fandefi

Fandefi Whitepaper

Solving the problem of funding for creative projects using a fan-powered decentralized funding platform

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Work in Progress and subject to change

A historical perspective

The artist as the entrepreneur

Patronage is the support, encouragement, privilege, or financial aid that an organization or individual bestows on another. In the history of art, arts patronage refers to the support that kings, popes, and the wealthy have provided to artists such as musicians, painters, and sculptors.

Religion played a significant role in the development of art be it poetry, music or dance. Rituals to the gods and places of worship formed the basis on which the arts were encouraged and nurtured. When an entire society, city or kingdom follows a particular religion, the question who pays for the arts does not arise [1]. Art as an expression of individualism didn't exist, it was skill and craftsmanship that ruled the roost.

By the time of the renaissance and the gradual separation of church from state, the question of "Who pays for the arts?" took on significance. With this rose the new profile of independent artists in search of a patron. By the time of the industrial age, artists transformed into independent entrepreneurs, which is pretty much the case to this day.

The role of governments and business

By the turn of the 20th century, the state started playing a prominent role as a patron of the arts. The arts entered academia - colleges and universities created departments for art, architecture and music. A large number of corporations were also seen as patrons of the arts with a surge in sponsorship and commissions. Not limited to the wealthy and influential, the free market economy saw the rise of dealers, publishers, record companies and film corporations.

Things have taken a different turn today. Governments today are more inclined towards cutting budgets for the arts. The UK government has proposed a drastic 50% reduction in the arts in 2021-2022, reallocating to STEM programs. In the US, the cuts are largely driven by an ideology to shrink the federal government and decentralize power. The Heritage Foundation, a conservative think tank, argues that the government should not use its “coercive power of taxation” to fund arts and humanities programs that are neither “necessary nor prudent.” The federal government, in other words, has no business supporting culture. Period.

Public perception of Artists

There’s a growing shift within the art and cultural space that the role of the artist in the public sphere is changing. Artists are increasingly seen as self-funded and entrepreneurial agents of social change. [2] A curious aspect of the arts is the definition of the “artist”. The last 20 years, researching artists as a discipline-based employment has led to the monitoring of employment trends which in turn gives rise to the misconception that artists don’t contribute to the economy meaningfully. Studies show artists are highly aware that their work exists in interconnected occupational communities in which connections to others and a good reputation are essential for their career. Artists are seen in public as an essential part of society, described as thinkers, innovators and social change makers.

But this leaves a big gap in the understanding of the occupation based definition of an artist and the value they bring to the economy. The question of income and making a living for an artist has been a topic of debate. On one hand, you have the romanticized struggling artist like Van Gogh who died in penury but today has works in the market worth to the tune of approximately $10 billion. On the other hand, you have a growing de-funding of the arts with the perception that the arts don’t contribute to the economy.

In line with the American Perceptions of Artists Survey in 2002, in general, respondents were more supportive of private, local organizations and entities employing or funding artists in comparison to government funding or employment. More than half of respondents felt that individual contributors or sponsors (54.8%) should fund or employ artists. Likewise, slightly more than half of all respondents felt that artists should self-fund their endeavors or be self-employed (51.6%). Fewer respondents felt that private organizations and entities, that is, community organizations or clubs (47.7%), charitable corporations (40.2%), and businesses or corporations (35.1%), should fund or employ artists. On the whole, government funding or employment of artists was the least popular set of responses. Respondents were more supportive of more local forms of government funding for employing artists (local government 32.4%; State government 26.0%) than they were of federal government funding or employment of artists (21.5%). [2]

The Problem(s)

Economic contribution

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The rise of the Creator Economy : Today we're seeing a subtle shift from the attention based economy to a creator centric one. The Creator Economy consists of platforms, marketplaces and tools that democratize creative expression and entrepreneurship; empowering the independent creative class to make a living off their passions. The creative industries generate around $2.25 trillion annual revenue and employ more 15-29 year-olds than any other sector. The largest number of gig workers (14%) are in creative industries. Platforms like Patreon, Kickstarter and Shopify enable anyone anywhere to sell and collect payments directly from their audience. [4]

The Monopoly problem

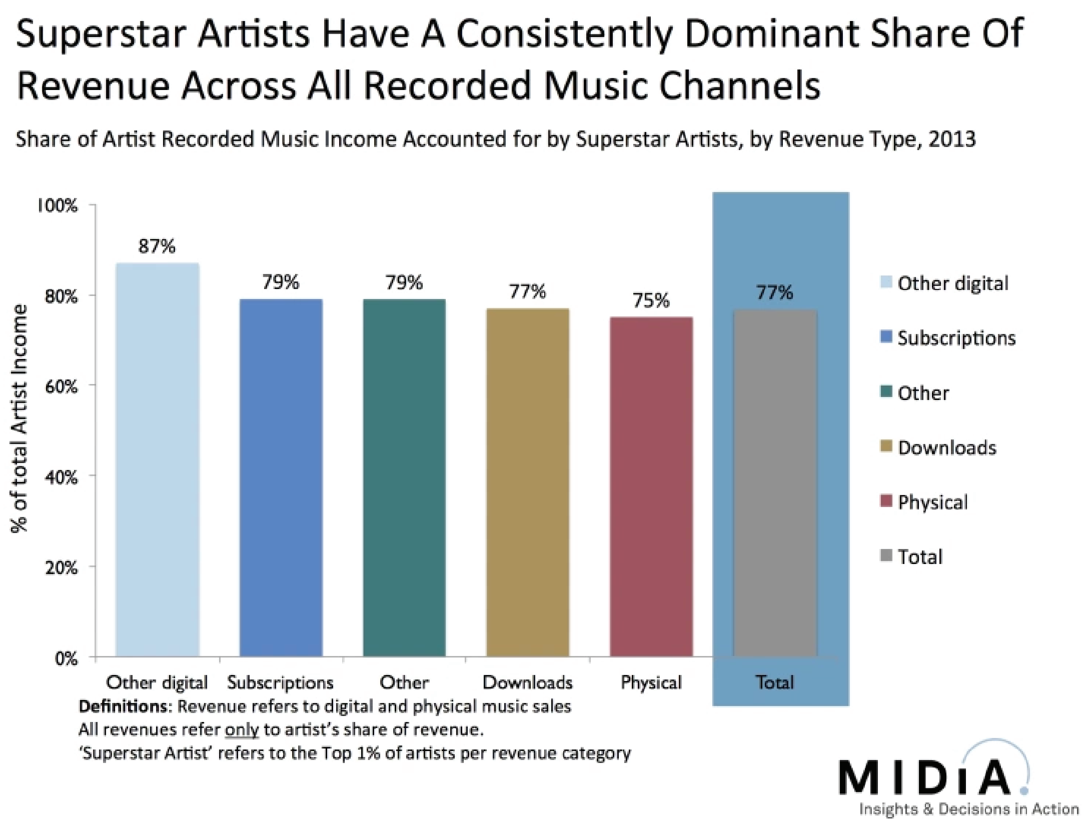
Mass media has never been more consolidated and now six giant conglomerates control a staggering 90% of what media consumers read, watch, and listen to. As a result, many popular media entities have been consolidated and all work under the same umbrella corporation.

Media consolidation is responsible for controlling all aspects of the industry, from creation and production to delivery. This has led to lack of meaningful content and alternative viewpoints in the media. We see this consolidation across all sectors, like books, music, news and movies.

The Superstar artist economy problem

The monopolies have invariably created a Superstar artist economy, that is to say a very small share of the total artists and works account for a disproportionately large share of all revenues. This is not a Pareto's Law type 80/20 distribution but something much more dramatic. For example, the top 1% account for 77% of all artist recorded music income. [3]

A major portion of this revenue comes from an Ad driven model you, the consumer, are the product. In this paradigm of the Attention Economy the bills for the presumably free products manifest in terms of privacy scandals, click-baiting headlines, an increasingly polarized society, the toll on mental health, a struggling longtail of creators.



The Funding problem

The existing fundraising platforms in the market like Kickstarter and Indiegogo either cater to a "Donation" model or to a "Presale" model of fundraising. Both present a challenge to creators and artists as they are unable to package benefits of greater value to their fans. These models benefit campaigns for physical products, but don't necessarily translate well for creative projects like art, music or film. The reason for this is the inability to construct meaningful ROI for bigger asks from fans.

Imagine a band looking to raise $50,000 in funding from their fan base. There could be a few ways you could package the “rewards”. Eg: $10 for a digital download of the album, $25 for a virtual “thank you” from the band along with a limited edition of the album. You’ll need 5000 fans buying $10 or in any case, several 1000 fans buying from you in advance for this fundraiser to be successful. You can clearly see that creating meaningful and creative “rewards” is cumbersome and fans don’t particularly see the value.

The Marketing problem

The existing crowdfunding platforms like Patreon, Kickstarter and Indiegogo cater well to creators who can leverage an existing large fan base. For creators who have a smaller following, the cost of marketing your fundraising campaign outweighs the benefits of the fund raise itself. Add to this, most creators do not possess the skills required for an extensive B2C campaign on social media to raise awareness.

Crowdfunding vs. Fan-Financing

Philosophy

It’s worth defining at the outset what we mean by Crowd-Financing as opposed to crowdfunding.

- Crowdfunding platforms perpetuate this idea that what artists create doesn’t have any intrinsic value and must survive purely on the generosity of fans and patrons. Crowd-financing is all about fans investing in the future of their artists/creators.
- Crowdfunding looks at individuals in search of patrons. Crowd-financing looks at creators as micro-enterprises in search of investment.
- There’s also the perception that most creators work in isolation. The fact is most creative projects are highly collaborative and team oriented. Fundraising platforms today do not take into consideration these pain points.

- What we need is a paradigm shift in recognizing the value creators are capable of generating and creating an incentive structure that enables all stakeholders to benefit commensurate with their participation.

- The key aspect here is the timing of the participation. The earlier the participation, the more asymmetric the payoff.

1000 true Fans

In 2008 Kevin Kelly, founder of Wired Magazine wrote the now legendary 1000 true fans blog post. The concept is simple enough, a creator with a 1000 fans should be able to make a living if each true fan funds $100 a year. The concept has been the basis of several existing crowdfunding platforms such as kickstarter and Patreon. However, over a decade since this article, we're still plagued by a few fundamental issues.

0 to 1000 fans

While it should be relatively simple for any creator to build a fan base of 100, if we go by the Dunbar Number of 150 being the typical social group size, going from 100 to a 1000 is still beyond the reach of many creators. We see a typically "superstar economy" type skew towards the 1% on platforms such as Patreon. Less Than 2% of Content Creators on Patreon Earn Monthly Minimum Wage.

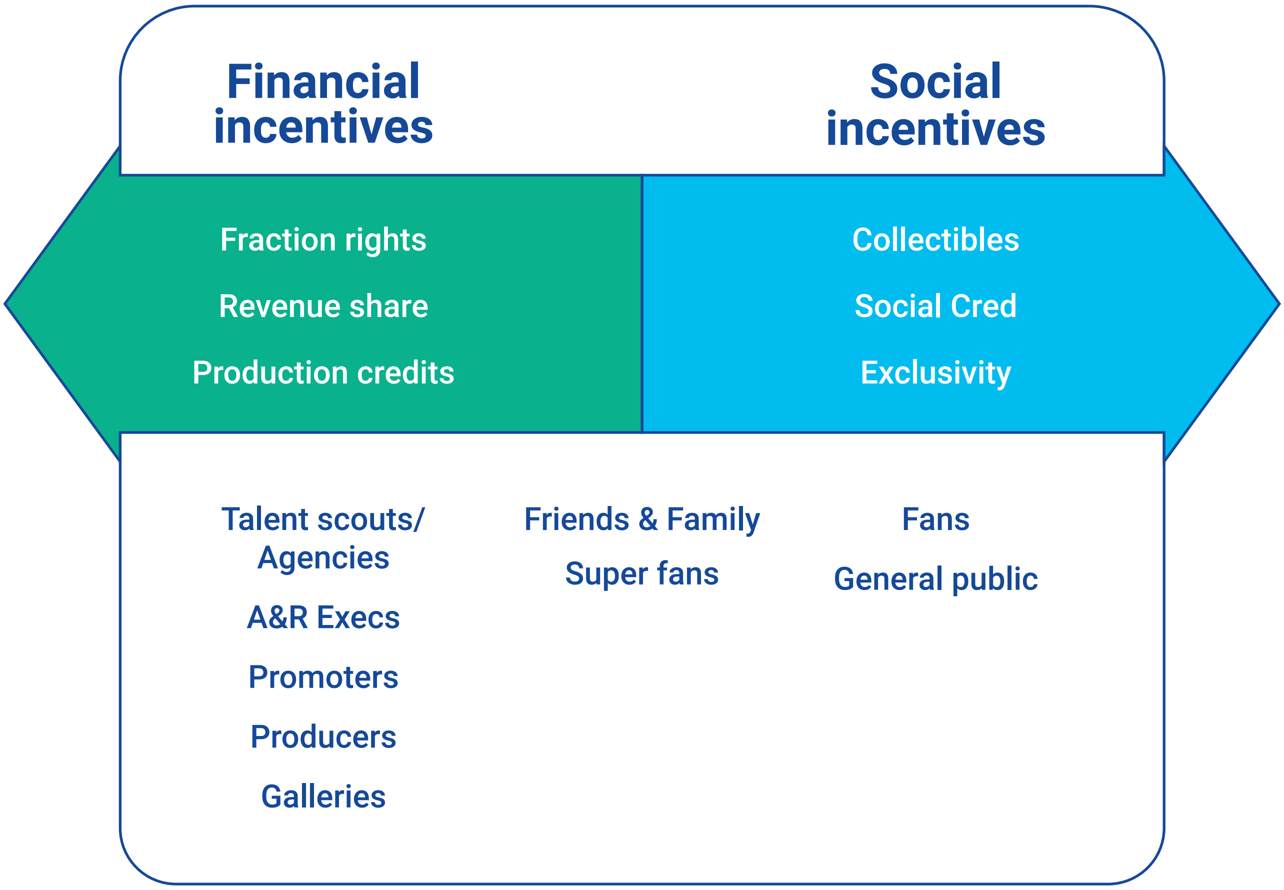
The long tail's existential crisis

Attaining fandom is sometimes not the goal for many creators. It comes with its own set of pains. One can argue that this is the very nature of today's systems where you need to be a creator, marketing wiz, road manager, publicist and producer all rolled into one. Platforms like Stir help creators manage a lot of these aspects to a certain degree. However, there's a deeper, artistic existential crisis when you apply the 1000 true fan concept to a small pool of true fans. As a creator, are you growing artistically and breaking new boundaries or are you rehashing and pandering to your closed group? Fan attrition becomes a choice between survival and growing artistically.

The Incentives

The most effective way to change behavior is to change the incentives. There are 2 critical incentive primitives in the creator economy - Financial incentives and Social incentives. If you apply this concept to fandom, there are hardly any meaningful financial incentives when it comes to supporting your creator/artist in the current system. When it comes to social incentives like social rewards, loyalty etc. here too the options are slim pickings. There's a dearth of creativity in what creators can meaningfully offer to their fan base.

The incentive structure can spread across like this:



Fandefi

Fandefi is a decentralized financing platform that enables creators to use NFTs as a medium to raise funds for their projects directly from their fans.

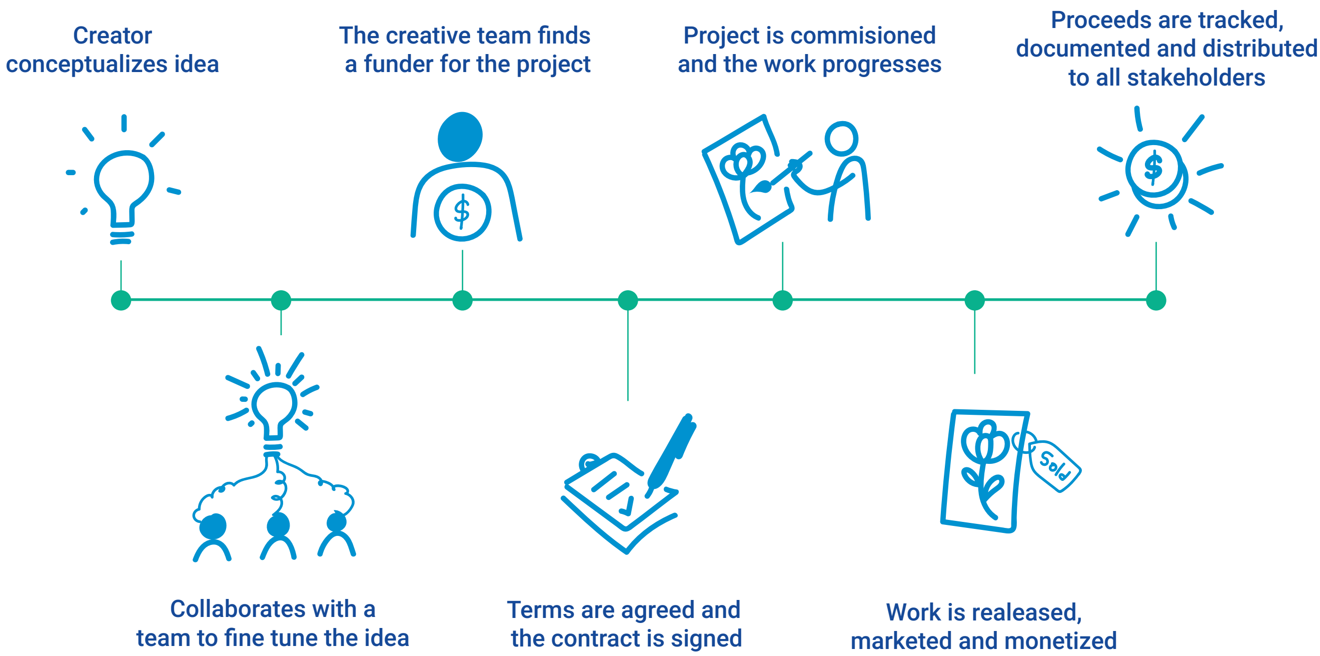
Technical overview

The core concept with Fandefi is of using NFTs instead of Tokens/Coins. There are several advantages to this, especially price volatility and speculation. Unlike tokens that can be price manipulated, pumped and dumped, NFTs hold value better and are targeted towards fans who value ownership and long term association. NFTs still give owners key properties like utility (buy, sell, vote), ownership & provenance (social cred), future value and liquidity.

The creative process

A simplistic view of a creative project looks like this:

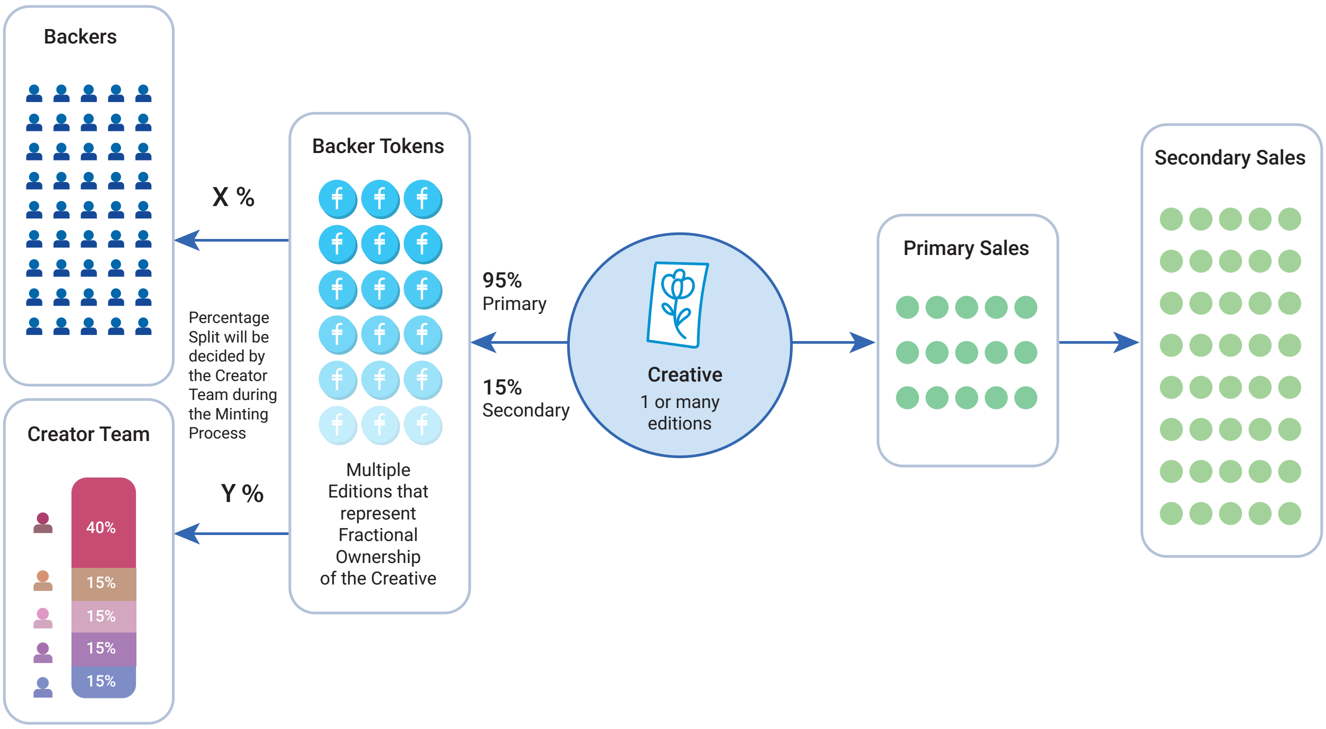
But in reality is probably looks like this:



If you add functions like licensing it further complicates the landscape. Fandefi aims to reduce the complexity while making it easy for creators to setup projects, determine terms with internal and external stakeholders, raise funds, monetize their works and subsequently distribute proceeds through a decentralized platform.

Fractionalizing with Backer Tokens

While NFTs offer digital ownership, there are some limitation when it comes to shared creative output. Fandefi introduces an innovative mechanism to create fungibility in the royalty split for an NFT using which you can fractionalize the revenue. This mechanism offers many innovative applications using NFTs



- Backer Tokens will be minted and put up for Sale by Creators
- Backers and Fans can help 'finance' Creators
- Creatives will be minted into NFT's when ready and put up for Sale
- Creatives will be sold or auctioned in the initial Drop
- On a Secondary Sale, Sellers receive 80% of the proceeds and 20% is paid out as royalty to the Backer Token
- Each Creative is linked to a Backer Token and will receive royalties fron the Creative
- All Sale income from the Creative is shared among the holders of the Backer Token
- Backer Token receives 95% proceeds from the Primary Sale
- Backer Token receives 15% from every secondary sale
- Backer Token Editions can be sold as a seperate NFT on Opensea or Other platforms

Use case

An artist seeks financing of $100,000 for an art project. The artist hopes to raise this money by giving a certain percentage of the sale proceeds to the backers. The artist has 100 super fans who are invested in the success of the artist. The artist decides on a revenue split of 50-50 with the backers. So each backer token will represent 1% of the revenue. The artist mints 100 backer tokens and 50 tokens are transferred to the artist's wallet. The remaining 50 tokens are put up for sale to raise $100,000 @ $2000 per backer token. Once the fund raise is completed and the artist completes the works and mints and composes NFTs using the backer token smart contract. Anyone who owns a backer token will now get 1% of the revenue the artist generates. The secondary sales of NFTs also accrues a percentage to each backer.

Pros:

Each backer token is now a revenue generating asset, representing an NFT or a set of NFTs in the market. Each time the NFT is traded, it generates revenue for the backers as well as the artist.

Since each backer token is itself an NFT, it can now be traded in the open market. This makes it easy to transfer royalties even after the sale of the NFT.
The artist now has a direct mechanism to reward backers via NFTs or physical goods, events etc.

Cons.

The regulatory framework around NFTs being viewed as securities could be a viewed as a limiting factor. However, there are good things that could come out of regulations. More protection for investors is the obvious one. Platforms that sell legally enforceable rights are more likely to succeed in the long term.

The technology stack

Built on Polygon, allowing rapid transactions with low gas costs. This also enables faster distribution of royalties back to the backer token holders.

References

[1] An Insoluble Problem

[2] Public Perceptions of Artists in Communities: A Sign of Changing Times

[3] https://www.good.is/articles/why-government-wants-to-cut-national-endowment-arts-nea

[4] https://www.upstartco-lab.org/creativity_lens/size-growth-creative-economy/