

The Distinct Evolution of Crowdfunding Strategies in Asian Countries

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Abstract: *The objective of this article is to look at how crowdfunding has evolved around where it is likely to go. If we treat the most prevalent information from the West as the global standard, we may miss the new intriguing trends that arise from other areas in the world. China and Japan respectively are two such countries that have taken the original concept of crowdfunding and evolved it distinctly within their own cultural spheres. To research into this subject, existing articles about crowdfunding in these respective countries were reviewed extensively and compared to existing standards in the West. At the same time, newer practices employed for Asian crowdfunding that evolved nationally has been migrated and integrated in their international interactions, which may or may not be in concordance with existing crowdfunding forms. From the results we know that the most prevalent form of Western crowdfunding is reward-based, and as such strategies have evolved to increase the project-makers' chances of a successful crowdfunding campaign or project. However, in Asian countries this is not the general case, where donation-based crowdfunding and other forms such as crowdlending and equity-based crowdfunding are more relevant. To fulfil its purpose, the article tries to bring forward from Asia the new and intriguing, yet successful practices of crowdfunding that have emerged and evolved distinctly in their domain. It also leaves the door open for such practices to be replicated in the West.*

Keywords: *crowdfunding, strategies, Flash-Sale, funding lifecycle, risk-reduction*

JEL Classification: M13 O3 O31 O32

1. Introduction

The last decades witnessed the rise of crowdfunding around the world (Toma, 2013). Crowdfunding is popularized in the West by huge platforms such as Kickstarter and Indiegogo, which have become as ubiquitous as larger social media platforms such as Facebook and Twitter. They are focused on the now, most prevalent form known as reward-based crowdfunding (Mollick, 2014) where the rewards can either be material, such as the product being promoted by the project, and immaterial, such as recognition the best backers, and founders on their main website. The idea for crowdfunding was popular for financing artists and creative project (Bradford 2012), but it soon spread to many other sectors.

If the investors sympathize with the information of a project which is hosted on an online crowdfunding platform, the investor will have the option to fund the project through the platform. If amount of funds gathered from investors does not reach the target set for the by the end of the campaign, all the funds are returned to the investors. However, if the funding target of the project is reached, then the funding is sent to the project initiator, and the investors then continue to receive reports on the project as it is implemented, and also receive status updates through the same project site as time goes by. And ultimately, the investors will receive products, services or even cash dividends upon the project's success.

Through crowdfunding, businesses that have had difficulty to get funding through traditional forms of finance, now have access to new funding possibilities and tools. As such, crowdfunding is typically used by newly formed companies or even just individuals

with new ideas. Ideas that could, with a little help, result in the birth of a new company.

In recent years, this general notion behind crowdfunding has become ubiquitous on a global scale. However, if we look at how crowdfunding has evolved in different locations around the globe, we tend to see new trends stemming away from this simple formula.

For instance in China, many well-established laptop manufacturing companies have found that by placing their new products, that are close to general domestic launches, on Western crowdfunding platforms they can test the waters beforehand, and thus they are able to see if their domestic products warrant an international launch as well. This is a unique strategy that circumvents general IT product launches and is quickly becoming the standard as it can be achieved with minimal resources allocation.

And although the Japanese market for crowdfunding is not even comparable to the world leading size of the Chinese market, it still has valuable to show how crowdfunding can evolve from donation-based projects instead of purely reward or equity-based Crowdfunding. This can be observed by how crowdfunding in Japan initially became popular due to the donation-based projects that took place in the aftermath of the tsunami and nuclear power plant crisis of 2011.

As this article's main objective is to provide the reader with a look or snapshot of how crowdfunding has evolved in various locations, the main form of research will be quantitative derived from the literature review of past journals and works that cover industrial trends in order to provide references on the importance of each cultural sphere will be provided in order to give a comparison for future discussion.

2. Literature review

Crowdfunding’s definition has not been standardized (Kraus et al., 2016a). However, the consensus is that an unspecified number of investors gather and provide funds to a

purpose-built business corporation or individual through a mechanism (platform) that utilizes the internet.

For the purpose of this article, the following terms are used and defined as such:

Term/Acronym	Meaning	Background	Inspiration
Project-Initiator (PI) or Project-Maker (PM)	the individual or organization which is using one ore multiple crowdfunding platforms to host one of their ideas as a project on them.	A project-maker can typically be a small group of young adults who have not yet created a company but are looking for funding for their idea, or a venture company with multiple sources of funding looking to increase their funding while also focusing on pre-marketing, to even well-established multimillion dollar companies looking to do some free product marketing and marketing research before launching their product.	(Kraus et al., 2016a; Belleflamme, Lambert and Schwienbacher, 2014; Danmayr and Lehner, 2014)
“Investors”, “Backers”, “Supporters” or “Funders”	the individuals that fund the projects through the various online platforms they are hosted on.	They are the people that invest in the project with the hopes the that project-maker can bring success	(Kraus et al., 2016a; Belleflamme, Lambert and Schwienbacher, 2014)
Chinese Behemoth	China’s crowdfunding industry.	The term is used repeatedly in this article in order to emphasise that China’s crowdfunding industry is on a scale much larger than even its closest rival in size, the US. And when comparing the two, we can see that china is more than 7 times larger, and it could easily rival even the total Western market if needed.	(Jiazhuo G. et al., 2017; Funk, 2019)

Crowdfunding is generally separated into four separate models as follows (Kraus et al., 2016a; Danmayr and Lehner, 2014; Kakakucomu, crowdfunding, 2019):

Donation-based	Donation-based	Crowdlending	Equity-based
In return for support the PM offers acknowledgements or other intangible forms of compensation in return to their funders. The online platform allows the PM to reach a far greater number of potential supporters/	In return for support the PM offers tangible goods based on the amount received. Such as the actual product that is to be developed, but at a smaller price compared to its estimated future retail value.	The supporters become “lenders” to provide loans to small unlisted firms through online crowdlending platforms. The “lenders” can distribute risk by offering loans to multiple projects on such platforms.	The supporters become “shareholders” by receiving shares (ownership) in the PM’s company, and will receive dividends. This is done via online platforms and allows for more transparency over traditional cases.

Reward-based crowdfunding tends to be more successful than other organizational forms of crowdfunding (Kraus et al., 2016b). However, although this is the ongoing global trend and the main type of crowdfunding to be covered in this article, other countries such as Japan have actually had crowdfunding become popular within their country due to the successful donation-based crowdfunding campaigns that took place during the aftermath of the 2011 tsunami and nuclear powerplant crisis (Kakakuomu, crowdfunding, 2019).

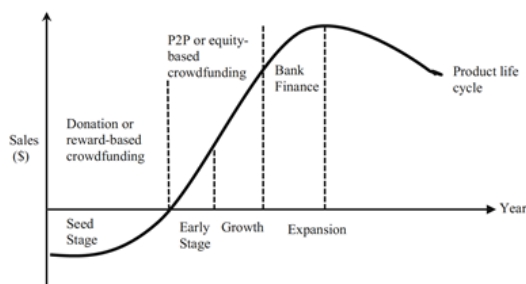
Kraus (2016a) also shows that the inclusion of a video to describe the project is considered to be the benchmark for minimum quality when potential backers look at the video. Not including one will garner very little attention in the project. And as such, the way the video can reach hearts of the backers/supporters is considered to be the main factor in the success of the project. And with a scientific fzQCA approach, they show how a great number of backers is the main factor to the success of a project during its campaign, it also shows the alternative methods for success when backers are scarce. The data

however was limited to a German crowdfunding platform.

There are several works and research articles in English with regards to Chinese crowdfunding. From these, Jiazhao G.Wang (2017) provides a very thorough overview of the crowdfunding behemoth known as China evolved and came to be and where it is likely going to. As such, the work focuses on the issues that have arrived from China's crowdfunding boom, how the risk of projects failing to succeed is high, and how the industry is no longer favoring smaller start-ups, which is in stark contrast with Western platforms. And Funk (2019) provides a deeper insight into the organizational aspects of crowdfunding in China.

From the literature surrounding Japanese Crowdfunding, (Adhikary, Kutsuna and Hoda, 2018a) provide a similarly thorough overview on Japan's side, and shows unique trends in the use of crowdfunding. The work does have more emphasis on the organizational aspect. They also cover how newly starting companies incorporate the various forms of crowdfunding during their various stages of development.

Crowdfunding in a Funding Life Cycle of a Firm (Adhikary, Kutsuna and Hoda, 2018b, p.11)



For non-translated materials, there is also the major Japanese company known as kakakucomu which offers a great deal of information regarding online prices of most major goods and services that are available domestically to the general public. As such, they take it upon themselves to order studies on the latest FinTech trades and then freely proliferate the information towards their users. Their study on crowdfunding is comprehensive and has served a great deal for the baseline information regarding Japan (Kakakucomu, crowdfunding, 2019).

3. Research Methodology

For the purpose of this article, a substantial amount of literature review was conducted on both past journals, news articles, and data aggregates. Initially, the literature review revolved around journal articles that stated the main success factors for crowdfunding that were either non-specific, global, or local to Western crowdfunding platforms.

The purpose to first focus on the Western area was to create a foundation to correctly see the common denominator that all crowdfunding platforms have. As a result, once the research progressed to Asian countries, it became very clear what was different, hence it was much easier to see what Asian practices stood out as opposed to Western platforms.

The literature surrounding crowdfunding in Asian countries also cited previous Western research for foundation building which meant that correlations between Western and Asian research could be made.

Later, the research delved into statistical data on the success of crowdfunding in China and Japan and it showed clearly that China's crowdfunding industry is in a league of its own, and as such is a great location

for new practices to first appear and evolve through natural selection.

Japan, although much smaller, being true to its nature, it was quick to adopt the best practices around the globe and incorporate them, and due to its closed nature, it continued to evolve and apply Japanese knowledge to its evolution. As such, the research became focused on how both Goliath and David evolved to be unique and stand out from the rest.

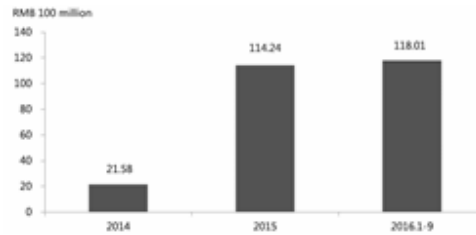
4. Results and discussion

The main areas covered by this article are going to be China, the world leading crowdfunding market, and Japan, the unique evolution that rose up from a social crisis, but has somehow ended up to a similar destination, albeit at a smaller scale. The similar destination can be seen after comparing literature focused on China (Jiazhuo G. Wang et al., 2017) and Japan's (Adhikary, Kutsuna and Hoda, 2018a) crowdfunding industries.

4.1. The Chinese crowdfunding behemoth and its evolution

In China, we can see that the industry had grown from grown from a 2,158 mill rmb to 11,424 mill rmb and then stabilizing to around 11,810 mill rmb, 1.7 billion USD equivalent (Jiazhuo G. Wang et al., 2017). And has grown to around 5 billion usd by 2019. Even the sheer number of operating platforms in china is a testament to the total growth of the industry. The current main platforms are run by eCommerce giants such as TaoBao, JD, Xiaomi and 360 which are the industry standard. However there is also DemoHour and ZhongChou which are more similar to Western platforms as they are primarily reward-based platforms.(Floship, Crowdfunding in China, 2019).

Amount of funds raised by crowdfunding in China (Jiazhuo G. Wang et al., 2017, p.15)



However, this is merely the base to show that domestic crowdfunding in China is a big industry of great significance. And as such, the phenomenon has evolved to such a scale that even large firms use crowdfunding both domestically and internationally. And more recently, from a Western point of view, we can see that more and more Chinese firms have begun to use Western crowdfunding platforms to do “free” marketing research, and therefore be able to decide whether modifying their existing domestic products for an international market is profitable or not. This a great example how new platforms that are usually consumer and individual driven can be integrated by organizations within their strategic planning cycle.

Many well-established tech companies, such as Xiaomi, Chuwi, Teclast, have been selling some of their domestic products internationally for many years. However, the process is not always straight forward. With the advent of crowdfunding, they have been able to substantially reduce the risk associated with preparing products for international sales substantially. Chuwi in particular has even created brand new products specifically for the international market, such as the Chuwi Aerobook, a limited-edition Laptop to be sold only internationally, that was available for reward-based funding on IndieGoGo

for a limited time before being successful. The peculiarity here is that they are using the Western crowdfunding not so much for the funds themselves, but for the free publicity and market information they can garner from such projects. The reason for this is because they already have companies in place and can develop new products with much larger ease than a fresh new company, or even a similar Western company.

Although evolving a bit away from the general crowdfunding idea, Chinese companies have also made a new form of on-line pre-purchasing known as “Flash-Sales” or “Flash-Deals”, similar to reward-based crowdfunding, they offer products at a cheaper price ahead of the scheduled production. The difference here is that the production will take place regardless of the funding amount reached, as the whole purpose of this flash sales is to simply receive an exact number for the first production run. And another difference is that the “Flash-Sale” has a limited upper margin which is limited by the maximum production capacity of that production segment for the company making the product. The peculiarity here is that from the general consumer’s point of view, this is not much different from a reward-based project on existing Western crowdfunding platforms. The risk of not receiving the product

is much lower as it is only attributed to the actual shipment from China, as the product will be made, nevertheless.

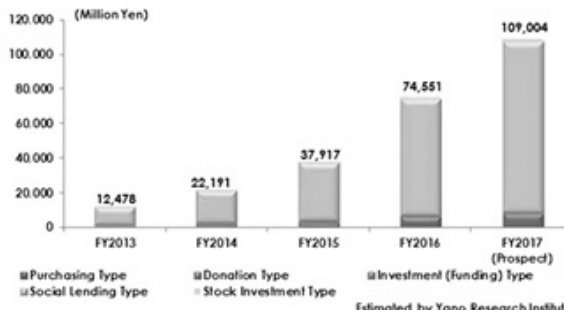
4.2. Japan’s crowdfunding evolution and practices

After the tsunami and nuclear power plant crisis of 2011, Japan was in a situation where it had a lot of entrepreneurs who had lost their business due to the disaster. The main force that helped them to recover financially came from donations and charity events. This created a great need to raise funds from individuals all over Japan in the most efficient way possible. As crowdfunding arose in Western platforms with great success, it was immediately adapted to Japan in order to cope with this urgent national need, and it did so with great success. (Kakakucomu, crowdfunding, 2019). As

such, crowdfunding in Japan arose not from consumerism, but from social aid which had marked its evolution going forward to be more focused on helping good causes as they are the most successful, such as crowdfunding campaigns for leukemia research (Japan Times, 2019) and education funding when state subsidies decline (As state subsidies decline, Nagoya University turns to crowdfunding to support student activities, 2018).

Now, Japan’s crowdfunding industry had a huge growth spurt as seen in the following graph. It has grown from 12,478 mill yen to 109,004 mill yen in 2017 (996 million USD equivalent). The top three crowdfunding platforms in Japan are Green Funding, Makuake, and Campfire (The Top Three Crowdfunding Platforms in Japan | GlotureBlog, 2018).

Growth of crowdfunding in Japan 2013-2017 (Adhikary, Kutsuna and Hoda, 2018b, p.54)



Similarly, this is only to show the growth of Japan’s domestic crowdfunding industry in recent years. Going forward however, Japanese start-ups using crowdfunding have had a evolved since the start of the phenomenon and have become accustomed to applying different types of crowdfunding

at different stages of their funding lifecycle. (Adhikary, Kutsuna and Hoda, 2018a). Startups at the initial seed stage are better suited to receive donation or reward-based crowdfunding. And when the firm moves on to the early stage it will move on to equity-based crowdfunding if required. And during

expansion it can rely on tadeonal forms of finance. It is important to note that crowd-funding in general does not exist in order to replace traditional forms of finance, but instead they work much better together. But to make a simple analogy, crowdfunding is the electric motor in a car that is used to start the engine, while traditional forms of finance are the internal combustion engine which takes over and provides locomotion during the expansion phase.

5. Conclusion

As China is more and more going global (Toma, Gradinaru and Papuc, 2013; Toma, Marinescu and Gradinaru, 2017; Toma and Gradinaru, 2018), crowdfunding has become a huge industry and is most likely to lead the global evolution for reward-based strategies and other crowdfunding innovations in the future years to come.

There may well be some legality problems as time goes by, as the international models are not thoroughly regulated at the moment, and they allow room for too much leeway. The risk is that big corporations will continue to use the platforms more and more and provide severe competition to fresh startups simply because they can come up with much more professional products, and much lower risk of non-delivery on promise because they do not truly require crowdfunding for the projects initial promise. And by providing such competition they may be taking potential backers away from regular startups. On the other hand, one could argue that by doing so the big corporations are increasing the total amount crowdfunding backers by bringing in their loyal customers which are not used to crowdfunding. But

only time can tell what the ultimate evolution of this trend will be.

Japan on the other hand, although not as big, has also grown tremendously and is showing the true blend of crowdfunding and traditional finance. And as such, this new model is quickly becoming the norm for the global crowdfunding industry. The crowdfunding phenomenon began in Japan due to the huge need of funds from the SME's that were affected by the tsunami and nuclear powerplant crisis in 2011. Donation-based crowdfunding was at an all-time high and it provided substantial funding for companies that were trying to recuperate from the disaster but were not able to seek traditional financing. On the other hand, however, we can see a synergy taking shape, as companies with successful crowdfunding campaigns are more likely to also obtain regular funding based on the performance of their campaigns.

As such, crowdfunding continues to allow for more and more new ideas and companies based on them to come into existence at a scale which was not possible in previous decade. As the internet grows bigger and multinational companies become bigger and bigger one would think that the barrier of entry for new companies would become harder and harder, but as crowdfunding in China and Japan has shown, it is quite the opposite, as companies have access to more and more form of fund raising and marketing possibilities in order to become new challengers in their respective markets.

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