



# Crowd Funding-An Alternative Source of Investment-An Overview

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## **Introduction**

Crowdfunding is a way of levitation money to finance projects and businesses. It empowers fundraisers to collect money from a large number of people via online platforms. Crowdfunding is most often used by startup companies or growing businesses as a way of accessing alternative funds. Retrieving and raising capital is key to the growth of any company. It can be easy for larger, more established corporations to raise money from investors or to take on additional debt from their lenders. But small companies may come across hurdles that can suffocate their growth. This is especially true for startups, which is where crowdfunding comes in handy. Crowdfunding has created the opportunity for entrepreneurs to raise hundreds of thousands or millions of dollars from anyone with money to invest. It provides a forum for anyone with an idea to pitch it in front of waiting investors.

## **Review of Literature**

1. **Cumming et al (2015)** soft information about fundraising projects should also be considered. It is the information provided to inform the crowd about the project that visitors and backers can access during and after the project and the knowledge that creators commonly update on the project page to attract more backers.

2. **Younkin and Kuppuswamy (2018)**, and some combine them as visual factors to explore their effect (Colombo et al. 2015). Three additional important factors considered by most papers are *Social Network* (26 papers), *Updates* (34 papers), and *Comment* (27 papers), which can inform the crowd about the newest information and process of the projects.

3. **Kaartemo (2017)** identifies and reviews four main determinants of crowdfunding success: project-, creator-, backer-, and platform-related factors. It synthesizes and evaluates the findings in empirical research by providing examples of these determinants.

4. **Shneor and Vik (2020)** identify the general trends and research gaps concerning independent variables based on each primary crowdfunding model (i.e., reward-, equity-, loan-, and donation-based) separately. Then, they further build several integrated frameworks for the influential independent variables based on each main crowdfunding model. The independent variables have similar measurements and persistently significant effects in a direction.

## **Objectives**

1. To understand the types of Crowd funding opportunities in India
2. To know the crowd funding Apps in the economy
3. To understand the investment opportunities through crowd funding and pros and cons.

## **Methodology**

By Establishing the meaning and types of crowd funding the paper tries to explain about crowd funding. And also, it tries to establish the types of crowd funding, APPs that providing crowd funding, advantages and disadvantages of crowd funding. This paper attempts to give answers to the above questions through the data that available in online.

## **Types of Crowd Funding**

There are most traditional uses of the term reflect the type of crowdfunding done startup companies looking to bring a product or service into the world and by individuals who experienced some type of emergency. The four main types of crowdfunding that startups can choose from, each with unique advantages and specific use cases that the given type is more suited to supporting. Here's an overview of what startups need to know.

### **1. Reward-Based Crowdfunding**

With reward-based crowdfunding, sponsors contribute funds to your startup in exchange for a "reward", usually a product or service that your company offers. This model is typically used by startups that are launching a new product or service and need funding for development or production. Examples of reward-based crowdfunding platforms include Kickstarter and Indiegogo.

Reward-based crowdfunding is a popular method for raising funds, especially for creative projects or new product launches. Below are some of the key pros and cons.

## Pros of Reward-Based Crowdfunding:

- **No Equity Sacrificed:** Unlike equity-based crowdfunding, reward-based crowdfunding doesn't involve giving up ownership in your company.
- **Market validation:** Reward-based crowdfunding allows you to assess market interest in your product or service. If your campaign succeeds, it's a good sign that there's a market for what you are selling.
- **Pre-Sales and Marketing:** Crowdfunding campaigns can also act as a pre-sale of the product, generating publicity and providing an initial customer base.
- **Community Building:** Crowdfunding platforms provide a way to communicate and engage with sponsors. This can help build a community of supporters who might help spread the word about your product or service.

## Cons of Reward-Based Crowdfunding:

- **All-or-Nothing Funding:** Many crowdfunding platforms operate on an all-or-nothing basis, which means that if you don't hit your funding goal, you don't receive any money. This isn't always true, but it's not uncommon.
- **Fulfilling Rewards:** It is important to deliver on promised rewards, which could be more time-consuming or costly than anticipated. Not fulfilling rewards can lead to reputation damage or even give supporters grounds to ask for their funds back.
- **Unpredictable Success:** Not all campaigns succeed, even if your idea is good. Success can depend on many factors, including the quality of the campaign, timing and sheer luck. A startup might invest considerable time in launching a campaign, only to have it fall flat. Additionally, an unsuccessful campaign might erroneously give founders the impression that their business idea is not viable or that there is no strong market demand.
- **Public Exposure:** Your idea is shared publicly, which could lead to someone else copying it. You need to balance the need for publicity with the risk of revealing too much.
- **Fees:** Crowdfunding platforms typically charge a percentage of the funds raised as a fee, sometimes with additional processing fees.

## 2. Equity Based Crowd Funding

With equity-based crowdfunding, backers receive shares of your company in return for their investment. This form of crowdfunding is used most often by startups with high growth potential, as it allows them to raise larger amounts of money in exchange for a stake in their company's future profits. Seed Invest and Circle Up are popular platforms for equity-based crowdfunding.

### Pros of equity-based crowdfunding:

- **Larger amounts of capital:** Since investors are purchasing a stake in the future success of the company, they may be willing to contribute larger amounts than in reward-based crowdfunding. This can allow startups to raise significant funds.
- **Long-term investor relationships:** Unlike reward-based crowdfunding, where the relationship typically ends once the reward has been delivered, equity crowdfunding can result in long-term relationships with investors who have a vested interest in the ongoing success of the company.
- **Access to expertise and networks:** Investors often bring their own expertise, experience and networks, which can be valuable resources for early-stage companies.

### Cons of equity-based crowdfunding:

- **Loss of Ownership:** By offering equity in your company, you are giving away a portion of your ownership, which might mean sharing control and decision-making.
- **Regulatory Complexity:** Equity-based crowdfunding is subject to more complex laws and regulations than other forms of crowdfunding. This may require legal counsel and can result in substantial legal costs.
- **Increased Reporting Requirements:** Companies with many shareholders often have to provide regular updates and financial reports to their investors. This can be time-consuming and require additional administrative resources.
- **Pressure for Returns:** Unlike reward-based crowdfunding, where backers are happy to receive the product or service, equity investors seek a financial return on their investment. This can increase the pressure on the company to perform and provide returns.
- **Potential for Dilution:** If you raise more equity funding in the future, the percentage of the company owned by earlier investors (including crowdfunding investors) may be diluted. This can lead to dissatisfaction among investors if not handled correctly.

### 3. Debt Based Crowd Funding

Also known as "peer-to-peer lending" or "P2P lending", debt-based crowdfunding is similar to a traditional loan. Instead of getting a loan from a bank, you'll be getting a loan from a crowd of investors. The startup agrees to pay back the loan with interest over a specified period of time. Lending Club and prosper are well-known platforms for debt-based crowdfunding.

## Pros of debt-based crowdfunding:

- **Retention of ownership:** Unlike equity crowdfunding, you don't have to give up any ownership stake in your company. Once the loan is paid, your obligation to your investors ends.
- **Faster process:** The process for securing a loan through debt-based crowdfunding can be faster than through traditional banks. The qualification requirements may also be less strict.
- **Fixed repayment schedule:** You'll have a fixed repayment schedule, which can be easier to plan for than the unpredictable nature of equity investments.
- **Potentially lower costs:** Depending on the interest rate that you secure and the length of your loan, debt-based crowdfunding can sometimes be a cheaper form of finance than equity-based crowdfunding or other types of loans.

## Cons of debt-based crowdfunding:

- **Obligation to Repay:** Unlike other forms of crowdfunding, the money that you raise through debt-based crowdfunding must be paid back with interest. This is a fixed expense that you'll need to plan for, regardless of how well your business is doing.
- **Interest Costs:** The cost of the loan includes not just the principal amount that you borrow, but also the interest that you'll pay over the life of the loan.
- **Risk to Credit Score:** If you're unable to make your loan repayments, your credit score may be affected, which can impact your ability to secure financing in the future.
- **Secured Loans Risk:** Some debt-based crowdfunding might require collateral or a personal guarantee. If the loan isn't repaid, you risk losing the assets that you've pledged as collateral.

## 4. Donation Based Crowd Funding

This model is commonly used by non-profits, social entrepreneurs and startups, where the "return on investment" is not financial, but a social good or some form of community benefit. Backers donate money to the project because they believe in the cause, not because they're expecting a financial return. GoFundMe is a well-known platform for donation-based crowdfunding.

## Pros of donation-based crowdfunding:

- **No Repayment or Equity Exchange:** Backers donate the money to your project or cause, so you don't have to worry about repaying a loan or giving up a share of your business.
- **Support for Social Causes:** Donation-based crowdfunding is particularly effective for projects or causes that have a social, charitable or community focus. People are often willing to donate money to support causes that they care about.
- **Community Engagement:** This form of crowdfunding can be a good way to build a community of supporters who are emotionally invested in your project or cause.

## Cons of donation-based crowdfunding:

- **Limited Appeal:** Donation-based campaigns often rely on the emotional appeal of the project or cause, which might limit their appeal to a wider audience. These campaigns may be less successful for commercial projects.
- **Lack of Guaranteed Funding:** As with other forms of crowdfunding, there's no guarantee you'll reach your funding goal. And on some platforms, if you don't reach your goal, you won't receive any funds.
- **Public Exposure:** As with other forms of crowdfunding, your idea is public, which could lead to someone else replicating it.
- **Platform Fees:** While the money you raise doesn't have to be paid back, most platforms charge a fee based on the amount of money you raise.

## Popular Crowd Funding websites

Crowdfunding websites such as Kickstarter, Indiegogo, and GoFundMe attract hundreds of thousands of people hoping to create, or support, the next big thing.

### 1. GoFundMe

GoFundMe is the largest crowdfunding platform. Since GoFundMe was founded in 2010, the site has raised over \$25 billion through more than 200 million donors. GoFundMe is the site most popular for individuals seeking to recover from a medical expense or disaster such as a house fire, natural disaster, or unexpected emergency expense.

### 2. Kickstarter

Kickstarter is another popular choice. Founded in 2009, the platform has successfully funded almost 2,50,000 projects, with more than \$7.6 billion pledged across all Kickstarter projects.

Kickstarter is the most popular crowdfunding site for aspiring businesses hoping to raise capital and reach a larger audience. In fact, unlike GoFundMe, Kickstarter can only be used for creating projects that can be shared with others.

### 3. Indiegogo

Indiegogo started as a crowdfunding site initially focused exclusively on raising money for independent films but began accepting projects from any category a year after its launch in 2008.

Indiegogo is seen as a less strict and more flexible platform than Kickstarter, as it gives backers control over whether they want fixed or flexible models—this is probably the most significant difference between the two crowdfunding platforms. Kickstarter releases funds only after the campaign has reached its funding goal, whereas Indiegogo allows the campaigner to receive funding pro rata, or wait until their target is hit.

As a campaigner, it might be easier and less risky to go with flexible funding, such as receiving funds as they come. However, regardless of the amount raised, campaigners must still deliver on any promises made. For a backer, fixed funding is more attractive as it is associated with much less risk.

#### **4.Fundable**

Fundable is an equity crowdfunding platform you will find online. Founded in 2012, Fundable has grown to be one of the credible platforms for investors to find innovative businesses and invest in them and for businesses looking to raise funds to find serious investors.

#### **5. Ketto**

Out of all the crowdfunding sites in India, Ketto is one that was built in India in the year 2012. This platform is pretty well known for raising funds to help social causes and provide money to the underprivileged. With over 2.5+ lakh fundraisers, Ketto has raised over Rs.1100+ crores to date.

#### **6. Catapooolt**

This is a crowdfunding platform that was founded in 2013 in India. Unlike other platforms on the list, this one is not very well known. It provides options for people to list their crowdfunding projects under many different categories such as music, literature, gaming, fashion, film, events, travel, technology, sports, environment, and many more.

#### **7. Milaap**

Milaap was founded in the year 2010 and is a crowdfunding platform for personal and social causes. The platform has helped raise Rs.1,000 Cr for 2.5 lakh different causes so far.

The nature of the crowdfunding projects on this platform is similar to Ketto and can be classified under donation-based crowdfunding.

#### **8. Fueladream**

This is a relatively new crowdfunding platform compared to all the others on this list. It was founded in 2016 in Bangalore, India. Fueladream is an online platform and marketplace to raise funds for creative ideas, causes, charity & event.

### **Advantages of Crowd Funding**

The most understandable advantage of crowdfunding for a start-up company or individual is its ability to provide access to a larger and more diverse group of investors/supporters. With the ubiquity of social media, crowdfunding platforms are an incredible way for businesses and individuals to both grow their audience and receive the funding they need.

Equity-based crowdfunding is growing in popularity because it allows startup companies to raise money without giving up control to venture capital investors. In some cases, it also offers investors the opportunity to earn an equity position in the venture. In the United States, the Securities and Exchange Commission regulates equity-based crowdfunding.

## Disadvantages of Crowd Funding

Potential disadvantages of crowdfunding include the possible damage to you or your company's reputation caused by "resorting" to crowdfunding, the fees associated with the crowdfunding site, and, at least on some platforms, if you don't reach your funding goal, any finance that has been pledged will be returned to your investors and you will receive nothing.

searching for funding is challenging but necessary for startups. Multiple sources of capital are available to today's entrepreneurs. Crowdfunding, which has grown in popularity over the past decade, democratizes the financing process and provides access to capital where traditional funding options may fall short. As of 2023, the global market for crowdfunding was estimated to be worth over \$1.4 billion, a figure that's projected to double by the year 2030. Kickstarter, a leading crowdfunding platform, had hosted more than 592,000 projects as of May 2023.

Crowdfunding stands out for its versatility and reach, allowing entrepreneurs to raise funds from a broad audience. Aside from securing the necessary financial resources, crowdfunding also helps startups gain valuable market validation, establish a community of early supporters and build an exciting engagement platform for potential customers, early adopters and even investors. Below, we'll discuss the characteristics, advantages and drawbacks of the main types of crowdfunding. Understanding these various forms is the first step in determining whether crowdfunding could be the right strategy for financing your startup.

## Benefits of Crow Funding for Start Ups

Crowdfunding is an innovative way for startups to raise the funds that they need to launch or grow their businesses. And by turning to the crowd for funding, startups can reap a variety of additional benefits beyond the acquisition of funds.

The rise of the internet and social media has made it easier than ever to reach a large audience of potential investors and backers, each contributing a small amount towards a funding target. This approach not only makes the investment process more accessible, but it also provides several distinct advantages to startups.

### 1. Access to Capital

Crowdfunding provides startups with access to capital that they might not have been able to secure from traditional funding sources, such as banks or venture capitalists.

### 2. Market Validation

By presenting your idea to the public, you can gauge their interest and see if your product is something that people would actually want. A successful crowdfunding campaign can demonstrate that there is demand for your product or service and act as a proof of concept for other investors and stakeholders.



### 3. **Audience Building**

A crowdfunding campaign allows you to reach a large number of people, helping you create awareness and build an audience. Those who contribute to your campaign are likely to become your most passionate customers and vocal advocates.

### 4. **Feedback and Insights**

Through the process of crowdfunding, you can receive feedback on your product or service before it officially launches. Backers can provide valuable insights and suggestions for improvements.

### 5. **Less Risk**

Compared to traditional funding methods, crowdfunding can be less risky. You're not giving up equity or taking on debt; instead, you're exchanging your product or service for funding.

### 6. **Publicity and Marketing**

A successful crowdfunding campaign can lead to significant publicity, through social media shares and likes and traditional media coverage.

### 7. **Partnership and Networking opportunities**

Crowdfunding campaigns often catch the eye of industry leaders, potential partners and even other funding sources. This visibility can lead to strategic partnerships and further investment opportunities.

## **How to choose which type of crowd funding to use**

Choosing the right type of crowdfunding for your startup largely depends on the nature of your business, your goals and your ability to meet the demands of each crowdfunding method. Here are some factors to consider when making your decision:

- **Nature of your business or project**

If you're launching a new product or service, reward-based crowdfunding might be the best fit. If your business has a strong social or community-oriented mission, donation-based crowdfunding could be a good choice. If you're scaling a business that already has some traction and you're willing to give up equity, then equity-based crowdfunding could be the best option. If you're confident in your ability to repay a loan and want to maintain full ownership of your company, debt-based crowdfunding might be the best path.

- **Financial needs and Objectives**

Different crowdfunding methods can generate different amounts of capital. For larger amounts, equity or debt-based crowdfunding may be more suitable. If you need a smaller amount, reward or donation-based crowdfunding might suffice.

- **Market Validation**

If you need to test your product in the market, reward-based crowdfunding can provide valuable customer feedback and validation.

- **Ownership and Control**

If maintaining full control and ownership of your startup is important to you, then reward crowdfunding, donation-based crowdfunding or debt-based crowdfunding would be preferable over equity-based crowdfunding.

- **Ability to fulfil Obligations.**

Can you produce and deliver rewards in a timely manner for reward-based crowdfunding? Are you confident in your ability to repay a loan for debt-based crowdfunding? Can you manage a large number of shareholders for equity-based crowdfunding?

- **Legal and Regulatory considerations.**

Equity-based and debt-based crowdfunding can involve more complex legal and regulatory requirements than reward or donation-based crowdfunding. Make sure that you understand these obligations.

## Alternatives to Crow Funding

Startups have several crowdfunding alternatives, which can be grouped into two main categories: debt financing and equity financing.

### 1. Debt Financing.

- **Bank loans:** Traditional bank loans are a common way to finance a startup. They usually require a solid business plan and collateral.
- **Lines of credit:** Banks or credit unions also offer lines of credit, which give businesses flexible access to funds.
- **Microloans:** Non-profit organizations and online lenders offer smaller loans that are often easier to get than traditional bank loans, especially for businesses with little credit history.

### 2. Equity Financing.

- **Angel Investors:** Angel investors are wealthy individuals who invest their personal money in startups in exchange for an equity stake. They may also provide expertise and industry connections.
- **Venture capitalists (VCs):** VCs are firms that invest in startups and early-stage companies that they believe have high growth potential. In return, they usually require an equity stake and often a degree of control over the company.

- **Private Equity Firms:** These firms invest in mature companies with the aim of increasing their value and then selling them at a profit. They usually require a significant stake or outright ownership. Aside from debt financing and equity financing, here are other common ways that startups finance their operations:

### **3.Grants**

Grants from government agencies, foundations and corporations are free money that doesn't need to be paid back. They can be a great source of funding, but are often highly competitive and may require certain conditions to be met.

### **4.Self-financing**

Many entrepreneurs initially fund their businesses out of their own pockets. This might involve savings, credit cards or home equity loans.

### **5. Friends and family**

Entrepreneurs often turn to friends and family for financial support. While this can be a good way to get started, it's important to treat it as a business deal to avoid misunderstandings and strained relationships.

### **6.Business Accelerators and Incubators**

These programmes provide funding, mentorship and resources to startups, usually in exchange for a small equity stake.

### **7.Strategic Partnerships**

Some startups form strategic partnerships with larger businesses, which provide funding and resources in return for something valuable, such as access to innovative technology or entry into new markets.

Crowdfunding is just one of many ways to fund your startup – most startups don't fully depend on just one funding method. Make sure that you understand the benefits and drawbacks of each method and choose the one that best fits your business model, financial needs and long-term goals.

## **What are the Factors to consider when choosing a crowd Funding.**

### **1.Type of crowd funding**

When choosing a crowdfunding platform for your startup, you should know why and how you plan to implement your capital, whether you want to give ownership of your company in the form of equity or not.

### **2. Legal and Regulatory Compliance**

You should also know the legal and regulatory compliance in regard to the crowdfunding activity that you plan to conduct. You must especially be aware of the tax implications of the money that you raise through crowdfunding.

### **3. Trust and Reputation of the Platform**

When choosing a fundraising platform in India, make sure you do your research to check the legitimacy of the platform and ensure that it is a legal entity that has a good reputation.

### **4. Funding Goals and Time line**

You need to be smart about setting your funding goal as certain platforms like Kickstarter do not give you the raised money if it is below the target you set for yourself. It will be returned to the people who fund a particular amount.

### **5. Fees Charged**

Every crowdfunding platform charges a commission fee in order to run and process the entire crowdfunding campaign on its site. Make sure you check what the commission percentage is before you decide to start a campaign.

### **6. Target Audience**

Since the 'crowd' is going to be funding your project/product on a crowdfunding platform, make sure you also research the type of audience and people that exist on a portal. It should be people who are or might have an interest in the type of crowdfunding campaign that you plan to launch. Choose platforms that attract potential investors who will be interested in your product.

### **7. Payment Options**

The crowdfunding platform that you choose should make it extremely easy for the general public or the users of the platform to back your project. An important part of this is using a platform that offers convenient payment options for their backers.

### **8. Marketing and Promotion**

Choose a crowdfunding platform that offers help when it comes to marketing and promotional services to increase visibility and attract more investors for your project.

### **Alternative Options to raise capital to Business**

Rather than seeking funding from investors or crowd funding platforms a business can establish a revolving credit line with a financial institution such as a bank or fintech company.

Here are some ways to that a credit line act as an alternative or even aid you to fundraise through a crowdfunding platform

#### **1. Flexibility**

While the goal of crowdfunding might be a little different from that of getting a credit line, both these solutions help your business gain access to capital that can help you carry out business operations.

#### **2. Lower Cost**

Unlike crowdfunding, credit lines are a source of funds much lower than money borrowed through crowdfunding and hence is easier to repay.

### **3. Faster Access to Funds**

Other means of financing such as crowdfunding can take months to complete. A credit line on the other hand is much more accessible and instantly available to you when you need it.

### **4. Builds Credit History**

Using a credit line for your business helps you build your credit history and improve your financing opportunities in the future.

### **5. No Ownership Dilution**

In every financing a portion of the business has to be sold to investors. This is not the case when you borrow money from a credit line.

### **Conclusion.**

Crowdfunding is the platform that supports the new startups with new ideas of business and services with lack off financial support. The upcoming entrepreneurs can opt for suitable crowdfunding which suits to the idea they want to implement. The new start ups and entrepreneurs must aware about the crowd funding sources, advantages and disadvantages of Apps or platforms and must select the suitable one for the success. The innovative ideas and startups will get funding that they want and the selection lies with the entrepreneurs.

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