

# **The Chinese-style Crowdfunding Business Model Case Study (4): LOGOS Capital Canada**

**Jiawei Zhang and Jing Li**

## **Company Profile**

### Brief History:

Mr. Wang Aiwen and 16 investors founded Logos Capital in 2016. The company is the product of Mr. Wang's continuous exploration and practice based on Chinese-style crowdfunding. The company built a platform based on the concept of virtual capital. The main goal is to raise capital and to showcase high-quality projects. The company has a board of directors, a board of supervisors and shareholders. While the company has a similar management model compared to its competitors, they are different in terms of their investment strategies.

### Scale:

Logos Capital went through two stages in its fundraising process. During the first stage, equity investment reached \$30 million while equity investment increased further during the second stage with \$51 million.

### Competitive Advantages:

Investment companies that are established under the concept of virtual capital differ from conventional investment companies. Logos Capital's organizational structure is the only similarity with their conventional counterparts, as their day-to-day operations resembles more of a project-based company. The company is comprised of 17 shareholders who have adopted the core concepts of Logos Capital. Conventional companies collect money from investors and they are responsible for finding investment projects. Investors do not take part in the decision-making process. In contrast, Logos Capital, based on the Chinese-style crowdfunding model, provides a platform for investors/shareholders to exchange ideas and views on different projects. At the same time, investors act as operators and decision-makers, with the ability to make decisions on whether to invest in projects using the platform.

In Logos Capital, projects on the platform come from recommendations of shareholders who may have already had equity in their recommendation projects. The shareholder(s) who initiated the project is responsible for all the risks involved in the preliminary stages of the project, including business case analysis, and deposit payment. Once a decision has been made collectively to invest in a particular project, Logos Capital will then put down 20% of the total investment for the lead investment, and this amount would be the first to be forfeit if the project is running at a loss. For example, if the project loses money in its subsequent operation, the 20% put down by Logos will be the first to incur the loss. Once that 20% has been used up, then the other investors will start to incur losses. One significant advantage of this setup is to take the interests

of the common investors into full consideration and it is then easy to find and raise funds for projects.

## **Interviewee Profile**

Mr. Wang immigrated to Canada more than 20 years ago. He has 16 years of experience in international finance. His business includes foreign currency exchange, financing, investment, short-term business loans, and notes financing. In the last 5 years, he has incorporated different financial concepts into the field of overseas real estate. It combines the operation models in capital finance with real estate development—the business operation concept of “financial real estate”.

## **Q&A**

### **1. What is your understanding of crowdfunding?**

**Mr. Wang:** I think the concept of traditional crowdfunding is fairly well known and does not need further elaboration. The core idea is to raise money from people to support projects that are too costly for individuals. The concept of crowdfunding comes from North America. However, we did not exactly replicate the model in its original form. Instead, we adopted the term “crowdfunding” and gave it a different, niche definition. I think we need to discuss why that’s the case. I’m Chinese, but I’ve been living in North America for more than 20 years. I’m very familiar with the concept of crowdfunding, but I’m not too fond of it. North American style crowdfunding is fundamentally different from the type of crowdfunding that we advocate. Our version is the Chinese-style crowdfunding promoted by Professor Zhang Jiawei. One of the core concepts requires crowdfunding initiators and co-initiators to be dedicated and devoted to the project. Therefore, it is crucial to have good leaders. In Chinese-style crowdfunding, raising human capital takes priority, followed by raising intellectual capital, and then monetary capital. Let’s use Logos Capital as an example: this is where people exchange ideas and information on a platform—to build and showcase their different skill sets. Another core value of Chinese-style crowdfunding is to recognize people’s strengths, not their shortcomings. This is what we frequently refer to as the “Theory of the Longest Board.” The project will only be successful if we acknowledge each person’s strengths and put these strengths together.

### **2. In which aspects of its business did your company utilize the Chinese-style crowdfunding model?**

**Mr. Wang:** The founding and operation of Logos Capital by myself and 16 other co-founders are based entirely on this model.

### **3. At that time, did you consider other business models besides the Chinese-style crowdfunding?**

**Mr. Wang:** People like to follow familiar paths or traditional paradigms when it comes to selecting business models. Professor Zhang had a great deal of influence on me in the last few years and helped me on many occasions. When I first started thinking of how to apply the new

concept of “financial real estate”, I tried to use the Chinese-style crowdfunding business model without any help. However, I lacked the theoretical knowledge. I needed to know more theoretical foundations in order to have a higher chance of success for the company. Professor Zhang gave me fresh perspectives on the Chinese-style crowdfunding, which helped perfect my business models. An advantage of Professor Zhang’s theories is that they focused on real-life applications. I faced questions such as what kind of problems I would likely encounter by applying these theories and how to solve them. We would discuss these questions thoroughly when we encounter these problems. When you realize that the theory of the business model is in sync with its practice, it would help you to adopt, apply, and promote it.

#### **4. What are the main contributors to the success or failure of the Chinese-style crowdfunding?**

**Mr. Wang:** The initiators! The central idea of this business model is to raise human capital by bringing people together. People are the most important element; hence we should also remember that the biggest uncertainty in this model lies in its initiators. There will be risks in adopting this model if initiators are not dedicated to the project or if they focus solely on short-term gains. Some people may argue that “others have claimed to have applied the same model, and how can you pass such negative judgment?” In fact, some people may borrow the name of a particular business model and do something completely different. Therefore, some business models may be called “Chinese-style crowdfunding” but are nothing like it in its practice.

#### **5. How has the business model of Chinese-style crowdfunding benefited your company?**

**Mr. Wang:** In my 16 years of experience in finance, I have come to the realization that businesses cannot be accomplished on your own. In other words, a one-man-shop will never achieve scale or become truly prosperous. We have chosen this business model because it joins people together and provides protection against potential risks. Each person bears only a small percentage of the risk because the business is owned by a large group of people with a common objective. It is important to have people with common goals and therefore, selecting the right people is crucial. When people come together, their collective talents and resources will exceed anything an individual is able to offer. What one person can do is vastly different from what a group of people can do, no matter what stage the business is in, be it the initial development of corporate philosophy or marketing down the road. We should avoid being too practical when judging others and refrain from asking questions like “is he rich?” or “what can he do for us?” It is important to keep in mind that no matter what kind of business you are in, there is always a chance that others can contribute valuable ideas or resources. However, it is certain that these contributions will be linked to the formation and development of this platform in addition to inspirations and encouragements from fellow team members. This exemplifies the concepts of “nuclear fusion effect” in the Chinese-style crowdfunding. The potential power that can be harnessed from a group of people will often exceed our wildest imagination.

#### **6. What are the challenges that you think the Chinese-style crowdfunding model will bring to your company?**

**Mr. Wang:** The biggest challenge lies in the selection process. This is what Professor Zhang calls “the familiar stranger” concept. Team members need time to become familiar with each other when building a project based on the Chinese-style crowdfunding. Failing to familiarize with each other will produce uncertainties in future collaborations and create internal friction within the company. This so-called “internal friction” is also known as “unnecessary voices”. The team will not be sure that they have the same goals or values without the familiarization process. They cannot be sure if they can form an effective team and create synergy. It is not that we do not like to hear different voices or opinions. On the contrary, we love different voices. If you sit in a meeting at a successful and renowned corporation, you will notice people will not blindly agree with an idea. People will talk about it during meetings and try to improve it. For example, if the leader says, “let’s head East”, someone may suggest: “what about 15 degrees North of East?” Or another may suggest: “What about 20 degrees South of East?” Regardless, they suggest a variety of similar directions. Now let’s imagine a different scenario: the leader says, “let’s head East,” and someone suggests that they should head West. In this case, it would be difficult to continue their discussion and reach consensus.