards that Creators provide in exchange for the monetary support is fan recognition, which may be a simple featuring of Patrons’ names at the end of one’s video. For Philip DeFranco (https://www.patreon.com/DeFranco), Patrons can be credited at the end of each YouTube vlog for a support of 500 USD/month. The 400 USD/month price increase over the previous tier is driven entirely by fan recognition, suggesting that Patron engagement is an important incentive for Patron contribution. Another form of reward is to allow fans an exclusive access to the Creators’ behind-the-scenes videos, which is a type of reward that RollPlay (https://www.patreon.com/RollPlay) provides in one of their tiers for paying 3 USD/month. To further lure fan engagement and trigger incentives to Patrons, Schmoes Know (https://www.patreon.com/schmoedown) has even provided a tier where a support of 2,500 USD/month allows the Patron to be part of their show. These are distinct from reward-based crowdfunding where backers are often more interested in the proposed product rather than the relationship with the fundraiser. This is observed with most reward tiers of most campaigns that promise physical products as the main draw. In short, the benefits offered by subscription-based crowdfunding campaigns are often more subjective and valuable to fans of the Creator, and benefits offered by reward-based crowdfunding campaigns are more objective with evident market value.

Section 3.2. Risks
It is not without merit or reason that entrepreneurial financing had traditionally been concentrated and generally regarded as difficult (Lavinsky, 2010). Crowdfunding is a great way for the crowd to invest directly into new businesses and products across the globe, however backers are often unable to or incapable of making the necessary due diligence to properly evaluate the risks involved in crowdfunding. From mismanagement to outright scams, the disadvantage of a more democratized and young venture financing system is that the risk of failure and default of crowdfunding projects is often
much higher for backers. This section will discuss the risks involved in reward-based and subscription-based crowdfunding, as well as the differences for their respective parties.

Theoretically, reward-based crowdfunding benefits both the fundraisers and the backers; allowing fundraisers to fund their business, and providing backers a chance to purchase innovative products at a discounted price before the product comes out on the market. Nevertheless, such a model is intrinsically risky for backers. Backers, who may not have the ability to evaluate the risks and prospects of projects like venture capitalists, are vulnerable to “false signals sent by entrepreneurs seeking funds”, “inability to assess the signals correctly” and “fraudulent schemes”, which are all part of the risks inherent to the characteristically high information asymmetry for reward-based crowdfunding campaigns (Firoozi et al., 2016). Kickstarter has disclaimed that, “Kickstarter does not guarantee projects or investigate a creator's ability to complete their project. On Kickstarter, backers (you!) ultimately decide the validity and worthiness of a project by whether they decide to fund it.” (Kickstarter, 2018d)

While Kickstarter had stated clearly in its terms of use that “when a project is successfully funded, the [fundraiser] must complete the project and fulfill each reward. Once a [fundraiser] has done so, they’ve satisfied their obligation to their backers.” (Kickstarter, 2018b) The majority of backers are often individuals who contributes amounts of pledge that is often not too high, and the fundraisers too small for entities to pursue legal recourse such as class action lawsuits, especially since the backers are often across different legal jurisdiction or countries. Therefore, it is often a situation of “buyers beware” for backers as they bear full risks of their crowdfunding investments. However it is important to note that in 2015, Washington State, United States of America had ruled against a fundraiser for failure to deliver his crowdfunding project on time, making this the first successful legal enforcement of crowdfunding promise (Heminway, 2017). Of course, the fact that the ruling is only enforced in the Washington State highlighted the complex and fragmented situation for backers to seek legal protection over fraudulent projects.
Common sense dictates that, “the more complex the project, the higher the possibility of failure” (Prindle, 2018). Therefore it is simple to say that backers can lower their risks in investment by supporting simple projects that have higher success rates. However, usually it is the more complex projects that are more attractive, and this is where the problem usually comes when there is an information asymmetry between project fundraisers and backers (Wessel, 2016). Since most projects on crowdfunding platforms are still in their infancy, it is difficult to evaluate the prospects of the project outcome. This is further exacerbated when backers do not have access to publicly available information about the product and are not fully informed about the competence or reputation of the fundraisers. This situation allows fundraisers to overstate quality or hide information as they are the ones who are in control of what to show to potential backers (Mavlanova, 2012). A research by Mollick (2015) that looks at the delivery rates of Kickstarter projects shows that up to 9% of projects fail to deliver as promised to their backers, this of course does not account for fundraisers that delivered subpar products.

With high levels of information asymmetry, backers are often unable to evaluate the reputation and reliability of the fundraisers. In some cases, even when the product to be invested is simple and therefore has a low risk of failure, many backers have fallen into the traps of fundraisers’ fraudulent schemes. In August 2016, a company called Backzips launched a campaign on Kickstarter (https://www.kickstarter.com/projects/106898073/hidden-zipper-waterproof-and-kevlar-reinforced-bac/comments?cursor=16228438), with a goal of raising US$35,000, to sell backpacks designed to keep users’ belongings secure. With great campaign, they were able to raise US$159,476 from Kickstarter and US$9,001 more on another reward-based crowdfunding platform, Indiegogo. However, at the end backers never received their pledge rewards, as shipping date was postponed twice and later the fundraisers disappeared with no updates. Eventually, it was found that the fundraisers had run off with the money raised without shipping the product that was promised to the backers (Avner, 2017). Of course, such blatant fraud is not common. More often, the fundraisers were simply too inexperienced to make the venture work after gaining the funds.
Due to this risk, backers must assume the responsibility of due diligence. However, without much available information or experience and knowledge to properly evaluate each project like a venture capitalist would, backers instead look for signals of quality. Some studies have shown that signals of project quality have significant effect on the success of crowdfunding projects (Ahlers et al, 2015; Mollick, 2014). Based on Mollick’s (2014) exploratory empirical study, which drew on dataset from over 48,500 Kickstarter projects, it was found that crowdfunding success is highly correlated to the underlying quality of a project and the number of friends on online social networks. Results from the study suggests that the key to demonstrate quality is to include videos and provide frequent updates, and having spelling errors on a project’s campaign is a signal of low quality. In fact, Kickstarter itself suggest that “a video is by far the best way to get a feel for the emotions, motivations, and character of a project. It’s a demonstration of effort and a good predictor of success.”(O’Connell and Kurtz, 2012) Therefore, backers may see the inclusion of a project video as a measure of basic project quality. In another study, the authors investigated the determinants of online behavior using the elaboration likelihood model, which considers the central and peripheral routes as influences of online behavior (Bi et al., 2017). In their model, they defined signals of project quality as the central route and electronic word of mouth as the peripheral route. Similar to Mollick (2014), they found that both routes have almost similar effects on backers’ investment decision, and thus the success of a project (Bi et al., 2017).

Subscription-based crowdfunding is fundamentally different. Despite being the offshoot of reward-based crowdfunding, the risks involved in subscription-based campaigns are observed to be relatively lower. This is in large part due to the lower information asymmetry. Unlike reward-based projects where the crowdfunding campaign is one-off, Patreon campaign is usually a support financing structure for an ongoing brand, such as a YouTube channel or podcast. In such circumstances, the Creator has been producing content and growing his or her brand. The fans that would even visit the Creator’s Patreon are therefore familiar with the Creator’s works and way of working, and want to
financially contribute to the continuation of the Creator’s works. The Creator has also a public track record of competence to deliver at least what he/she has been producing currently.

As for the Creators, subscription-based model incentivizes a long and perpetuating campaign. Unlike reward-based crowdfunding that pays a large lump sum, subscription-based crowdfunding pays a relatively moderate or smaller amount of money per period, therefore it would be pointless for a Creator to simply disappear with the money like in the case of Backzips. Most of the value of a Creator lies in its brand image. Patreon is a way to diversify a Creator’s revenue stream. Therefore if one were to ruin his/her reputation with fraud, the Creator’s career across the industry would be ruined. A reward-based fundraiser, however, could disappear into anonymity.

Finally, the risks for Patrons are limited due to the relatively small amount they dole out each period. In reward-based crowdfunding, a backer must commit a substantial amount of money to be able to get at least the basic product promised in the project proposal, therefore a failure in the project meant losing a larger amount of money than with subscription-based where the donation amounts are comparatively smaller. The Patron may also cancel anytime to cut loss, whereas a backer must request a refund after the campaign is over and the fundraiser might not even comply. In addition, the rewards promised in the reward-tiers are often easier to produce and can be delivered quickly. Reward-based crowdfunding projects are often innovative and complicated products, so a backer must wait for it to be developed, manufactured and delivered, often taking at least 6 months. Patreon campaigns often promise rewards that are either digital like additional content, online meeting with the Creator, or access to private discussion boards, which can be delivered frequently; or simple gifts, such as mugs, t-shirts or other small crafts that are easy to produce and quick to send.

Section 3.3. Price discrimination

One of the main features of crowdfunding, especially of reward-based and subscription-based models, is the flexibility in financing afforded to fundraisers and backers. Backers can contribute the amount that they are comfortable with while fundraisers can have greater control over the motivation
and rewards they provide in exchange for funding. In economics and business terms, this degree of freedom is “price discrimination”. This interplay between fundraiser and backer is an interesting part of crowdfunding and a point of research for many scholars (Belleflamme et al., 2014; Lukkarinen et al., 2016; Mollick, 2016; Kuppuswamy and Bayus, 2017). While reward-based and subscription-based crowdfunding models share many properties, the differences in users and ecosystem between the two models means that the characteristics of price discrimination between fundraisers and backers, and Creators and Patrons are worthy of exploring.

Price discrimination refers to the practice of charging different prices for the same goods and/or services (Stole, 2007). It is commonly distinguished into three types: first-degree, second-degree and third-degree discrimination. First-degree price discrimination, or alternatively known as perfect price discrimination, arises when a monopoly seller charges the maximum possible price to each consumer, at a price that each consumer is willing to pay for the product. Second-degree price discrimination refers to the charging of different prices for different units consumed, usually happens when consumers gain discounts from buying more units of a good and/or services. Third-degree price discrimination happens when different groups of consumers are charged differently for the same goods and/or services based on consumer characteristics such as age, religion status, etc. (Hardy, 2013).

Hardy (2013) postulated that reward-based crowdfunding utilized both first and second degree price discrimination. Reward-based crowdfunding platforms adopt a pay-what-you-want model whereby backers pay the exact price at which they judge the marginal benefits equal to its marginal costs (Png, 2002). Some backers may even be willing to increase their payment just to ensure the success of a campaign that they support (Hardy, 2013). Based on non-materialistic incentives, such as the aforementioned altruism and social belonging, backers would pledge an amount of their choosing to support a campaign, indicating that backers are subjected to first degree price discrimination. While this tends to encourage more people to participate in the crowdfunding (Cadsby and Maynes, 1999), it may have an undesirable consequence of decreased average payment (Hardy, 2013). This disadvantage,
though, is usually not observed in crowdfunding campaigns that are altruistic or non-profit in nature (Gneezy et al., 2010). To motivate higher individual pledge amount, fundraisers would set reward tiers to provide additional rewards in return for higher donation. In many ways, reward-based crowdfunding is also a case of public good vs private gift. The campaign and its success as a whole exceeds the personal level of the individual backer and thus could be seen as a public good whereas the material gifts promised by the fundraiser in exchange for certain levels of pledges after the project succeeds could be seen as private gift (Varian, 2013). As such, reward-based crowdfunding would tie public good, the campaign, with private gifts, rewards, to better motivate more people to donate more money (Varian, 2013). As mentioned previously, reward tiers would promise additional benefits the higher the donation is, and often these benefits are of increasingly higher material value. The most often case is a lower reward tier, for example $50 for 1 unit of product and a higher tier promising $70 for two products. In some cases, fundraisers may even promise additional rewards once a certain collective goal has been reached, and therefore motivates backers to pay more for even more benefits (Steigenberger, 2016). Thus, most reward-based crowdfunding campaigns also possess second degree price discrimination (Hardy, 2013). All in all, backers in reward-based crowdfunding are affected by both first and second degree price discrimination, the degree of which the backers are more exposed to is hard to determine as a whole.

At the current state, a look into the top 20 subscription-based crowdfunding campaigns across different categories strongly suggests that subscription-based crowdfunding predominantly exhibit characteristics of first degree price discrimination. The difference lies in that, broadly speaking, reward-based crowdfunding projects are essentially business proposals promising future goods and services, whereas subscription-based crowdfunding campaigns are proposals for a periodic sponsorship of an ongoing project. In other words, a backer pledge to the fundraiser’s promise of future goods as stipulated by the reward tiers; a Patron’s pledge to support the longevity of a Creator’s output. Also using the pay-what-you-want model, the Patron can enter the exact amount he/she is willing to contribute per month or
per creation. The Creator also may encourage higher individual pledge with reward tiers. However with subscription-based crowdfunding campaigns, the benefits do not have a correspondingly higher material or market value with each higher tier. For a non-fan, the benefits are of no value, however for an avid supporter, the benefits may be of immeasurable value. In short, the Creator is charging each Patron the maximum amount they are individually willing to pay for the creative work the Creator produces.

Of course, with the existing framework for subscription-based crowdfunding platforms like Patreon, there are definitely possibilities for other models of campaigns that use other degrees of price discrimination in tandem. One such example would be for dance classes, where the reward tiers are basically courses with each course having tangible value (https://www.patreon.com/serpentinestudies/memberships). The 6 USD tier will give Patrons access to 3 instructional videos per month and a 2 hour video course, the 12 USD tier will give Patrons full access to all videos and a 3 month training program and a custom pledge that allows one to pledge any amount he/she wants without any rewards. Different from the models mentioned before, the focus is not so much on the fan and creator engagement but the acquisition of dance lessons that have referable market value elsewhere. This example is very similar to the reward-based crowdfunding model where first and second degree discrimination are both used.
CHAPTER 4. DISCUSSION AND CONCLUSION

Crowdfunding is a valuable alternative source of financing, and has become an important practice of funding for new projects and ventures. Reward-based crowdfunding model has proven to successfully match entrepreneurs directly to their target market, but is unsuitable for projects that operate on an ongoing basis such as media content creation. As an answer to this, subscription-based crowdfunding is a new and exciting phenomenon that seeks to bring traditional method of funding continuous publication like newspaper subscription to the online age. This innovative form of crowdfunding fulfilled the financial need of online content creators who seek to diversify their revenue stream, increase creative freedom, and to detach from the disadvantages of advertising-based revenue system.

This thesis is serves as an exploratory study of subscription-based crowdfunding. As one of the first academic foray into this new model of crowdfunding, this paper provides a comprehensive study of how subscription-based crowdfunding functions and a generalized description of the predominant Creators on the platform at the time of writing. This paper uses reward-based crowdfunding to benchmark with subscription-based crowdfunding to better understand subscription-based crowdfunding’s place in the market. Since one of the purposes of subscription-based crowdfunding is to compete with the near-monopoly of advertising economy of the online media market, the thesis also provides a brief study into advertising-revenue model used by the major media platforms on the internet, specifically YouTube. In doing so, the paper can illustrate how subscription-based crowdfunding provides a viable financing method for individual content creators.

Subscription-based crowdfunding had stemmed from reward-based crowdfunding. Though it may share many similar mechanisms as its predecessor, subscription-based crowdfunding caters to a different market in a manner that is irreplaceable by any current known models of crowdfunding. Subscription-based crowdfunding’s feature of scheduled funding fundamentally alters the way the model works in a way that differentiates itself to a higher degree than the difference between donation-based
and reward-based crowdfunding. Therefore, this study concludes that subscription-based crowdfunding should be considered not just a subset of reward-based crowdfunding but categorized as its own model under community crowdfunding, defined as a separate but equal model as donation and reward-based crowdfunding.

Furthermore, subscription-based crowdfunding offers enough market potential that a separate classification would be important for further industrial and academic investigation. The recent adpocalypse highlighted the disadvantage of having advertising-revenue model as the dominant revenue stream in the online media ecology. In turn, the current trend is shifting towards paid subscriptions. Netflix, Hulu and even New York Times had shown great financial results as the market seeks alternatives to get content without the distraction of advertisements (Gilbreath, 2017). In the ecology of user-generated contents, new monetization has been gaining traction. In 2017, Patreon raised 60 million USD and reached more than $150 million USD pledges from a million users to support 50,000 Creators. The market also observed many existing large players moving into the subscription-based crowdfunding market. Kickstarter, one of the largest and most prominent reward-based crowdfunding platforms, bought Drip, a subscription-based crowdfunding platform, in 2015 and relaunched it in November 2017 (Chen, 2017). According to Kickstarter, “...Drip is a tool for people to fund and build community around their ongoing creative practice”, and that “a key mandate for the design of Drip has been creator independence” (Chen, 2017). YouTube itself launched a beta test for its own subscription function, called “channel membership” in June 2018 (YouTube, 2018e). Having these new developments happening this shortly after the start of the adpocalypse strongly suggest that the existing players in both crowdfunding and media platform understood this market potential for subscription-based model and the risk of over-reliance on advertising revenue model. Thus, the subscription-based crowdfunding industry may be experiencing an upward momentum in both mainstream attention and capital injection.

On the flip side, subscription-based crowdfunding model does have flaws and limitations that must be addressed. As a model, subscription-based crowdfunding relies on the Creator’s branding to
draw Patrons into a platform. Just as with any platforms, subscription-based crowdfunding platforms such as Patreon or Drip establish their competitive advantage through network effect. For the platform, early growth and accumulation of Creators, especially those with a large established fan base and brand name, is crucial for the construction of economic moat. A Creator will gravitate to the most dominant, thus perceived as the most reliable, platform; and a Creator would not benefit from building more campaigns on other subscription-based platforms because his or her fan base is finite and increasing exposure will only confuse and divide Patrons. This is in stark contrast to reward-based crowdfunding where more campaigns on various platforms means increased exposure. As an industry, it may become a winner-takes-all market, where an early entrant that is able to build a large enough user base will become the default platform for content creators to host their subscription campaigns. This has been witnessed by YouTube in the online video media platform.

Yet, as mentioned, subscription-based crowdfunding does not easily facilitate browsing; the Patron supports a Creator he or she has known for some time and has a certain degree of devotion. Therefore, the network effect of a subscription-based crowdfunding platform may lose a degree of interconnectedness compared to that of reward-based crowdfunding or YouTube. Patrons would not share their favorite Creator’s Patreon campaign on other social media since non-fans would not be able to understand. This, in turn, places a restriction on the growth rate of a subscription crowdfunding platform.

For third-party subscription-based crowdfunding platforms like Patreon and Drip, YouTube’s channel membership may pose a major hurdle. Many of Patreon’s largest Creators are YouTube creators. The channel membership system will provide fans with fewer steps to contribute to creators. This seamless financing option provided by YouTube will be a more convenient and default way for fans to support content creators, third-party subscription crowdfunding services may be seen as more inferior method of fan financing. With YouTube’s size and scale, this may further limit the growth of
subscription-based crowdfunding platforms and relegate this form of financing to less mainstream fringes of popular online media.

At the moment, subscription-based crowdfunding is poised to have significant impact on both the crowdfunding and online media industries. With the lack of academic papers on the subject of subscription-based crowdfunding at the time of writing, this thesis makes several contributions to the academic literature. First, it establishes a codified record of the function and purpose of current day subscription-based crowdfunding. Second, the paper ties the relationship between subscription-based crowdfunding and online media against the context of the current shift in online media market. As for practical implications, this paper provides a clear understanding of the principle differences between the three main financing methods available for and entrepreneurs content creators: reward-based crowdfunding, subscription-based crowdfunding and advertising-based revenue. The information provided here can hopefully give insights to aspiring entrepreneurs and content creators as to which form of financing best suits his or her business model.

Overall, this thesis provides one of the first insights into subscription-based crowdfunding and has important implications to both research and practice. In addition, it also provides an overview of how it fits into the greater market of venture financing and online media. However, it has a number of limitations that need to be considered. First and foremost, as with exploratory studies, this paper opted to use non-participant observation, literary analysis of academic papers, industry reports, and news reports. Therefore, while it gave a wide perspective of the topic and related ecosystem, the paper had to simplify and generalize many intricate subjects that deserve in-depth study. Second, this study lacks substantial and quantitative data analysis and therefore does not allow for a highly objective analysis interpretation of data. This combined with the data collection method of non-participant observation, some bias may be inevitable and must be taken into account when interpreting the results in this study. Third, with the topic at hand being relatively nascent, a lack of academic literature is available for subscription-based crowdfunding. Additionally, since the development in the online mediascape is still too new, many
sources used for this research were fathered from news report, industry articles, and even primary and secondary sources, thus this paper may be subject to recency bias filtered from the short time span and subjective sources. To address these limitations, a quantitative data sampling and analysis of Patron motivations and incentives may be an interesting future subject to explore.

Despite the limitations, this study serves as an initial step towards understanding the new and emerging phenomenon of subscription-based crowdfunding. The author hopes that these findings can provide a foundation for future studies to build upon.
REFERENCES


Youtbe. (2018g). What is a Content ID claim?. Retrieved from https://support.google.com/youtube/answer/6013276