

Information and Strategies for Chinese Micro and Small Enterprises in Crowd funding Mode

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Abstract.As the rise of Internet finance, more and more micro and small(M&S) enterprises apply new methods to overcome shortage of funds. Crowdfunding is one of them. This method is considered as an effective way to improve the efficiency of financing and alleviate the information asymmetry between investors and financiers. To many M&S enterprises, especially those in initial stages of pioneering, crowdfunding is both an opportunity and a challenge. Through this new and open financing mean, exploring valuable information, transforming information into competitive intelligence and drawing up a reasonable strategy are three important steps for seizing business opportunities.

Introduction

Crowdfunding is a financing mode that accumulates public funds through Internet platforms to start someone's business. Since the first website of crowdfunding—Kickstarter emerged in 2009 in America, this financing mode is experiencing a rapid development. According to the forecast of World Bank, by the year 2025, the global average annual market size of public funding will reach \$96 billion. ^[1] In China, only in the first half year of 2014, 1423 cases of public funding were happened, and RMB 189.71 million was collected. ^[2] As a transparent, open and efficient financing mode, the rise of crowd funding is a promotion and incentive for M&S enterprises that are in the initial stage of pioneering and lack of funds. For Micro and small enterprises, besides seizing the opportunity of financing, they should take advantage of the open and transparent financing process to discover the information of customers' preference, the trend of market and the strategies of their competitors, and then strive for an invincible position in the fierce competition for themselves.

A brief introduction of crowdfunding

Connotation and mode. The rise of Crowdfunding is in the United States in 2009. Generally, the so-called crowdfunding refers to financing activities that require public participation. Under the background of Internet Age, the connotation of crowd funding is becoming more and more specific. Now this phrase mainly describes behaviors of some individuals or enterprises that collect small amount of money online from the public for starting their projects. The methods include appealing for donation, purchasing in advance, equity transfer etc. For many M&S enterprises, which are lack of venture capital, this new mode can provide an efficient and feasible financing approach. In addition, most websites or platforms of crowdfunding are usually open, transparent and easy to access, so they can be seen as windows for these enterprises to present and display some new ideas or creative products.

As far as it is concerned, there are three main modes of crowdfunding for Chinese enterprises and individuals. Table 1 lists the financing forms, channels of reward and representative platforms of them. The first mode is donation. For instance, the crowdfunding platform of JD Finance and Demo Hour.com and many other related websites provide donation channels for people who are interested in these projects and willing to support them. In this mode, social participation spirit plays a very important role. Ordanini. A(2011) once made an experience regarding the participate motivation of crowd funding. The result demonstrates that sometimes people are willing to take part

in social activities to help others who need help, because this can bring them a sense of achievement.
^[3]Almost all websites of crowdfunding encourage people to donate, and some of them hold lottery activities to reward and attract donators.

The second mode is advance booking. In this mode, when one project is just a conception or still in the tentative stage, enterprises can present them on the websites of crowdfunding to attract potential customers and investors. If someone is interested in this project, he could purchase at a discount price in advance. When the finished products are manufactured, he will receive one. This mode helps M&S enterprises alleviate the shortage of funds. Furthermore, in this way, the whole process of financing is equivalent to a process of purchasing, so these enterprises can avoid supervisions from official financial institutions. This brings great convenience for business behaviors. The representative website is ZhongChou.com.

The third mode of crowdfunding is equity-based. In this mode, enterprises transfer a certain percentage of shareholding to investors in exchange for start-up capital. The key to judge the attribute of a project is to survey its return methods. If one enterprise promises to give investors a part of shareholding according to the amount of investment and share risk with enterprises, this kind of crowdfunding can be called equity-based. Such projects usually require comparative larger amount of investment and high reward, but investors have to suffer higher risk. The representative websites are DaJiaTou.com and RenRenTou.com.

Table 1 Three modes of crowdfunding

Mode		Form	Reward	Representative platforms
Donation sponsorship	and	Free donation	No fixed form	Most websites of Crowd-funding
Booking in advance		Preselling preferential price	With Finished products	ZhongChou.com, JD Finance
equity-based		Equity transfer	Equity and bonus	DaJiaTou.com, RenRenTou.com

Analysis of its population. Crowdfunding quickly accepted by M&S enterprises in China is because it alleviates the financing difficulty of private enterprises especially those in primary stage. Some of these enterprises master core technology, but they are lack of business records. Besides, the financial information of them does not meet the requirements of Chinese banks, and never open to the public. Banks cannot judge the repaying ability of these enterprises, so they often refuse to serve a loan. Because of this information asymmetry, many M&S enterprises cannot get funds from traditional channels. (Fig. 1 presents two different channels.)

The rising of crowdfunding provides a new method of financing. M&S enterprises can skip banks and directly finance from the public. Through platforms (websites) of crowdfunding, these enterprises can introduce the plan, design and profit potential of projects. Moreover, they are also required listing risks and challenges. Through these information, the public select investment project by themselves. If one project fails to achieve the finance target set by websites crowdfunding, it will be judged as an inferior project, and the process of financing is required be terminated. Intermediary platforms will send all already raised fund back to investors. This open and transparent financing method realizes the direct match between investors and enterprises and significantly improve the financing efficiency.

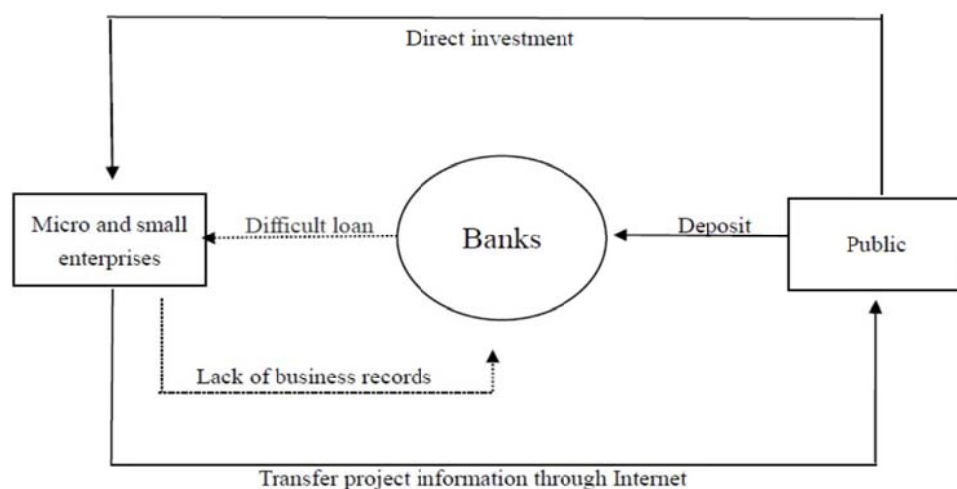


Fig. 1 Two different channels of finance

Acquisition and Utilization of Information

Besides the convenient and efficient financing channel, crowdfunding also brings overwhelming information and knowledge resources for enterprises and individuals. How to distinguish them and translate them into valuable information is necessary for enterprises to research industry, market, competitors and consumers.

Carrier and bridge of information. In the process of crowdfunding, websites are important platforms to maintain M&S enterprises and investors. They work as information hubs. Through these platforms, enterprises have a chance to present their ideas, conception, and achievement of projects with multimedia technology. Furthermore, most crowdfunding websites will timely release related data. For instance, the ZhongChou.Com will list financing amount, the number of supporters, financing progress and investors' comment of every project. This series of data triggers the mass screen mechanism to help investors judge the risk of every project and then optimize investment decisions. Meanwhile, micro and small enterprises could take advantage of these platforms to collect the information of potential customers. They will quickly judge the population and prospect of their projects. In addition, compared to the similar projects online, these they can easily find the strengths and weaknesses.

For another, websites of crowdfunding usually undertake the function of supervising. Usually, the investment from the public is indirectly received by financing enterprises, and websites act as third-party platforms to temporarily store investors' fund. If one project raises enough amount of fund before the deadline, the enterprise will be able to get the public's investment to start the project, or all fund have raised will be returned to investors. This rule reduces the risk of investors to a certain extent.

Screening of entrepreneurial information. As a carrier and bridge of information, crowdfunding websites can greatly avoid information asymmetry, and for micro and small enterprises, how to utilize this information resource in their initial stages is extremely important. When an enterprise plans to launch a new project, it can make full use of all information presented on these websites. After data analysis and collection, enterprises can approximately estimate the amount of competitors, industry barriers, stage of development, future potential etc. If projects or conceptions, which M&S enterprises intend to promote, have been massively emerged on the websites of crowdfunding, it means suffering a highly competitive field. So all original financing plans are required to give up, thereby avoiding the potential risk. Furthermore, by analyzing similar projects on the websites, M&S enterprises can also predict the financing schedule, popularity and promotion mode of their own projects. Overall, websites of crowdfunding indicate similar projects and help enterprises decide whether to get involved in target field. In addition, through browsing all related