Platform

Risk category: FINANCIAL

#18 - Uneven and unstable profit-making

Definition

The way how a platform actually makes money highly differs in reason of diverse considerations, concerning the nature of the supported projects, their scope and location, sector of activity etc. Most of times, nonetheless, the platform does not charge the supporters, rather takes money from the project owner(s). The choice of one or the other option highly impact on the regular inflow of oney from any campaign. The most common models are:

a) the so-called "success-fee" rate, i.e. only charging the project owner in case of fundraising accomplishment. In other words, if the funding goal is not reached, the platform does not earn anything and all money is refunded to backers
b) applying the so-defined "flat / flexible rate", meaning that the project owner gets to keep the money raised, regardless of whether the funding goal is reached within the defined timespan of campaign development. This is possible because the platform applies a fixed commission in terms of subscription or membership rate, which allows it to collect money independently as from the projects' real success.

In addition, usually, the platform also takes a percentage of the money raised all along the project in the form of credit card processing fee – normally upwards of 3% of each transaction, also in combination with a fixed amount per pledge.

Mitigation strategy

In order to ensure an internal regular profit and an external sound accountability, it is fundamental to look at the diverse consequences of each of the two methods :

a) Via the "success-fee" rate, the platform links its profits to the quality of the projects published and supported. This requires the campaign provider to be more attentive and selective when scrutinizing the project proposals. In practical terms, the platform will make sure that the project owner/firm is stable and ready to perform the crowdfunding campaign, that their business model is adequate and complete – and that the project as a whole is appealing and in line with the market and sector of reference. The platform might, thus, allow for a lower quantity of projects to be published, but being estimated having a higher possibility of accomplishment. The platform's management capacities also incide upon the quantity of projects to run;

b) In the second case, the platform needs to host a larger number of projects or to have a higher amount of affiliated companies/project owners, who regularly provide for subscription fees. Consequently, the selection over the presented projects might be less accurate in terms of topic, sector and size (i.e. financial goal). This method, nonetheless, enables the platfom to propose a larger offer of initiatives and projects, thus attracting a larger quantity of entrepreneurs.

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