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What Happens When a Kickstarter Project Fails to Deliver Rewards

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A successful crowdfunding campaign can still end badly. This case shows how missed rewards, poor communication and unclear use of funds can destroy backer trust.

Introduction

In October of 2014, Frances Courtepointe[1] started a Kickstarter campaign for her venture Phenom Fabrics[1]. She promised hand dyed fabric "fat-quarter" cuts - a 18" x 22" piece of fabric typically used in quilting - in return for funds from potential backers. Frances and her work were well known in the quilting community. She had attended many trade shows to sell her quilting fabric, had an online store and was active in social media networks related to quilting.

While her quilting venture was successful, it was run out of her home. Frances made her fabric in the kitchen of her cramped apartment and had to disassemble her dyeing equipment and put away the fabric to make dinner for her family in the kitchen. She wanted to expand and develop a dedicated space to work on her fabric, store it and then prepare it for shipping. Unfortunately, she lacked the funds to do this on her own.

The Kickstarter Campaign

Frances decided that the best way for her to raise the funds needed was through a crowdfunding campaign. Crowdfunding is one of the more popular and increasingly common ways for artists and entrepreneurs to fund their creative endeavors, sell their products and increase their product visibility. Crowdfunding occurs when entrepreneurs, artists or other project creators receive small amounts of funds from a large number of people to fund a specific project. Its structural concept is similar to a nonprofit's tiered structure of giving. Crowdsourcing platforms operate on the idea that people want to support projects that appeal to their interests and values, but also want something in return.

Crowdfunding is about supporting interesting projects, friends, concepts, artists, creatives, entrepreneurs and stories. People choose to support a crowdfunding campaign for reasons as varied as feeling good for supporting the campaign to obtaining sought-after merchandise ahead of regular purchasers. These supporters often feel strongly about the project, its creator or its purpose.

Because of its support of artistic projects, Frances felt that Kickstarter was the best crowdfunding platform for what she wanted to do. To incentivize her backers, Frances created rewards for different amounts of funding, For smaller amounts, the rewards included digital patterns and postcards. Higher amounts were to receive bigger rewards, such as fat-quarter cuts. After determining the amount she needed to cover the cost of making and shipping the rewards, the cut that Kickstarter receives (5%), and payment processing fees (3% plus 20 cents per charge), she determined she needed $15,000 to reach her goal. She created a story and a short video about her needs for the campaign.

After starting her campaign, Frances designed a PR blitz, including getting interviews on quilting podcasts and a large social media campaign. Many other quilters, fabric designers and fans of her work shared her campaign with their followers on social media, and it turned out to be very successful. So successful, in fact, that she raised another $10,000 above her goal. She created stretch goals for use of the larger funds, including a better camera and lighting to record her

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works to sell online.

After the Campaign

Many crowdfunding campaigns have ended with satisfying results for both the funding seekers and their backers. The individual or entity seeking the funds did in fact receive the funds sought or more, and the backers received their promised perks and rewards.

While communication from Frances to her backers started out strong, she missed her first deadline of December 10, 2014 to get rewards of fabric out to those who had pledged for the early bird reward. She posted this update on her Kickstarter page:

> I was unable to get the Early Bird perks out by December 10, and permitting delays meant that my regular shop could not operate for several weeks longer than I had planned and budgeted for. The means that I had to divert funds intended for things like shipping perks into paying rent on my new space. I hate that I had to do that, but I had no choice. I tried my best but it was just impossible.

Most of her backers were forgiving about the time delays. A recent study of Kickstarter backers shows that 65% of them did not receive their rewards on time. Many backers realize that most project creators underestimate the time needed to create their rewards and ship them. But in this case, many backers were concerned because they felt the $10,000 in extra funding could have been used to help Frances fulfill her promises to them.

The backers' patience ran thin by May of 2015. Frances was selling products through her online shop, but there was no evidence that anyone had gotten their perks beyond redemption codes for digital patterns. Around this time, Frances stopped communicating across all social media platforms and no longer gave out updates on her Kickstarter campaign. Backers begged her to communicate with them:

> This is my first project that I've backed that has failed, no one cares if products are late because they always are, but Frances has to send out regular emails to say why and what's happening with the company. That is why I use Kickstarter and not go into a store because I love to watch the process of items being made.

Soon after, Frances posted this:

> I will continue to stock my shop and run my business and that will always take precedence over everything else including Kickstarter rewards. If I do not stock my shop, I do not have a business, and that means Phenom Fabric ceases to exist and I can't fulfill your rewards.
>
> The other thing I want to address is that Kickstarter rewards are not preorders. Kickstarter is not a shopping platform. Kickstarter is a way for people to support projects they're interested in and the perks are just that - perks.

This angered many of her backers. Digging online into her activities post-campaign, they discovered that she used the money to move residences from Maryland to Ohio and to pay rent on her new apartment. Many felt that this did not match the stated purpose of "finding a dedicated space," which they assumed meant a studio workspace. By July, there was no evidence that she had fulfilled any of her fabric rewards and people felt betrayed. Most could not figure out where their money had gone:

> Two more months have passed and still no word from you on the progress of our orders. When you created this campaign you entered into a contract with your backers, who gave you their hard-earned money to support your project. You have been ignoring people's inquiries and conducting yourself in a manner that is very unprofessional. You have betrayed our trust and have damaged the faith we have in Kickstarter. Please start fulfilling your orders as we are all waiting and we deserve a resolution.

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Frances no longer updated her backers. She ended up shutting down her store website and closed all social media accounts. The backers had no way to contact her. Since then, no one has received any of the rewards promised.

Kickstarter and Failed Projects

Recent research suggests that Phenom Fabrics is not the only venture to fail to deliver rewards to their backers. By 2012, approximately 84% of Kickstarter's top-funded projects had delayed fulfillments. A recent study showed that nine percent of Kickstarter projects that were fully funded failed to deliver rewards, and seven percent of backers failed to receive their chosen reward.

Discussion Questions

1. If you had backed the Phenom Fabrics project, what would you do next?
2. Read the Kickstarter Terms of Use. What rights do backers have and what can they do next?
3. What legal action(s) do you think the backers can take?
4. On what might have Frances spent the extra money? How might you be able to find out?
5. What could Frances have done to mitigate the risks of not completing the rewards on time?
6. Do you think Frances, by receiving more money than requested and thus having to fulfill more rewards, might have found it too difficult to make the additional fabric needed to reward her backers? What types of rewards might have made it easier for her to fulfill?
7. Do you see Kickstarter rewards as at-risk investments or pre-purchase of product?
8. Does Kickstarter have any duty to assist backers in getting their rewards?

[1]This case is based on an actual event. Because the people and organizations involved are pending potential legal action, names and specifics have been altered.

References

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