Chapter 22
Vertical and Community-Based Crowdfunding Platforms

Tomaso Greco
Università degli Studi dell'Insubria, Italy

ABSTRACT

If the inherent nature of the horizontal crowdfunding platforms makes the relationship between campaign creator and backers basically without intermediation of the platform, in the case of vertical platforms there are different and sometimes complex levels of intermediation. The vertical crowdfunding platforms can be considered more than a subset of the horizontal crowdfunding, as an independent system of relationships and rules which has in common with the horizontal crowdfunding a large part of the fundraising methods, but that is also profoundly different with respect to the aggregative procedures and the system of rules.

INTRODUCTION

Beside the above-mentioned horizontal platforms, a large number of specialized and local civic crowdfunding platforms have spread in recent years.

The specialized crowdfunding platform has in common with the generalist platforms the method and, in some ways, the approach to funding, even if there are more or less differences - depending on the platform that we are considering - with regard to the development of internal communities and the system rules which determines their daily lives.

We have seen the emergence of crowdfunding platforms exclusively dedicated to publishing, culinary art, music, wine, culture, cinema and many other specific interests. They are, in almost all cases, platforms of reward type, aimed at the implementation of the project, project of which some examples/copies will be sent to the supporters as a reward.

Not all platforms have a global vocation; in fact, the most of them combine the criterion of specialization with the one of territoriality. The common feature, in any case, is the verticality.

In fact, if the inherent nature of the horizontal platforms makes the relationship between campaign creator and backers basically without intermediation of the platform, in the case of vertical platforms there are different and sometimes complex levels of intermediation. It could be argued that this distinction is not necessarily due to organizational reasons: the staff of a horizontal crowdfunding platform cannot certainly be omniscient, while it is likely that the staff of a vertical crowdfunding platform can boast strong and specific skills on the specific area of interest of the platform.

In reality, this argument would be quite insufficient to explain the real reason for the need to create platforms that are strongly vertical. Moreover, this need finds a correspondence in the choice of many campaign creators to rely on a vertical platform rather than on a horizontal platform.

For a correct examination we will have to compare the three different types of methods of fundraising through crowdfunding: with horizontal platforms, with vertical platforms and with self-hosted campaigns, that is campaigns hosted directly on a pre-existing website of the campaign creator or on a website created for that purpose.

In the horizontal and vertical platforms the campaign creator will count on no entry costs or almost non-existent fees while for a self-hosted campaign he will need to acquire the necessary technology, to enter into agreements with one or more payment systems (especially if the campaign involves the all-or-nothing method, a method according to which the payments of the backers are effectively collected only if the campaign reaches its pre-fixed goal), and also to establish a system of rules relating to the campaign, the payment management and the privacy of the backers. The economic advantage, on the other hand, is that on a platform (either horizontal or vertical) the campaign creator will have to pay a fee on the total amount of the campaign, while on his website, as it is reasonable to expect, there will be no fees to pay.

But the choice of the campaign creator to rely on a platform rather than another, or to prefer a self-hosted campaign is certainly not only due to an economic aspect.

Otherwise, there would be a race to the bottom of the fees of the different platforms, a race that could not obviously have a different ending than the survival of a single platform: the one with the lowest fees. However, the offer of crowdfunding platforms is going in a different direction, and the reasons for the effective failure of the *"war of the fees"* is, in my opinion, due to the different needs of the campaign creators, related to the different characteristics of the campaign creators themselves and their projects.

Which characteristics, in fact, orient the choice of a campaign creator? We start from the lowest common denominator: to fund a project. However, to do it, there are also other channels, while the peculiarities of crowdfunding, as we have seen in the chapter on horizontal platforms, is to build a community around a project and, through the community, to give the maximum possible visibility to the project, developing its potential in a context of constructive dialogue with the backers.

In other words, we need to recall the four basic elements of a crowdfunding campaign: project, campaign creator's profile, duration and economic objective to be achieved. On the basis of these elements it is established or, rather, it is possible to establish a relationship of trust between the potential supporter and the campaign creator. However, to establish the initial relationship of trust, it is necessary and preliminary an element of validation of the project. This does not mean the attitude of the project itself to be valid, but that it appears to the potential donor as valid. This process can take place, in the horizontal crowdfunding platforms and the self-hosted crowdfunding platforms, through three different elements: the potential backer may have the technical knowledge to define the proposed project as valid, the potential backer may deem necessary to fund that particular project, the profile and reputation of the campaign creator provide sufficient guarantees to the project.

Related Content

Effect of Ownership Structure on Firm Performance Evidence From Non-Financial Listed Firms: Ownership Structure and Performance
Muhammad Arslan (2022). *Research Anthology on Strategies for Maintaining Successful Family Firms (pp. 296-323).*
www.irma-international.org/chapter/effect-of-ownership-structure-on-firm-performance-evidence-from-non-financial-listed-firms/288264

Incorporating Qualitative Information for Credit Risk Assessment through Frequent Subtree Mining for XML
Novita Ikasari, Fedja Hadzicand Tharam S. Dillon (2013). *Small and Medium Enterprises: Concepts, Methodologies, Tools, and Applications (pp. 452-489).*
www.irma-international.org/chapter/incorporating-qualitative-information-credit-risk/75979

Comparison of Factors Pertaining to the Adoption and Non-Adoption of Electronic Commerce in Formally Networked and Non-Networked Regional SMEs: A Study of Swedish Small Businesses
Robert MacGregor, Lejla Vrazalic, Deborah Bunker, Sten Carlssonand Monika Magnusson (2004). *e-Business, e-Government & Small and Medium-Size Enterprises: Opportunities and Challenges (pp. 206-243).*
www.irma-international.org/chapter/comparison-factors-pertaining-adoption-non/8750

Critical Success Factors to Yield Business Benefits from Semantic Technologies
Ronald C. Beckett, Anni Rowland-Campbelland Paul Strahl (2011). *Innovations in SMEs and Conducting E-Business: Technologies, Trends and Solutions (pp. 205-223).*
www.irma-international.org/chapter/critical-success-factors-yield-business/54177

Digital Transformation of Small and Medium Businesses
Aizhan Baimukhamedovaand Malik Baimukhamedov (2023). *Advancing SMEs Toward E-Commerce Policies for Sustainability (pp. 19-43).*
www.irma-international.org/chapter/digital-transformation-of-small-and-medium-businesses/314718