

## Current Status of Korean Crowdfunding Industry and its Applicability to Agrifood Sector

Young Geul Yoo<sup>1</sup>, Young Chan Choe<sup>2</sup>

<sup>1</sup> First author, Seoul National University Agricultural Economics and Rural Development, 200-8201, Gwanak-ro 1, Gwanak-gu, Seoul, 151-921, fourmis84@snu.ac.kr

<sup>2</sup> Corresponding author, Seoul National University Agricultural Economics and Rural Development, 200-8201, Gwanak-ro 1, Gwanak-gu, Seoul, 151-921, aggi@snu.ac.kr

**Abstract.** With the development of social media, crowdfunding has emerged as new funding method of individuals or organizations. This study is for finding out the applicability and success strategy of crowdfunding in agrifood sector through analyzing the status of current crowdfunding industry in Korea. Crowdfunding on agrifood project is unusual in Korea, but it has great potential because of its high success rate. We classified crowdfunding projects on agrifood into 3 types, presale, event, and funds for operation cost. As a result, it is analyzed that a design that considering the characteristics of social media using classes, active promotion by the project creator himself, realistic funding goal, option and rewarding system, and active communication using social media are factors successful funding. Crowdfunding is a useful tool which can strengthen the relation between agrifood producers and consumers. Through continuous research and application, we will have to strive to make trustworthy and sustainable food community.

**Keywords:** Crowdfunding, Social funding, co-producer, Social media, Entrepreneurial finance, Social networks

### 1 Introduction

Due to globalization of food business and changes in eating habit, agricultural reality of Korea is getting worse every day. The population of farm family decreased by 18.9% in 10 years from 3.59 million people in 2002 to 2.91 million people in 2012, and even they are suffering from 27 million won of debt[1]. In addition, consumers cannot trust their food security because of high food mileage and multi-levels of processing procedures. To reduce this difficulty, rural people are making a lot of efforts. Some examples are improving the distribution system through direct marketing, adding new value through processing agricultural products or managing rural tourism, and recovering trust through eco-friendly production. But even these are difficult to carry out due to insufficient funds, making a lot of them depend on the government's support fund, and they could face a bigger problem if they can't acquire stable consumption base in short-term. Agriculture has a long payback period and is greatly influenced by the climate. These characteristics make its risk higher. Therefore, forming a connection with the consumers and getting support from them before trying a change will be very helpful for rural people.

In this perspective, crowdfunding can be a good tool to connect the producers and consumers of agrifood. Crowdfunding is an activity of collecting fund from multiple individuals to support certain individual, organization, activities, or businesses through internet or social media [2]. Since Indiegogo [3], a platform for crowdfunding, first showed up in 2008, crowdfunding industry has been growing fastly. In 2013, worldwide market size is estimated to be about 6.4 billion dollars [4]. Crowdfunding is developing into a lot of different forms, from raising funds for start-up corporates to funds for cultural, artistic, or public projects.

Application of crowdfunding in agrifood sector can provide a huge help in foundation of small businesses and stabilizing cash-flow of small farmers. Because it reduces pressure on financing and sales, the producer can make their products in the way he want without anxiety. Also, unlike other agrifood transaction, relationship between producers and consumers grow up during the funding process. This leads to interest and active participation of consumer which can result additional purchases and popularity.

However, we can't find many cases of crowdfunding in the field of agrifood in South Korea. And researches on it are also insufficient. This paper aims to search applicability of crowdfunding in agrifood sector and draw successful strategies through checking into current status and studying on cases of application. To do this, we studied 5 platforms, Ucanfunding[5], Tumbbug[6], Ohmycompany[7], Goodfunding[8], and Wadiz[9] which have relatively large amount of investment among the reward based crowdfunding platform in South Korea. And we compared the result with Kickstarter[10] of U.S.

## 2 Concept, expectation, success factors of crowdfunding

Crowdfunding refers to all financing acts of raising necessary fund from the crowd using online platform and appropriate reward mechanism to materialize a creative project[11]. Crowdfunding can be distinguished as equity based, lending based, reward based, and donation based depending on the investment method and purpose[12]. This study is aimed at reward based crowdfunding. Reward based crowdfunding is a type that multiple sponsors support the project of a fund-raiser financially and getting rewarded with other forms of rewards other than the money. It can be distinguished into two types depending on the funding method, the first is 'all or nothing' where fund is given only when funding goal is accomplished, and 'keep it all' where all fund is provided regardless of funded money[13].

Through the proceeding of crowdfunding, project creator can get not only funds but also various helpful effects for the success of the project. Backers actively participates in mentoring, feedbacks, and promotions to make sure the project succeed[14]. The project creator can check point for improvement through this. Also, participants sometimes form a supporting community and play a role as a co-producer[15]. In case of pre-sale type of crowdfunding, it can help the pricing of products or services[16].

For the success of crowdfunding, active participation of friends and fans in early funding, promotion through social media, and communication effort of a creator such as information provision are important. Alexey Moissejev[17] proved that the

number of ‘likes’ in Facebook greatly affected the funding rate, goal achievement, and number of participants. Personal network of project creator and quality of project greatly affects the success of the project as well[18]. The research of Venkat Kuppuswamy[19] found that information update can help the additional funding. In addition, it was proved that when a certain number of participants are acquired, additional participation will occur slowerly due to the bystander effect, and there will be more joining participants once the deadline is getting close.

### 3 Current status of Korean crowdfunding industry

In south Korea, the number of crowdfunding platforms in 2013 was about 20, and market size is estimated to be around 40 billion won. But the biggest part is lending based and reward based crowdfunding, which is the focus of this research is expected to have about 3 billion~ 4 billion won worth of market size[20]. The result of investigation on the projects in 5 platforms of Korea from March 2013 to February 2014 showed that the amount succeeded in funding was about 3.45 billion won, and 681 projects succeeded in getting financed. And it was shown that the number of successful projects in platforms that take solely ‘all or nothing’ type is more than that of platforms which take ‘Keep it all’ type also. Especially, Tumblr’s accumulated success rate was 65.7% which was a lot higher than the world biggest crowdfunding platform, Kickstarter’s 43.6%. Success rates of Ohmycompany and Goodfunding were relatively low, and these platforms are focused on social projects.

Secondly, we looked into the category-ratio of platforms that have more than 50 successfully funded projects in research period. By comparing with Kickstarter’s accumulated project ratio, we were able to see the differences between Korean platforms and that of U.S. Commonly, music, movies, and publishing made up the most part. It was unusual that sponsorship and comic category were shown relatively high, and ‘Wiki Seoul’ category that ran funding by partnering with Seoul City’s Social Economy Idea Competition was distinctive too.

**Table 1.** Reward-based crowdfunding platforms inSouth Korea(Mar/2013~Feb/2014)

Platform	Fundingtype	Launched projects	Raised funds	Success rate	Main field
Ucanfunding	All or Nothing	173	1,338,038,200	unknown	Art and culture, Non-profit business
tumblbug	All or Nothing	347	1,321,329,749	65.7% (cumulative)	Art and culture
Ohmycompany	Keep it all	31	467,683,961	12.5%	Non-profit business
Goodfunding	All or Nothing, Keep it all	91	216,968,200	14.0%	Non-profit business, film
Wadiz	All or Nothing, Keep it all	39	101,422,955	51.3%	Various
Total		681	3,445,443,065		

On the other hand, there were only 12 projects related to agrifood out of 735 projects from the five platforms, which is only about 1.6%. For Kickstarter of U.S., food category took about 4.0%, about 5,500 accumulated funding projects were done, and has 40.1% success rate. Just like this, crowdfunding in Korea is too weighted towards the cultural/artistic fields and sponsorship for social business. Accordingly there are very little trial in agrifood sector.

**Table 2.** Top 10 categories of crowdfunding platforms (2013.3~2014.2)

Ucanfunding	tumblbug	Goodfunding	Kickstarter (cumulative)
Music (21.8%)	Music(18.4%)	Film(27.9%)	Film & Video (24.6%)
Sponsorship(20.7%)	Comics(15.0%)	Wiki Seoul (14.7%)	Music (20.4%)
Performance&Dance (12.8%)	Film & Video(13.3%)	Venture/Start-up(14.7%)	Publication (12.1%)
Design&Tech (11.7%)	Publication(12.7%)	Publication(9.3%)	Art(8.9%)
Comics(6.9%)	Design(11.5%)	Music(4.7%)	Games (6.5%)
Film & Video(5.3%)	Art(9.2%)	Life(3.1%)	Design (5.2%)
Art & Photography (4.8%)	Theater(8.4%)	Jump-up 2013(3.1%)	Theater (4.2%)
Publications(4.8%)	Games(7.2%)	Art (3.1%)	Food (4.0%)
Sports (4.3%)	Photography(2.0%)	Health (2.3%)	Fashion (4.0%)
Games(2.7%)	Food (0.9%)	Environment (2.3%)	Photography (3.0%)

#### 4 Case analysis of crowdfunding in agrifood sector

For drawing strategy for invigorating and success of crowdfunding in agrifood area, we investigated cases of Korea. Crowdfunding in agrifood field appears in many different shapes. There are many different cases of projects such as funding for making a community farm, foundation of small business, pre-sale for something(cooking equipment, farm products, processed farm products, garden equipment and so on), farm operation cost, facility cost, farming education management cost, supporting events(market, party), and publishing a cookbook.

We analyzed 10 of 12 agrifood projects in Korean crowdfunding platform. and while 8 of the projects succeeded in funding, 2 other projects were partially funded through 'keep it all' type funding. We could see that projects with many participants generally had many comments, number of updates and Facebook likes. Success rate of funding was 80%, and projects that didn't reach the goal also got 61% of total amounts by average. In this research we classified crowdfunding projects on agrifood into 3 types, presale, event, and funds for operation cost. With this, we checked the

characteristics and factors for success or failure of each cases. The list of projects is on [Table 3].

**Table 3.** Cases of crowdfunding on agrifood projects in South Korea

Type	Project name	No. funders	likes	Comments	Updates	Funding goal (thousand won)	Raised money (thousand won)	Success or Failure
Presale	Organic beef "Jeoktowo"	11	6	0	0	5,000	3,219	Partially funded
	2013 Farming fund	23	2	0	0	4,100	2,390	Partially funded
Event	3 <sup>rd</sup> Snack exhibition	96	678	4	14	2,500	2,647	Success
	2 <sup>nd</sup> Space Yaknyum festival	16	1	0	0	500	502	Success
Fund for operation cost	Gwangheungchang Rooftop project	106	425	26	1	10,000	10,896	Success
	Real Cereal	77	399	23	0	3,000	3,187	Success
	Sandeul Farm's perfect egg	50	62	5	1	1,000	1,286	Success
	Natural Farming for our children's health	26	40	2	1	2,000	2,040	Success
	Build 'Café' Shall We together'	104	85	14	2	4,000	4,135	Success
	Build animal's house in Green tea farm	50	1	0	1	5,000	5,065	Success

Presale type is funding projects before the production stage of food. Both projects were done through 'keep it all' way, and only succeeded in getting 50~60% of the target money. Among these, by participating in the operation of 'farming fund', we could see why this project failed in successful funding. Backers could not make sure of the reliability of the organizer because there were no significant performances before the project. Moreover, it was analyzed to be an obstacle that funding cost was much higher than market price of main reward. Furthermore, participants found it inconvenient to go through membership process of the platform. It can be a main reason too that the contents of the project were not considered attractive to the people in their 20's~30's who are the main users of social media.

Event type is a funding for the events related to agrifood, such as opening a market, launching a festival or making educational event. Two cases succeeded in funding by providing enjoyable opportunities which people can't normally experience. Among these, 'the 3rd snack exhibition' has a bigger meaning because it had a characteristic of supporting an event for many groups rather than just an individual or an organization. It was designed for many people to participate without any hardship by dividing the funding option into 6 levels, from 5 thousand won to 300 thousand one. Rewards were composed of things that can be received only in event day, such as snack exhibition badge, poster, bag, candles, souvenirs, a drink coupon and gift

certificate for the event. The hosts continuously promoted this event through social media such as Facebook pages and Youtube, and it recorded 678 Facebook 'likes'. Aside from these, it could be a success point that they already have many fans from finishing same events twice before funding.

Funds for operation cost are supporting essential operation expenses such as cost for setting up company, equipment, research and development. Mainly these projects have social benefit, or can help to produce healthy food. All of them reached the funding goal by emphasizing the sincerity and expected effect.

Among these, 'Pajeori Gwangheungchang Rooftop Project' that recorded the highest funding amount was able to attract many people to participate through various levels of funding option and rewarding system similarly with 'snack exhibition' case. Main factors for success were existence of supporting groups through various activity in the past and active promotion by internet community, blog, and Facebook. Furthermore, they could get many favors from local residents by providing a space where can enjoy together and by explaining the usage of money and expected effects in details.

## **5 Applicability and success strategy of crowdfunding in agrifood sector**

By summing up the results of study, we looked into the possibility of crowdfunding in agrifood sector and made success strategies. Unlike cultural/artistic sectors that are mainstream of crowdfunding, agrifood sector has the advantage because it produces essential goods that are consumed by all the time in daily life. Consequently, it is easy for project creators to reward with their products and they can provide additional participation opportunities by using spaces such as farms and restaurants. Project participants can have chance to get trustworthy foods constantly in daily life by supporting the producer.

However, as we can see in the 'farming fund' case, there are many things to consider when designing a project for the success of crowdfunding.

Firstly, we need to consider who mainly use social media. In case of Facebook, 18~34 years old people make up about 63% of the entire users in South Korea[21]. Projects should be designed with considering that the consuming classes are different depending on the type of food and this should be considered during the promotion as well to have successful funding.

Secondly, due to re-participation rate of Korean crowdfunding platform is low[22], the project should be promoted by efforts of creators themselves. It can be very helpful to retain supporting community by enthusiastic activities beforehand like 'snack exhibition' and 'Pajeori' cases. Using social media efficiently with concentrated marketing in early funding phase and constant updates can be effective. In case of the projects that attract participation, creator should consider geographical factors and try to form a network with the nearby communities beforehand.

Thirdly, funding goal, option and rewarding system should be designed realistically. Just like 'farming fund' case, when amount of payment is high, people can feel uneasy in supporting the project. Lowering the wall of participation by

setting various funding options, such as starting from 5 thousand won, will be very helpful. Getting funded by many people with small amount can be a great help in the long-term in sense of promotion and network construction. In case of providing food as a reward, there is disadvantage that the participant can easily compare the funding amount with the market price. Project design with emphasizing that it's not about just selling food, or setting the price of the products not too high compared to the market price.

Fourthly, from the preparation stage, creators should seek perfection through active communication using social media. By using this, they can improve the design of project by getting feedbacks from the potential funders for all parts such as introduction of the project, funding goal and design of rewards.

## 6 Conclusion

We have discussed about applicability and success strategies of crowdfunding in agrifood sector through literature reviews and analysis of current status and case study. In Korea, crowdfunding on agrifood project is unusual, but it has great potential because of its high success rate. Crowdfunding in agrifood sector can be applied for various areas of food system, from supporting people related with foods, to preserving traditional foods and rural landscapes. As explained so far, if project creators use social media adequately, they can design the project more realistically and attractively, and it can also helpful in constructing a support basis. Crowdfunding holds huge meaning because consumers who were only consuming food become co-producers. By recovering connections between the farmers and urban people one by one, farmers can produce food without anxiety and citizens can safely maintain healthy diet. We expect that crowdfunding could be the trigger for resolving the difficulties our agriculture facing now.

**Acknowledgments.** This research was supported by the MSIP(Ministry of Science, ICT and Future Planning), Korea, under the CITRC(Convergence Information Technology Research Center) support program (NIPA-2014-H0401-14-1008) supervised by the NIPA(National IT Industry Promotion Agency)

## References

1. e-National Index, <http://www.index.go.kr> (accessed March 25, 2014)
2. MK News, <http://news.mk.co.kr/newsRead.php?year=2012&no=719520>(accessed March 25, 2014)
3. Indiegogo, <https://www.indiegogo.com>
4. Kirby, E., Worner, S.: Crowd-funding: An Infant Industry Growing Fast, IOSCO, Madrid (2014)
5. Ucanfunding, <http://www.ucanfunding.com>
6. Tumbbug, <http://tumbbug.com>

7. Ohmycompany, <http://www.ohmycompany.com>
8. Good funding, <http://www.goodfunding.net>
9. Wadiz, <http://www.wadiz.kr>
10. Kickstarter, <http://www.kickstarter.com>
11. Jeong Hwan, P.: A Study on Promoting Crowd-funding as an Alternative Solution to Unresolved Financial Needs of Social Enterprises, Sungkonghoe University, Seoul (2013)
12. Dong Woo, K.: Current status and effect of crowdfunding industry, KB Research Institute, Seoul (2012)
13. Castrataro, D.: Crowdfunding Platforms: To Each Their Own., Social Media Week. January 2, 2012. [http://socialmediaweek.org/blog/2012/01/crowdfunding-platforms-to-each-their-own/#.Uz5mffl\\_tNk](http://socialmediaweek.org/blog/2012/01/crowdfunding-platforms-to-each-their-own/#.Uz5mffl_tNk) (accessed March 25, 2014)
14. Hui, J. S., Greenberg, M. D., Gerber, E. M.: Understanding the Role of Community in Crowdfunding Work. In CSCW 2012 Workshop on Design Influence and Social Technologies: Techniques, Impacts and Ethics (2014)
15. Ordanini, A., Miceli, L., Pizzetti, M., Parasuraman, a.: Crowd-funding: transforming customers into investors through innovative service platforms. *Journal of Service Management*, 22(4), 443–470 (2011)
16. Belleflamme, P., Lambert, T., Schwienbacher, A.: Crowdfunding : tapping the right crowd. *Journal of Business Venturing*, Forthcoming, CORE Discussion Paper No. 2011/32 (2011)
17. Moissejev, A.: EFFECT OF SOCIAL MEDIA ON CROWDFUNDING PROJECT RESULTS. University of Nebraska (2013)
18. Mollick, E.: The dynamics of crowdfunding: An exploratory study. *Journal of Business Venturing*, 29(1), 1–16 (2014)
19. Kuppaswamy, V., Bayus, B. L.: CROWDFUNDING CREATIVE IDEAS: THE DYNAMICS OF PROJECT BACKERS IN KICKSTARTER. University of North Carolina (2013)
20. News tomato, <http://www.newstomato.com/ReadNews.aspx?no=453436> (accessed March 25, 2014)
21. Socialbakers, <http://www.socialbakers.com/facebook-statistics/south-korea> (accessed April 1, 2014)
22. In Jeong, P.: Analysis of Strategy through Case Studies of Crowd Funding in Culture and Art Industry, Kyung-Hee University (2013)

## Appendix

Internet links for cases in Table 3

Type	Project name	URL
Presale	Organic beef ‘Jeoktowo’	<a href="http://www.ohmycompany.com/IF4_board/list.php?bbs_code=von_project&amp;seq=103">http://www.ohmycompany.com/IF4_board/list.php?bbs_code=von_project&amp;seq=103</a>
	2013 Farming fund	<a href="http://www.ohmycompany.com/IF4_board/list.php?bbs_code=von_project&amp;seq=42">http://www.ohmycompany.com/IF4_board/list.php?bbs_code=von_project&amp;seq=42</a>
Event	3 <sup>rd</sup> Snack exhibition	<a href="https://www.tumblrbug.com/ko/gwajajun">https://www.tumblrbug.com/ko/gwajajun</a>
	2 <sup>nd</sup> Space Yaknyum festival	<a href="https://tumblrbug.com/ko/yaknyumfestival">https://tumblrbug.com/ko/yaknyumfestival</a>
Fund for operation cost	Gwangheungchang Rooftop project	<a href="https://www.tumblrbug.com/ko/pajeori">https://www.tumblrbug.com/ko/pajeori</a>
	Real Cereal	<a href="https://www.tumblrbug.com/ko/realseereal">https://www.tumblrbug.com/ko/realseereal</a>
	Sandeul Farm’s perfect egg	<a href="http://www.wadiz.kr/Campaign/Details/57">http://www.wadiz.kr/Campaign/Details/57</a>
	Natural Farming for our children’s health	<a href="http://www.wadiz.kr/Campaign/DetailsProgress/12">http://www.wadiz.kr/Campaign/DetailsProgress/12</a>
	Build ‘Café ‘Shall We together’	<a href="http://www.wadiz.kr/Campaign/Details/9">http://www.wadiz.kr/Campaign/Details/9</a>
	Build animal’s house in Green tea farm	<a href="http://www.ucanfunding.com/project/view.php?num=53">http://www.ucanfunding.com/project/view.php?num=53</a>