

Is Endowment of Crowd Funding a Supplant of Traditional Source?



Management

KEYWORDS : Crowdfunding, finance, internet, social media

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ABSTRACT

Crowdfunding is an internet supported way to run businesses or raise money either in form of donations or various investments from multiple individuals. This new form of fund raising technique has emerged since the wage of 2008 financial crisis. With limited willingness to lend money by the traditional banks, entrepreneurs started to look for capital generation from the other sources. Crowdfunding mainly caters to take advantage of crowd based decision making.. Individuals and companies seeking for project development have raised billions of dollars in debt, equity and donations for projects, using social media networks, web based communications. There are various platforms such as Kickstarter, Wishberry, Ketto, Catapoolt and Start5. In this research the scholars are focussing on the growth and success scenario of crowdfunding and of course the overwhelming evolution of this source when compared to traditional source of finance.

INTRODUCTION

Crowdfunding is a practice of funding a project or venture by raising numerous tiny/small amounts of money from a considerably large number of people, typically via the Internet. It makes use of the easy accessibility of vast networks of friends, family and colleagues through social media websites like Facebook, Twitter and LinkedIn to get the information out about a new creative or innovative business and attract aspirant investors. Crowdfunding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional narrow circle of owners, relatives and venture capitalists.

Donation crowdfunding

People invest simply because they believe in the cause. Rewards can be offered such as acknowledgments on an album cover, tickets to an event, free gifts.

Debt crowdfunding

In debt crowdfunding, investors receive their money with interest. Also called peer-to-peer lending

Equity Crowdfunding

People invest in projects or an opportunity in exchange for an equity. Money is exchanged for a share in the business.

Crowdfunding Mechanism

Step1: Create Your Fundraising Campaign by sharing your story, your project scope and the amount required.

Step2: Share your campaign on the website “gofundme”, this website has raised about \$1 billion till now. Payments for donations or projects can be made using a credit or debit card. “Gofundme” has built in connections to Facebook, Twitter and E-mail.

Step3: Money received for project can be expected by cheque or bank transfer

Step4: Once after the campaign being made and shared it is beneficial if updates are being made frequently. Dashboard should completely reveal your project scope.

Size and Growth – Activity

New Projects and Pledges during Q2 2014

	New Projects	Per Day	Pledges	Pledges/Day	Growth
WORLDWIDE	35,723	393	2,315,032	25,560	28%
USA	22,372	246	1,671,084	18,163	28%
UK	1,455	38	195,776	2,151	87%

In just the first half of 2014, crowdfunding has already captured over 3 Million Daily Project Status Snapshots (3,053,664) and the results are fascinating.

More than about 4 million backers have pledged about \$357 million and raised more than \$322 million

A new crowdfunding project is created every three minutes, with around 500 new projects created every day. The UK grew faster doubling the amount raised in the base years

Global Crowdfunding continues to grow with around 500 new projects per day and between 18,000 and 22,000 projects open and funding at any of the time.

Pledges represent the number of contributions by project backers. Growth compares total number of pledges in Q1 2004 with those for Q2 2014. These and the latest monthly figures and figures are available at TheCrowdDataCenter.com.

PERFORMANCE AND SUCCESS RATES

The highest performing categories were:

TOP 5 - MOST PLEDGES	TOP 5 - AMOUNT RAISED (FULLY FUNDED AND FLEX)	TOP 5 - MOST SUCCESS (MOST FULLY FUNDED PROJECTS)
GAMING 4,02,338	TECHNOLOGY \$81,008,681	MUSIC 1,019
TECHNOLOGY 393,887	GAMING \$23,532,880	FILM 1,018
FILM 272,595	FILM \$22,711,589	ART 667
DESIGN 229,247	DESIGN \$17,224,928	GAMING 526
MUSIC 180,373	BUSINESS \$12,392,785	PUBLISHING 497

The Top 5

SUCCESSFUL PROJECTS (FULLY FUNDED)	AVERAGE BACKERS (ON FULLY FUNDED)	TOTAL FUNDS RAISED (INCL. UNDER-FUNDED FLEX)
5,729 KICKSTARTER	751 KICKSTARTER	\$1,030 KICKSTARTER
2,643 INDEGOGO (UNDER-FUNDED FLEX)	157 INDEGOGO	\$160 INDEGOGO
570 FUNDRAZ	130 CROWDCUBE	\$120 CROWDCUBE
81 CROWDFUNDER UK	100 ROCKETHUB	\$25 FUNDRAZ / ROCKETHUB
61 ROCKETHUB (UNDER-FUNDED FLEX)	67 CROWDFUNDER UK	\$70 CROWDFUNDER UK

Kickstarter is ahead in terms of funds both pledged and raised.

COMPANIES	CATEGORY	FUND RAISED SO FAR	UP-FRONT FEES	SITE FEE	PAYMENT PROCESSING FEE
BITGIVING	Social Causes	35,00,000	Free	-	-
MILAAP	Social Causes	\$4.18 million as loan disbursed	Free	100% disbursed	
KETTO.ORG	ALL	4 Crores	Free	5%	5%
START51	ALL	16,95,062	Free	5%	-
WISHBERRY	ALL	4.5 Crores	2500+ tax	10%	-
CATAPOOOLT	ALL	75,00,000	1499	-	-

REVIEW OF LITERATURE

Kappel (2008) who examined the differences in the type of crowdfunding and the effect of the platform. Also in addition the source to this new phenomenon happened years before in 1885, when government of United States failed to get funding to build Statue of Liberty even with the donation from about 16,000 donors. Schwienbacher and Larralde (2010) gave an emphasis to define crowdfunding as the provision made for financial resources either could be in the form of a donation or in exchange of any rewards to support for an individual's projects or ventures. According to Belleflamme et al. (2012) crowdfunding projects share major characteristics: pre-purchase a product, willingness to pay and community benefits. Traditional funding doesn't provide advantages of additional utility like crowd-funders do experience and therefore might be a better option for sale or fund (Hardy, 2013). The shared characteristics can however provide the biggest differences between reward-based and equity crowdfunding. One major implication arises due to the differences in community benefits. At reward-based crowdfunding community benefits are tied to consumption but in equity crowdfunding those benefits are solely derived from the act of investing itself. The entrepreneur can exploit those facts to extract more value from each individual by behavior-based price discrimination among others (Fudenberg et al., 2005). However this opportunity inhabits other risks as soon as the entrepreneur needs to raise more money and therefore needs more crowd-funders (Belleflamme et al., 2013). The implications derived in this paper are relevant to existing research as well as the practical environment of business management or community management. Therefore all aspects of crowdfunding and its context need to be understood.

PROBLEM STATEMENT

Over the years , Crowdfunding as a source of raising funds has experienced drastic growth in market potential. However, this growth has led to problems and issues like "investor protection" since there is no regulations and regulatory body for this source of mechanism.

Also funders and investors require their returns as rewards which happens to be delivered late in the most of the cases.

Apart of regulatory body another mechanism that is to be enforced is the degree of trustworthiness which is expected by the investor on the entrepreneurs.

OBJECTIVES OF THE STUDY

The major objective of this study is to illustrate the trend of young crowdfunding market. Annually published figures depicts the Indian market and size involved in the entrepreneurship here in this report, it is also included where the researchers compared the Indian market with that of international market focusing

To study and understand the Crowdfunding scenario

To evaluate the functioning of various platforms under crowd-funding.

RESEARCH METHODOLOGY

Source of data collection: Only secondary source

Research Design applied: Descriptive research

Research technique: This research associates real life with the data that surrounds us. Observation is the key to this type of research. In this, we observe real life data to come to a conclusion. Bases on the results or the tests, researchers conclude and draw lines to predict these type of happenings with a certain level of confidence. Numerical and comparative tables are projected with the aids of statistical tools.

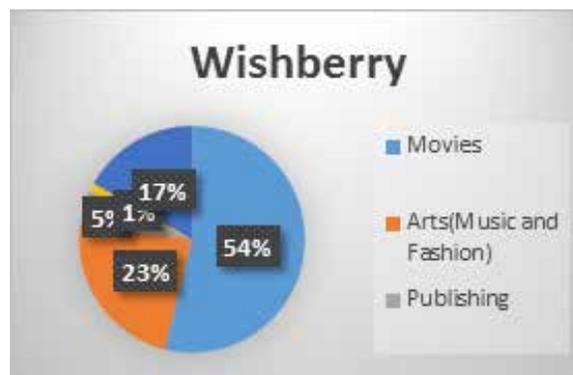
SCRUTINY AND OUTCOMES

WISHBERRY

Wishberry data is taken to demonstrate the successful campaigns raised in the Indian Platform sites. Wishberry has raised about 6.6 crore volume in amount in the year 2014 with about 11,674 backers in total. Wishberry contributes the funding given by involving about 60 countries in total. Out of 6.6 crore money pooled in this platform in the year 2014 -2015 about 3.38 crore has found to be the successful campaign.

Table:1 Total Amount and Total Number of Backers (in INR)

Categories	Amount	Backers
Movies	18254674	2217
Arts(Music & Fashion)	7823282	1335
Publishing	1705159	463
Sports	381550	120
Technology	5700911	1090
Total Amount	33865576	5225

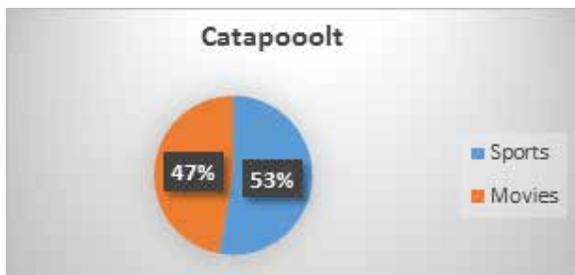


CATAPOOOLT

Catapooolt has emerged out to be contributing for funding mainly into categories of sports and Movies. Catapooolt site ranks about 252,961 in the world. The total net worth of catapooolt is about 6.36 lakhs generating about average of 872 per day in the year 2013 but now has achieved to 77 lakhs. Catapooolt is one of the most popular sites where about 99.5% of users and funders are originated from India.

Table:2 Total Amount and Total Number of Backers (in INR)

Categories	Amount	Backers
Sports	4116241	235
Movies	3671872	295
Total amount	7788113	530

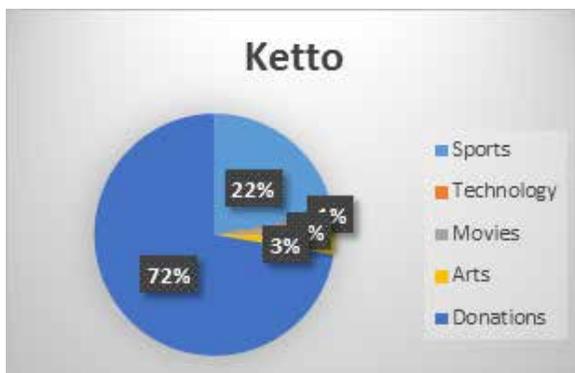


KETTO

Ketto an online crowdfunding site founded in 2012 had raised about 4.5 million for 18 campaigns in the first year. The total amount raised of the successful campaigns was 3.25crores including about 9407 backers. One of the most successful campaign in ketto was Olympic Gold Quest an NGO that supports Indian athletes.

Table:3 Total Amount and Total Number of Backers (in INR)

Categories	Amount	Backers
Sports	7305110	1510
Technology	302290	300
Movies	562674	113
Arts	844773	163
Donations	23583467	7321
Total Amount	32598314	9407

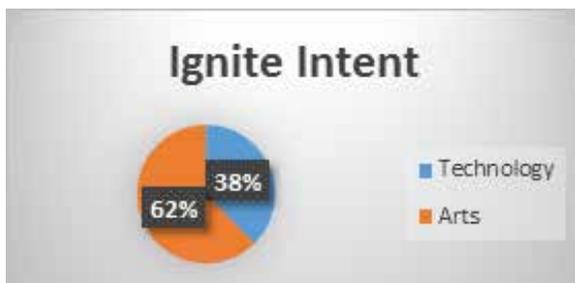


IGNITE INTENT

Ignite Intent is a Mumbai-based online Crowdfunding Platform (CFP) started in the year 2012 for startups and college projects. Unlike equity based where the funders share profit based on equity, Ignite intent follows a reward based crowdfunding model. Most of the funding has been for the projects Multi Talented Robot and IIT Bombay Racing. In 2014, Ignite Intent has made total 2.39 lakhs contributing to successful campaigns.

Table:4 Total Amount and Total Number of Backers (in INR)

Categories	Amount	Backers
Technology	90000	45
Arts	149000	15
Total Amount	239000	60



Start 51

Start51.com offer new creative fund platform to transform unique ideas into reality. The crowdfunding platform runs with an aim of offering direct financial support from contributors this is an initiative to support projects from all industry verticals that meet our project guidelines. It is a platform that follows all or nothing funding policy in which project must reach their funding goals to receive any financial aid.

Table:5 Total Amount and Total Number of Backers (in INR)

Categories	Amount	Backers
Sports	250690	143
Technology	707583	319
Publishing	100024	26
Arts and Dance	717852	401
Total amount	1776149	889



Table:6 INDIAN PLATFORM AND THEIR CONTRIBUTION (in INR)

Sl.No.	Platform	Total Amount	No of Backers
1	Ketto	32598314	9407
2	Wishberry	33865576	5225
3	Catapooilt	7788113	530
4	ignite intent	239000	60
5	Start51	1776149	889
Total		76267152	16111



TOTAL NUMBER OF BACKERS IN 5 PLATFORMS AVERAGE NUMBER OF BACKERS

CONCLUSION

Crowdfunding provides an efficient way for an investor to gain knowledge about the market but one of the challenges to this

technique is that it takes place in a virtual setting where the investor does not have well knowledge about the intentions and behaviours of the entrepreneur.

The platform plays role in attracting investors by attaining to the discrepancy as to what the entrepreneur shows through the platform, and how investors viewed the transaction in to the risk –return investment. . In order to avoid the misunderstanding of the processes that leads to investor feel unsatisfied, the entrepreneurs must therefore educate the investor with the high –risk investment catered in the platform.

Thus in order for platforms and entrepreneurs to develop a trustworthy online community that can make crowdfunding a viable alternative to traditional sources of capital the entrepreneur must signal that he is trustworthy by. Another reason as to why most of the entrepreneurs now a days prefer an online portal of crowdfunding is that the behaviour of one investor can be influenced by the other. Thus entrepreneurs who sustain a large group of personal networks to the beginning of the campaign are likely to achieve more success.

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