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### Leveraging reward-based crowdfunding during Covid-19

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# Leveraging reward-based crowdfunding during Covid-19

By Hannah Chang, Erin Jasmine Guillermo and Colin Chai

**O**VER the past year, Singapore firms have faced unforeseen market disruptions created by the Covid-19 pandemic. Worldwide country lockdowns, supply chain disruptions, and restrictions on business operations due to public health and safety measures posed non-trivial challenges. Many companies scammed to find alternative sources of revenue and ramp up their efforts at digitalisation – or risk the possibility of business closure.

It has been particularly challenging for small and medium-sized enterprises (SMEs). According to a survey conducted by QBE Insurance Singapore, business sentiment among SMEs remains low as 4 in 5 SMEs do not expect their businesses to grow in 2021.

Another study conducted by tech giant Microsoft and the Association of Small & Medium Enterprises (ASME) reveals that while 83 per cent of SMEs have digital strategies in place, more than half report delays in implementation due to Covid-19.

Factors such as high cost and an uncertain economic environment have been identified as the main barriers to digitalisation.

In the same survey, 84 per cent of SMEs have also delayed their plans for internationalisation due to the pandemic.

But all is not lost. Reward-based crowdfunding platforms, such as Kickstarter and Indiegogo, can help Singapore businesses

respond to pandemic-induced challenges to their operations.

First, reward-based crowdfunding offers an alternative source of funding. Here, entrepreneurs and enterprises turn to the public, or the "crowd", to raise funds. In exchange for their financial contributions, "backers" get a "reward" in return.

Unlike traditional business financing, funds for manufacturing and orders from consumers are secured before the launch of the product or service.

Rewards-based crowdfunding is popular among entrepreneurs and startups as it is an accessible and safe way to test new products and acquire funding.

## Alternative online channel

Second, reward-based crowdfunding offers an alternative online channel to reach potential consumers.

For example, Kickstarter – a large reward-based crowdfunding platform – has almost 20 million backers from all over the globe. Since their inception, there's been increasing use of popular reward-based crowdfunding platforms by entrepreneurs and startups to reach global consumers.

For example, CORI launched its 'CORI SuperTee: The next generation of T-shirts' on Kickstarter in December 2019. Selling multi-functional T-shirts made from a "proprietary blend of fabrics", CORI SuperTee was marketed as a "premium T-shirt with incredible features".

The company exceeded its funding goal of S\$10,000, amassing a total of S\$268,670. The campaign received most

of its pledges from the international community. Out of 2,141 backers, only 8.3 per cent of the backers were from Singapore. Most backers came from the US (531), Germany (175), and Australia (159).

While reward-based crowdfunding platforms traditionally helped entrepreneurs bring their innovations to the market, in recent years larger enterprises such as Coca-Cola, Sony, GE, Philips and Razer have joined the bandwagon in leveraging such platforms to launch new products.

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**The structure of the market in rewards-based crowdfunding enables entrepreneurs to estimate market demand in a cost-effective manner, even in times of economic uncertainty.**

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Third, reward-based crowdfunding helps businesses suss out market demand prior to manufacturing. This is particularly beneficial for SMEs in the light of changing consumer preferences and behaviour during the pandemic.

According to a report published by McKinsey in 2020, there is great variation in how consumers behave as they adjust to the new normal. Consumer behaviour has

changed in unexpected ways during the pandemic, not just in where people shop but how they shop and what they buy.

As businesses try to understand new consumer behaviours, it may be challenging for entrepreneurs and companies to interpret and understand demand signals during this transitional period.

The structure of rewards-based crowdfunding can provide clues to entrepreneurs faced with uncertain consumer demand. Rewards-based crowdfunding provides entrepreneurs with a cost-effective way, using an established digital avenue, to gauge consumer interest and consumers' willingness to buy.

Businesses on crowdfunding secure customer orders and funding before the production of goods and services. With such a market mechanism, entrepreneurs and businesses can receive a clear signal of demand from the market.

They will be able to optimise their production and avoid incurring losses from excess inventories. Hence, the structure of the market in rewards-based crowdfunding enables entrepreneurs to estimate market demand in a cost-effective manner, even in times of economic uncertainty.

Rewards-based crowdfunding is a good alternative for Singapore-based businesses to raise funds, and a viable option even amid economic uncertainty.

In our analysis of campaign performance in the design and technology categories before and since Covid-19, we found no significant differences in the average fund-

ing received by Singapore-based Kickstarter campaigns.

This highlighted a surprising finding: The onset of the pandemic didn't seem to affect interest in and contributions to crowdfunding campaigns – entrepreneurs remained fairly successful in acquiring funding over the past year.

One example is the Kickstarter campaign for REISE Resolute watches. The Resolute achieved its funding goal of S\$30,000 within 6 minutes. By the end of the campaign, the company raised a total of S\$179,381 – nearly 6 times its funding target.

## Unexpected challenges

The pandemic has led to unexpected challenges for SMEs around the world. Some businesses have responded to the difficulties and disruptions by nimbly redefining their business models and re-deploying resources and energies into innovative ventures. These efforts typically require major changes, with longer-term implications to the business, and may not be suitable for some businesses.

Reward-based crowdfunding, with digital infrastructure and a market mechanism in place, is a potential alternative channel for businesses to reach new consumers during this period of change and beyond.

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