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THE ROLE OF CROWDFUNDING IN INVESTMENT PROCESS AND INTERACTION OF CROWDFUNDING PLATFORMS

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ABSTRACT

The emanation and essence of crowd funding in investment process is analyzed in this manuscript and several researches have been conducted for revealing deeply the significance of crowd funding in businesses. A successful project mandates that the several months' worth of meticulous networking be set aside even before the campaign is launched. A poorly prepared campaign is a recipe for disaster. A campaign is never just a day's work – owners of the company will need to be constantly

KEYWORDS: *Crowd Funding, Investment, Economy, Innovation, Start-Up, Equity, Reward, Dividend, Entrepreneurship*

INTRODUCTION

As technology and business environment has been facing to the great shifts, growing number of young and emerging businesses are requiring obtain financial resources through open calls over the internet. As a result special platforms have been introduced and such campaigns are often hosted on specialized platforms that serve as intermediaries between founders and potential funders. In recent years, crowd funding platforms in particular have had extraordinarily high success rates in these published campaigns and they have already become a central role player in the overall investment.

MATERIALS AND METHODS

Although, the origination of crowd funding has deep roots during the centuries, the first recorded use of term “crowd funding” was in August 2006, by entrepreneur Michail Sullivan[1]. He used it in the launch of his company fundavlog, which was an attempt to create an incubator for video blog projects.

According to the scientists[2-3], crowd funding is a way of raising money to finance projects and businesses. It enables fundraisers to collect money from a large number of people via online platforms. Crowd funding is most often used by startup companies or growing businesses as a way of accessing alternative funds. It is an innovative way of sourcing funding for new projects, businesses or ideas and it can also be a way of cultivating a community around the offered projects. By using the power of the online community, the owners of the projects can also gain useful market insights and access to new customers.

Additionally, Agraval[4] and others refer that crowdfunding platforms are websites that enable interaction between fundraisers and the crowd. Financial pledges can be made and collected through the crowdfunding platform. Fundraisers are usually charged a fee by crowdfunding platforms if the fundraising campaign has been successful. In return, crowdfunding platforms are expected to provide a secure and easy to use service. Many platforms operate an all-or-nothing funding model. This means that if you reach your target you get the money and if you don't, everybody gets their money back – no hard feelings and no financial loss.

Scientists of economics stress[5-6-7] that there are a number of crowd funding types which are explained below but three most common types of crowd funding are used by profit-making SMEs and startups: peer-to-peer, equity and rewards crowd funding.

Main types of crowd funding are followings:

Peer-to-peer lending. The crowd lends money to a company with the understanding that the money will be repaid with interest. It is very similar to traditional borrowing from a bank, except that you borrow from lots of investors.

Equity crowd funding - sales of a stake in a business to a number of investors in return for investment. The idea is similar to how common stock is bought or sold on a stock exchange, or to a venture capital.

Rewards-based crowd funding. In this type of crowd funding individuals donate to a project or business with expectations of receiving in return a non-financial reward, such as goods or services, at a later stage in exchange of their contribution.

Donation-based crowd funding: individuals donate small amounts to meet the larger funding aim of a specific charitable project while receiving no financial or material return.

Profit-sharing / revenue-sharing. Businesses can share future profits or revenues with the crowd in return for funding now.

Debt-securities crowd funding

Individuals invest in a debt security issued by the company, such as a bond.

Last but not least, **Hybrid models** offer businesses the opportunity to combine elements of more than one crowd funding type []

Cassar refers[8] that related findings provide capital-seeking entrepreneurs with a preliminary orientation from which they can increase their probability of receiving funding, once they obtain access to multiple investors. In general, for innovative start-ups seeking external financing, reducing the comparably high information asymmetries with potential investors is always a major challenge. This problem is even more pronounced in crowd funding, which often entails considerable regional distances between the project initiators and potential funders. Therefore, Rasmussen and Sørheim[9] note that, it seems to be essential that entrepreneurs present and communicate their investment case in a manner that corresponds with the investment process of a particular funding source.

According to Tomczak and Brem[10], in recent years, the emergence of crowdfunding has enabled the funding and realization of countless entrepreneurial projects via open calls over the internet. The vast majority of the initiated campaigns are conducted on web-based platforms serve as intermediaries between project initiators and potential funders.

Methodology of the research

The methodology of the research includes mathematic-statistic analyzes, historical analyzes and modeling methods. Statistics of the research have been made by the authors based on the official statistics of the world.

Results

Conducted researches revealed that entrepreneurs and innovators have faced to pressing issue which is access to finance, and over the years it was issue for small and medium-sized enterprises (SMEs) as well as start-ups. Thus, crowd funding was investigated how to address financing as a barrier to ICT-enabled innovation. In fact, crowd fundings are sources of financing beyond the traditional form of financing. Clearly, traditional methods of financing usually come from funds from friends and family, bank loans, business angel and venture investments. Exactly, crowd funding is identified as a potential way to go beyond the traditional methods of financing businesses and innovation and as a potential way to address this barrier to innovation. Several researches have been conducted offering an overview of crowd funding using the current literature on the topic. Conducted researches explain how crowd funding campaigns and platforms function. Crowd funding is the raising of small funds from a large number of individuals. In its current form, crowd funding involves intermediaries, which are called funding portals. These funding portals are usually web-based. Analysis identified that crowd funding has already become one of the main sources of funding in investment processes.

Studies showed that following four platforms are top crowd funding platforms currently available and the fees and sustainability are provided below:

TABLE1 TOP 4 CROWDFUNDING PLATFORMS OF THE WORLD[11]

No	Platforms	Fee	Sustainable for:
1	Kickstarter	5% of the total funds raised	Sturtups, video game developers, designers, musicians, artists, e.t.c.
2	Indiegogo	5% of the total funds raised	Small scale businesses, start-ups, non-profit organizations, e.t.c.

3	GoFundMe	2.9% plus 30 cents for donation	Non-profits, Charities, designers, artists, e.t.c.
4	Patreon	Subscription-based, varies between creators	Artists, musicians, Streamers, online Models, e.t.c.

It is important that platforms should be chosen based on the several criteria in order to minimize the risk and not to be in a crisis status. When it comes to the specific project, there are many variables to take into account and they could be followings:

- Reason for raising fund
- How much would like to raise
- Resources for marketing
- The level of control over the project

Statistics showed[12] that the global crowd funding market size was \$84 billion as of 2018 and is expected to reach \$114 billion by 2021. Additionally, it is identified that fewer than a quarter (22.9%) of all crowd funding operations end up being successful and a research has been conducted for revealing the reasons of fail of those companies and they can be seen below:

1) Campaign is not unique

One of the main reasons for the failure of a campaign is the lack of a competitive edge. Competition arises when the product or service offered is not unique. It is a very difficult proposition to sell an idea that isn't idiosyncratic, and convince investors to invest their hard-earned money in a product that is unable to justify its advantages over its competitors.

2) Campaign is poorly prepared and organized

A lot of preparation is essential for a successful campaign. A lot of time and effort needs to be invested in the campaign. A successful project mandates that the several months' worth of meticulous networking be set aside even before the campaign is launched. A poorly prepared campaign is a recipe for disaster. A campaign is never just a day's work – owners of the company will need to be constantly in touch with their campaign and always they should be available to tweak it to their advantage whenever the necessity or opportunity comes. A campaign fails when:

Not enough time is invested: Time is of great essence to any successful campaign. When one prepares a project, one would need to dedicate enough time for its planning and its promotion. Without a meticulous plan that looks ahead, the project is doomed for failure.

The message of the campaign is not consistent: Unless the core idea is well-defined, it would not be possible to have all the people involved on the board. Without clear goals and clear-cut strategies to achieve them, investors will be in the dark about what the target is. Without proper communication, investors may bank upon unrealistic objectives that will lead to conflicts later on.

No video is included: In a successful campaign, the prerequisite of having a video is a given. Without a meaningful video that clearly illustrates the vision of the entrepreneur(s), a campaign

cannot hope to succeed. A well-made video not only describes how aim to go about your project, but also exemplifies why owner is going for that project at all. The video has to be persuasive and should lend itself to being shared on multiple platforms. It should be long enough to include all core messages, however short enough to retain interest. It should have clear audio and should include on-screen captions wherever necessary to aid in understanding.

Campaign is too complicated: When it comes to an advertising campaign, it is the best bet to have things simple and sweet. Too many complications in the campaign will result in drastic narrowing down of the target audience, and you will end up losing many prospective investors just because your campaign was too tricky for them to comprehend.

Campaign is targeting the wrong crowd: It is essential for you as an entrepreneur to have the backing of the right audience. Targeting one and all, irrespective of the domain of interest is a futile attempt at advertising – this will never bring the right people in the loop.

3) Campaign is not emotional

To be successful, it is obligatory for the campaign to strike a chord with the investors and the general public. It is not possible for owner to connect on an emotional scale with investors when investor is not emotional about project. Lack of passion and self-motivation will invariably result in a poor image of the campaign. Failing to get investors excited will literally translate into a poor prospect of investment in the campaign.

4) Campaign has unrealistic funding goals

One of the main reasons for the failure of a crowdfunding campaign is the setting of unrealistic goals as far as funding is concerned. Many times, a project is under-financed due to faulty predictions about capital requirements. Many campaigns have failed because entrepreneurs overlooked vital areas of funding while preparing plans. Only a comprehensive plan – one that takes care of all possible situations and scenarios, however, miniscule or trivial, will be successful in attracting the right amount of funding.

5) Campaign has low exposure and popularity

Low exposure is one of the foremost reasons for the failure of a crowdfunding venture. Also, too few PR contacts will have an adverse effect on campaign. It is vital to know that owners will need to make as many PR contacts as possible before starting campaigning project. For example if you are planning on manufacturing a fluoride-free herbal toothpaste, it is important to create and distribute a PR article about the ill-effects of fluoride-based toothpastes and the benefits of herbal toothpastes on all possible platforms at least a fortnight before the actual launch of the product.

6) Campaign perks do not add enough value

The main motivation behind campaign should be to deliver certain perquisites to stakeholders. Without a distinct set of perks, it would be impossible to grab the attention of any investor. An investor will only invest when he feels assured about certain returns that add value to his cause.

It is best to assume that investor is going to be very selfish in demanding that he gets his fair share of returns from his investment.

7) Campaign owner does not have sufficient experience

Many projects meet with failure when the project owner or the entrepreneur does not have any or sufficient experience in the field. It is not uncommon for an entrepreneur to pursue a project outside the domain of his primary experience. However, it is mandatory for such an entrepreneur to associate himself/herself with people who possess the relevant expertise and experience.

8) Campaign has faulty timing

Campaign may have everything going its way in campaign, but just the one factor of wrong timing is enough to foul up all future scope of project. It is essential to hit off the project at the right time of the day, given, of course, the geographical location of the target audience. For example, if you are located in the United States and your target audience is in Japan, you will need to work out a suitable time slot in Japan (and not in the United States) to kick off the campaign.

Let's get the ball rolling with some of the key stats on crowdfunding worldwide. It's difficult to accurately assess the overall size of the crowdfunding market. There are all sorts of factors to consider: the global volume of transactions with all of the associated costs, equities earned and their fluctuating value on the market, donations, indirect contributions of the industry to the global economy...

For this reason, many online crowdfunding statistics tend to throw around wildly different numbers, ranging from tens to hundreds of billions of US dollars. For the sake of simplicity, when we refer to the global market, we're talking about everything related to crowdfunding, and when we mention transaction value, it's purely the monetary value of crowdfunding transactions themselves.

One trend these stats clearly show is that North America is still the leading region driving the crowdfunding industry globally. The top crowdfunded[11] projects are still those organized in business and entrepreneurship ventures, while social causes account for about a fifth of the total crowdfunding budget.

Finally, regulation crowdfunding – a popular method of avoiding registration requirements for securities-based crowdfunding projects – is gaining serious traction in the US.

The core of every good crowdfunding effort is a well-thought-out and realized campaign. Proper crowdfund marketing can make all the difference: more than three-quarters of all campaigns fail to obtain the necessary funding. Most of those that do, however, end up exceeding it greatly.

With well over six million campaigns in 2019 alone[13], managing to both attract and retain crowdfunding donors is a key challenge for both crowdfunding companies and individuals.

The most successful crowdfunding campaigns tend to be ones organized for nonprofit causes. They generate almost twice as many funds compared to the industry average. Diversifying your crowdfunding sources and having a cause that people can believe in are the keys to success.

Starting a crowdfunding campaign off on the right foot is the key to its success. Most successful crowdfunded projects tend to capture the attention of the majority of their potential backers with a good initial pitch. People tend to have short attention spans though, and it's important to keep your backers regularly updated and engaged.

Most crowdfunding backers are younger people, so making engaging and personal content that employs plenty of personal video and image material is a surefire way of getting and retaining the interest of your target audience.

Crowdfunding success rates often depend on having loyal repeat backers, as well as making large last-minute pushes as the funding deadlines start approaching. Many backers tend to generally like an idea but hold off from investing until they can see how the project develops.

They often end up forgetting about it in the process. Giving them something to go back to can make the difference between failing a campaign goal miserably and achieving it with flying colors.

Although the rate of growth has somewhat slowed down in the last few years, crowdfunding is still showing signs of constant improvement, as the industry grows ever larger.

Of particular note is how things are changing in terms of the overall structure and distribution of crowdfunding funds. Back in 2016[13], the lending market accounted for 70% of the entire industry. Equity crowdfunding statistics from the past four years, however, show that things are slowly changing.

To be clear, the industry still primarily revolves around its lending segment. However, equity crowdfunding is currently growing more than three times as quickly, so it will be interesting to see where we are 10 years from now.

Real estate is one of the most consistent segments of the global crowdfunding market when it comes to growth. With average investment returns being no smaller than 10%, it's little wonder that the industry has a solid future ahead of it.

With almost two-thirds of the crowdfunded real estate market investments in 2018, the Americas are driving the majority of the industry, with the US and Canada being the largest markets. In terms of growth, however, crowdfunding stats show the EU and other European countries as the fastest-growing players.

Although residential property investment still dominates the market, experts predict lucrative future gains for investors ready to support the growing commercial sector.

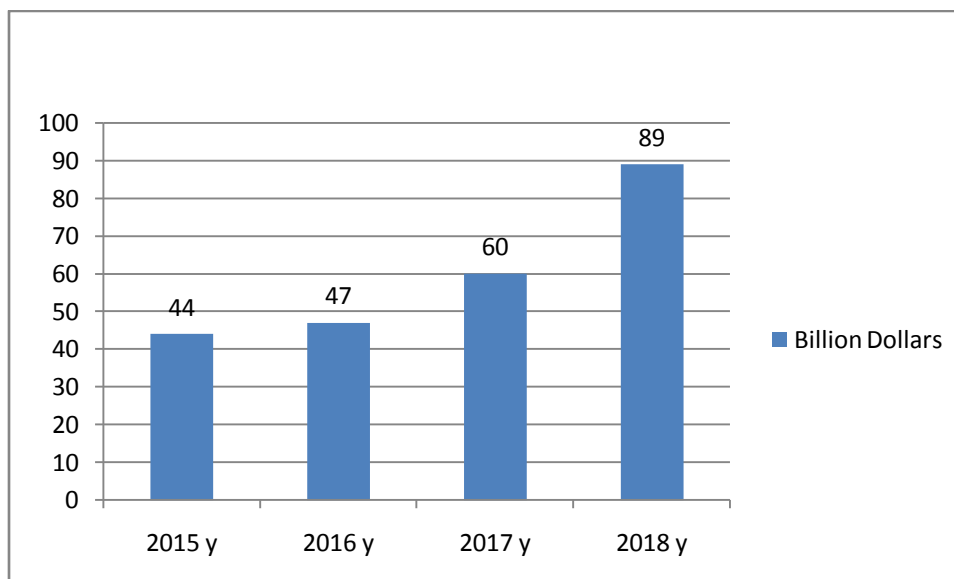


Diagram1 Total Worldwide Crowd funding Volumes except China from 2015 to 2018[14]

It can be seen from the above given diagram that the volume of crowd funding is raising year by year around the world. Exactly, if the total volume of crowd funding was 44 billion dollars in 2015 year, it indicated 60 billion dollars in 2017, after a year it showed sharp increase and the volume was 89 billion dollars.

TABLE 2 GLOBAL TOP 10 CROWD FUNDING BY COUNTRY IN 2019[15]

Country	Rank	Volume(\$)	Market Share	Yearly Growth Rate
China	1	215,396,387,848	70,73%	-39,88%
United States	2	61,134,356,480	20,07%	42,93%
United Kingdom	3	10,367,889,408	3,40%	32,04%
Netherlands	4	1,806,298,624	0,59%	480,72%
Indonesia	5	1,451,228,928	0,48%	1711,43%
Germany	6	1,276,201,472	0,42%	92,90%
Australia	7	1,166,546,048	0,38%	1,57%
Japan	8	1,074,756,864	0,35%	208,26%
France	9	933,132,928	0,31%	26,98%
Canada	10	909,255,296	0,30%	4,80%

Above given table illustrates the Global top 10 crowdfunding by country. It is clear from the table that market share of crowdfunding is relatively high in China and it is equal to 70,73 % in numbers, 215,396,387,848 dollars. However, the growth rate of crowdfunding decreased to 39,88% in 2019 compared to the last year. Additionally, America is also one of the top countries which has great crowdfunding rate. Clearly, the amount of crowdfunding was 61,134,356,480

dollars and its market share was 20,07% in 2019 and indicated 42,93% yearly growth in that year.

CONCLUSION

In conclusion, it can be said that innovators or entrepreneurs can use a crowdfunding platform, i.e. a web -based funding portal, to campaign and raise funds from a broad crowd including their social networks and the network of the portal. Entrepreneurs enjoy the obvious benefits of being able to access new funds that might not be otherwise available but they also enjoy non-pecuniary benefits such as feedback about their idea from the crowd and access to the skill set of contributors, who are often willing to lend a hand. The crowd enjoys access to products before they become widely available and become engaged and involved in the production process.

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