

A STUDY OF CROWD FUNDING PLATFORMS IN INDIA

Dr. Shriprakash Soni,
Associate Professor, Department of MBA,
Suryadatta Institute of Business Management and Technology (SIBMT), Pune, Maharashtra (India).

ABSTRACT:

Finance is the backbone of any business. There are many traditional ways to secure finances like own savings, family help, friend loans, bank loans, mortgage loans etc. With the rise in internet the new source of funding is available which can be termed as crowd funding which is very cost effective source of funding and the liability of the same reduce drastically. Crowd funding is a very interesting and promising topic for the people who lack financial support from other financial sources. People who are having ideas, products, reasons etc. which can match in with the thoughts of other people from the world and make them help by funding for the cause online.

This paper includes theoretical background of crowd funding, different ways to raise the funds through crowd funding, how actually the crowd funding platform works and what is the risk involved in crowd funding to the investors. Thus when topic of funding comes there is the need of its management too. Therefore the researcher studying this topic so as to understand how to predict the outcome of the crowd funding, understand why people fund, learn various ways available for the same etc.

Keywords:

Crowd Funding, Financial Source, Management, Risk, Investors.

1. Introduction:

Crowd funding is a innovative technique of arranging funds through the joint effort of individual investors, customers, friends and family members. This technique taps into the joint attempt of a huge pool of persons mainly online through public media and crowd funding platforms and leverages their relationships for bigger reach and coverage.

2. Concept of Crowd funding:

As compare to the conventional method to business finance, crowd funding is basically the reverse of the same. Usually, if anyone wants to generate the funds to launch a new creation or start a business, he must necessary to close his market research, business idea, and probable models, and then implement his idea around to individuals or a limited group or rich organizations. These financial support sources involved venture capital firms, angel investors, and banks, truly restraining the choices to a few major players. Therefore, he may consider of this fund raising technique as a better option.

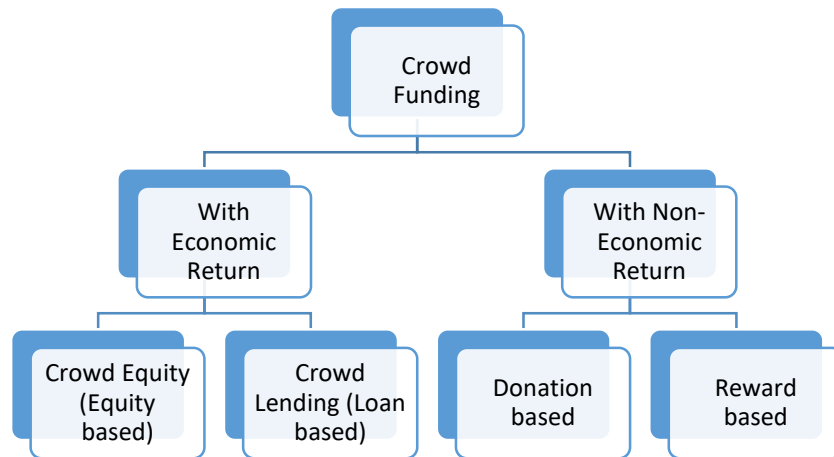
Crowd funding option gives the single entrepreneurial platform to share, showcase, and build ground resource. This technique radically rationalizes the conventional form. Usually, one had devoted months, his own time and spending money examining through his personal network, screening potential investors, and to get in front of them. Hence, it is very easy for him to get an opportunity in front of more fascinated parties and present them several ways to facilitate his ideas of business.

3. Advantages of Crowd funding:

There are several advantages of crowd funding as compare to traditional ways. Following are the same.

- a) **Effortless Contact** – One can easily contact to thousands of recognized investors who can see, interact with him, and share his fund raising campaign by using a technique of.
- b) **Presentation** – One can easily go through the priceless process of looking at his business from the top level by carrying out a crowd funding campaign. Its value proposition, addressable market, offerings, traction, history, etc. and scorching it down into a polished, sellable package.
- c) **Marketing & PR** – One can share and promote his campaign through email newsletters, social media and other online marketing campaigns from launch to close. As other media outlets and he cover the status of his fund raise, he can two times down by routing traffic to his website and other company resources.
- d) **Confirmation of Concept** – Presenting the business idea and concept to the masses affords an excellent opportunity to validate and refine offering. As potential investors begin to express interest and ask questions. One can quickly check if something missing that would make them more likely to buy in.
- e) **Effectiveness** – Crowd funding have ability to consolidate and make more efficient fundraising efforts. By constructing a single and inclusive profile to which one can easily cone all his potential and probable investors, remove the want to follow each of them separately. So instead of duplicating efforts by printing documents, compiling binders, and manually updating each one when there's an update, he can present everything online in a much more accessible format.

4. Types of Crowd Funding:



Equity-Based:

Crowd Equity, Crowd Investing, Investment Crowd Funding and Equity Crowd Funding refer to the same phenomenon i.e. the term 'Crowd Equity'. The model makes it possible for a large group of people and companies. The crowd finance to startups and small unlisted businesses. The sponsor will get a proportionate percentage of shares in the company in return for providing capital. In other words, the investor will provide funding for the company and will get in return a small or proportionate ownership of the business. The investor will keep this ownership until he or she choose to sell it, or it is liquidated.

Loan-Based:

The Peer-to-Peer (P2P) lending or crowd lending is also called as loan-based crowd funding. In crowd lending, both professional (the lenders) and private investors can provide capital directly to companies and individuals (the borrowers) thus bypassing the traditional banks. The lending operation is facilitated by a crowd lending platforms. The crowd lending platform provides standardized terms on interest and repayment and monitors the loans once they are financed. Thus, the loan-based crowd funding makes it possible for many lenders to finance a single company, which provides the lenders with the possibility to spread their risk across multiple loans.

Donation-Based:

In this donation-based crowd funding model, is crowd funding started on the basis of donations received. In this type of crowd funding, funders do not obtain any product, rights or ownership. Exceptions to this, can be something of symbolic value. On the other hand, funders have the possibility to donate to a cause they are passionate about. The idea behind this donation-based crowd funding is to build funds for social projects and charitable causes such as development assistance and NGOs. However, as more and more platforms emerge, donation-based crowd funding has expanded to include everything from charitable personal projects like help paying for medical treatment, participation in events and support for athletes or art to all kinds of both imaginable and unimaginable projects etc. Therefore, to avoid scammers, one should make sure to do homework before supporting the project.

Reward-Based:

Reward-based is the most common kind of crowd funding. In contrast to donation-based crowd funding, funders will get a reward in reward-based crowd funding. This reward is typically a concrete item like a service or product developed and produced by using the funds from the campaign of crowd funding. For entrepreneurs and companies, this type of crowd funding is not only a suitable substitute source of financing, but also an effective way to test the market potential of their probable products. When considering for example returns, in most countries, reward-based crowd funding is regulated according to the same rules that applies to internet shops. Also, services and products given to funders by through reward-based crowd funding are considered as buying and selling services and products. The funders are selling an item through reward-based crowd funding.

5. Crowd funding Functioning:

Crowd funding is a quite innovative sector that is still rising. Where as it is an exhilarating prospect for several and offers undersized businesses access to financial support opportunities. It can be a puzzling ground for lots of people because it is offered in such a wide spectrum of ways. Donations or investments are generally made through online platforms.

- a) **Choose appropriate platform:** There are a lot of different crowd funding sites to choose from, such as Kick starter, Crowd funder and Crowd cube. Select the platform which is suitable and make the project. In order to get the consideration of probable investors make an impactful idea.
- b) **Offer attractive rewards to investors:** With all projects, the rewards for investing are based on how much someone chooses to invest, but make sure the rewards are good. Don't just imagine a 'thank you' to be sufficient of a reward. Explain people they will really get something back for their money. Introduce a broad series of investment levels. Some people will only want to invest a small amount, whereas others will be happy to provide a lot more providing the reward is appropriate to their investment. So make sure that the offer should be different levels of investment.

- c) **Create worth sharing plan:** Successful crowd funding projects generally perform fine because investors are energized about the plan. They have contributed and also desire to inform others, so make sure that they can share it on social media easily. Also note that people should know about the idea. Use social media, networking and also keep the investors updated on the development of plan campaign.

6. Barriers and Risks for the Creator:

Crowd funding also comes with a number of probable barriers and risks. For the investor, as well as the creator, studies prove that crowd funding contains “high levels of uncertainty, risk and information asymmetry”.

- a) **Reputation** – Failure to meet campaign goals or to generate interest results in a public failure. Reaching financial goals and successfully gathering substantial public support but being unable to deliver on a project for some reason can severely negatively impact one’s reputation.
- b) **IP protection** – Many content producers and Interactive Digital Media developers are unwilling to openly declare the details of a plan before production due to concerns about idea theft and protecting their IP from plagiarism. Creators who engage in crowd funding are required to discharge their product to the public in early stages of funding and development, exposing themselves to the risk of copy by competitors.
- c) **Donor exhaustion** – there is a risk that if the same network of supporters is reached out to multiple times, that network will eventually cease to supply necessary support.
- d) **Public fear of abuse** – concern among supporters that without a regulatory framework, the likelihood of a scam or an abuse of funds is high. The concern may become a barrier to public engagement.
- e) **Need of involvement** - It is seen that some stories are more likely to get picked up than others based on the story. It is easy to get support if you ‘just tell a story’.

7. Literature Review:

- a) **Pankaj Kumar Baag & Kavitha P. (2018):** Crowd funding is another source of finance has huge potential to be the future of entrepreneurial finance, provided it sustains the test of time. The mounting incidents of fraud are threatening the very existence of this phenomenon. Crowd funding can insulate itself from fraudsters and win the trust of investors by establishing formal rules and informal norms that determine the behavior and actions of individuals involved in the process. The institutional theory explains how a new institutional form can gain legitimacy by resorting to the various forms of institutional works done by the actors that creates, maintains and disrupts institutions.
- b) **Harsh Agarwal (2018):** Crowd funding is the use of little amounts of capital from a large number of individuals to finance a new business venture. Crowd funding makes use of the easy accessibility of vast networks of people through social media and crowd funding websites to bring investors and entrepreneurs together. Crowd funding websites such as Kick starter and Indiegogo attract thousands of people hoping to invest in the next big thing. Crowd funding is a form of crowd sourcing and of alternative finance. Crowd funding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists. Crowd funding sites are sometimes referred to as platforms because they provide a venue for all aspects of a campaign, such as creation of the public interface, campaign and project tracking, a payment mechanism and disbursement of funds. Crowd funding has been around for a while, but in the world of finance, fundraising using online platforms is fairly new. For this reason, rules and regulations to govern it have not been clearly defined and therefore, a lot of the campaigns happen with barely enough supervision to minimize the risk such as fraud: the funds may be used for some other purpose rather using for the purpose for it has raised; Risk in investing in startup’s: the investor may not get a proper return on capital; There are limited follow up mechanisms
- c) **Onochie Fan-Osuala (2017):** Crowd funding playing an important role in our society and economy, driving innovation (Mollick 2016; Stanko and Henard 2016; Stanko and Henard 2017), and creating new jobs and employment (Mollick 2016). Given the emerging trend of serial crowd funding and the high failure rates experienced by project owners on crowd funding platforms, it is only appropriate that we examine if there are factors from the project owners’ prior crowd funding campaigns that may impact the outcomes of their subsequent campaigns. This study identifies the post-funding relations-building efforts of project owners as a key factor and empirically shows that it does matter for the success of subsequent crowd funding campaigns.
- d) **Aditi Bhargava, Rashmi Bhat& Niti Tiwari (2017):** Generally all the risks connected with crowd funding are related to the internet. If the internet becomes a safer place carry out activities of trade and commerce at, then crowd funding as a concept would be able to reach its potential to full and would function as a channel in realizing dreams of various people. Also, to build trust in people, some provisions should be such that would make this process of crowd funding offline too. This could be a starter so that people start being more comfortable with the whole idea and eventually it can be shifted online. Awareness programs could be initiated by SEBI to teach investors, issuers and platforms intrinsic details about the procedure.
- e) **Prinsha K. (2016):** stated in the paper titled “A Study on Crowd funding and its Implications in India”, Crowd funding is essentially the opposite of the mainstream approach to business finance. Traditionally, if you want to raise capital to start a business or launch a new product, you would need to pack up your business plan, market research, and prototypes, and then shop your idea around to a limited pool or wealthy individuals or institutions. These funding sources included banks, angel investors, and venture capital firms, really limiting your options to a few key players. You can think of this fundraising approach as a funnel, with you and your pitch at the wide end and your audience of investors at the closed end. Fail to point that funnel at the right investor or firm at the right time, and that’s your time and money lost. Crowd funding platforms, on the other hand, turns that funnel on-end. By giving you, the entrepreneur, a single platform to build, showcase, and share your pitch resources, this approach dramatically streamlines the traditional mode.

- f) **Akshay Verma & Shwetaketu Radia Tyagi (2016):** Crowd funding generating small amounts of capital from large amounts of people over the internet Crowd funding has emerged as an exciting alternative to the conventional financial market. In particular startups all over the world are being drawn by the low cost of raising capital. In this paper we will examine whether crowd funding can work in an Indian context. In particular it will focus on whether India has the proper legal framework to enable and support crowd funding.
- g) **G.Usha (2016):** Entrepreneurial ventures or newly founded companies startup companies are based on innovation, development and market research. Most startup companies seek to avoid bank loans as they are usually related to complex procedures and are given based on company's property or credit history. As investment modes are changing and evolving some new sources of investment for startup projects. In this paper we discuss the prominence of Crowd funding as a mode of financing for startups. The various forms of Crowd funding provide new ways to fund startup from the earliest days until very late in the development of the company. This Research introduces meaning, different forms of Crowd funding suitable for startups. Analysis of merits, cautions to be taken and risks involved in Crowd funding. Selection criteria of Crowd funding from the view of capital seeking companies like startups. India as a developing economy can motivate investors for Crowd funding. The extent the startups succeed in attracting Indian investors.
- h) **Ricarda B. Bouncken (2015):** Crowd funding represents substitute mode of financial support as compared to traditional borrowing. As a principle, crowd funding is open to everyone - private persons as well as economic actors. A group of people, the crowd, financially contributes small amounts to projects, products or ideas. These projects, products or ideas are owned by fundraisers seeking for money in order to get their project realized.
- i) **Brendon Lichtig (2015):** The model tells a story of a heterogeneous population, affected by the number of projects a creator has launched. That covariate could encapsulate a number of forces as play – experience, following, or person.
- j) **Sebastian Dehling (2013):** This paper reveals that crowd funding as a comprehensive concept. The paper intended to throw light on the varied nature of crowd funding to better understand its complexity. It further tried to examine the two main mechanisms and talk about the in general composition, managerial implications and future considerations.

8. Objectives of Study:

1. To study crowd funding and its role in society.
2. To review crowd funding from Indian context.
3. To study the investors awareness of crowd funding.
4. To study the risk of investors.

9. Research Methodology:

Sr. No.	Particulars	Details
1	Type of Data	Secondary Data.
2	Sources of Data	Books, Journals and Websites
3	Nature of Source of Data	Qualitative and Quantitative data.
4	Nature of Data Collection Instrument	Past Study Papers, Books and Journals
5	Type of Research	Descriptive Research

10. Limitation:

The study is based on the secondary data collected from different sources.

11. Data Analysis and Interpretation:

Following is the list of top ten platforms working in crowd funding in India:

1. Rang De
2. Faircent
3. Ketto
4. Wishberry
5. FuelADream
6. Indiegogo
7. Crowd rise
8. Give
9. Crowd funder
10. GoGet Funded

12. Study of Few Crowd funding Platforms in India:

1) Rang De

Name	Rang De
Year of establishment	2008
Office	Bengaluru
Co-founder	Smita Ram and Ram N. K
Sector in which fund is raised	It provides low-cost or micro loans to rural entrepreneurs from all over India
Funders	The World Bank, ICICI Foundation etc.
Fund Raised	7 million

RangDe.org is an internet-based peer-to-peer micro-lending platform that provides low-cost or micro loans to rural entrepreneurs from all over India with the help of funders. A notable characteristic is that more than 93% of borrowers have been women.

This not-for-profit crowd funding portal has attracted 9,699 social investors and helped disburse 50,008 loans for a section of Indian population who are generally unnoticed by financial institutions and banks. So far they have raised social investments of approximately USD 7 million while repaying very close to USD 5 million. Borrowers pay interest rates ranging between 4.5% and 10% p.a. for collateral free loans. Rang De gets a nominal cut of 2% on all the loans repaid by borrowers. The organization has a set-up of 25 field partners in 16 states of India who physically take the money to the borrowers and can contact them if they fall in to arrears.

2) Faircent

Name	Faircent
Year of establishment	2013
Office	Gurgaon
Co-founder	Rajat Gandhi, Vinay Matthews, Nitin Gupta
Sector in which fund is raised	Facilitates Personal Loans
Funders	General Public
Fund Raised	USD 973,000

Faircent is a virtual market place and a peer-to-peer lending platform where borrowers and lenders can interact directly, without the involvement of banks. In practice the platform allows borrowers and lenders to negotiate directly the terms of loans including interest rates and the duration of the loan. Faircent is thus able to eliminate high margins on loans and keep institutional charges low. It charges a one-time listing fee of around USD 23 plus an administration fee depending on the size of the loan and interest amount, but doesn't earn from interest that is paid. Faircent has more than 6,000 potential lenders and 26,000 want-to-be borrowers on its platform and has disbursed total loans worth almost USD 973,000.

3) Ketto

Name	Ketto
Year of establishment	2012
Office	Mumbai
Co-founder	Kunal Kapoor, Varun Sheth and Zaheer Adenwala
Sector in which fund is raised	Social Projects, Creative Arts and Personal Development
Fund Raised	100 Cr.

Ketto supports fund raisers in mainly three categories:

- Community/social projects (NGOs/Non-Profits/Charities),
- Creative arts (Movies/Music/Theatre/Fashion/Technology)
- Personal development (Health/Education/Travel).

They also encourage corporates to search for projects to support as a way of demonstrating Corporate Social Responsibility, and allow NGOs to use Ketto as an e-commerce sales channel. Ketto provides fund raisers a unique cash pick-up facility and charges 5-8% of the funds raised or USD 30 (whichever is higher in case of individuals and corporates) along with payment gateway charges. Project creators keep all the money that is raised even if they fall below the target they set for their project. The platform has raised USD 5,990,400 through more than 100,000 backers to support over 10,000 projects (averaging just under USD 600 per project).

4) Wishberry:

Name	Wishberry
Year of establishment	2010
Office	Mumbai
Co-founder	Priyanka Agarwal, Anshulika Dubey
Sector in which fund is raised	Creative Projects – Music, Stand-Up Comedy, Film Production etc.
Fund Generated	10 Cr.

Wishberry is a donations-for-rewards based crowd funding platform established in 2010 in Mumbai and is exclusively dedicated to funding creative projects – film production, dance, comedy, stand-up music, art, photography, publishing, design, theatre. A Wishberry adviser, a 'Campaign Coach', is appointed to each project to help the project creators write an effective pitch, make a good video (a video is compulsory) and handle the logistics of choosing, sourcing and distributing the rewards. This helps them achieve a very high 70% success rate.

w

It has completed 325 projects raising almost USD 1.3 million from more than 11,000 backers in around 60 countries. This is an average of nearly USD 4,000 per project. The contributors are rewarded with non-monetary incentives such as invites to film

premiers, limited edition merchandise, experience in the making of the project, a named credit and so on. It charges a one-time non-refundable fee of USD 52.37 plus 10% commission of the funds raised – charged only if the funding goal is reached. For a monthly fee they also provide digital marketing and PR services. Wishberry works on an ‘All Or Nothing’ policy (which they also claim pushes up the success rate) and allows fundraisers a maximum of 60 days to reach their target.

5) FuelADream

Name	FuelADream
Year of establishment	2016
Office	Bengaluru
Co-founder	Ranganath Thota
Sector in which fund is raised	Creative arts projects, social causes and charities

FuelADream established in April 2016 with 14 projects. It is a rewards-based crowd funding platform and focuses on creative arts projects, social causes and charities. It gives its fund raisers the choice of either AON (All or Nothing) or KWYG (Keep What You Get) campaigns. When an AON campaign doesn't reach its goal, all the money collected is returned to funders. The company has its own content and marketing team that will help put together the online pitch and help design a rewards system for each project. They charge 9% (2% gateway +7% contract charges) of the total amount collected during the campaign whether an AON or a KWYG model. On the 9% there is a government levy of 14.5% Service tax. This works out to a total charge of 10.3 % of the money raised.

13. Findings

- Eager investors are available who are ready to fund the idea or concept or product for various purposes in compliment of some or no benefit at all.
- Crowd funding also helps to ensure the idea is fine and workable with intended profit.
- A good marketing can come out of the entire activity and one can easily reach a very broad market probably a prospective buyer.
- A lot of efforts are saved by using Crowd funding platforms. Mainly fridge and pitching the idea to every investor individually can be avoided and thus lot of saving can come out as contact to multiple investors at the same time becomes possible.
- SEBI has taken an active role in this regard and has issued reliable guidelines for the purpose.
- Intellectual Proprietary Rights are not safeguarded to run business.

14. Conclusions:

- Crowd funding is playing an important role in our economy and society, driving innovation and creating new jobs and employment. Given the emerging trend of serial crowd funding and the high failure rates experienced by project owners on crowd funding platforms, it is only appropriate that we examine if there are factors from the project owners' prior crowd funding campaigns that may impact the outcomes of their subsequent campaigns. This study identifies the post funding relations-building efforts of project owners as a key factor and empirically shows that it does matter for the success of subsequent crowd funding campaigns.
- Crowd funding is an innovative concept for Indian investors. In India, usage of internet for generating capital requirements is very low compare to western countries. This alternative cropped up when traditional financial system failed to support the startups. Online payment and online marketing options made Indian investors reachable to crowd funding ways.
- Willing investors are available who fund the idea or concept or product for various purposes in libel of some or no benefit at all.
- It is a very risky way of funding for an investor as there are huge chances of various frauds.

15. Suggestions:

- Companies should try and enter into this zone, as it is very simple, quick and efficient way to raise money more rapidly.
- For governing crowd funding, government should place proper laws.
- To govern the activities of crowd funding platforms, SEBI (Securities Exchange Board of India) should be brought into picture.
- In India, to increase more awareness about the crowd funding activities, there is a strong need of powerful campaigns.
- To increase awareness levels make people aware of the benefits of crowd funding platforms.

Bibliography and References:

a) Articles

- Pankaj Kumar Bagh and Kavita P. "Crowd funding for Entrepreneurs" - Indian Institute of Management in May 2018.
- Harsh Agrawal "A Study on Crowd funding – International Journal of Engineering Technology and Science and Research page No. 899 to 905, dated January 2018.
- Onochie Fan-Osuala "Crowd funding Outlook" – July 2018.
- Aditi Bhargava, Rashmi Bhat and Niti Tiwari "Crowd funding – An Emerging Concept in India" – An open access journal from The Law Brigade Publishing Group page No. 57 – 69, dated June 2017.

- 5) Prinsha K. "A Study on Crowd funding and its Implications in India" – Pari pix Indian Journal of Research page No. 233 – 235, dated January 2016.
- 6) Akshay Verma and Shwetaketu Radia Tyagi "An Overview on Crowd funding in the Indian Setting" – Imperial journal of interdisciplinary research page No. 1174 to 1184, dated November 2016.
- 7) G. Usha "Crowd funding for Startups in India" – IOSR Journal of Business and Management page No. 2016.
- 8) Ricarda B. Bouncken "Crowd funding" dated June 2015.
- 9) Brendon Lichting "Crowd funding Success" – University of Pennsylvania scholarly commons Page No. 121 to 138, April 2015.
- 10) Sebastian Dehling "Crowd funding" dated November 2013.

B) Websites:

- 1) https://www.researchgate.net/publication/272984988_CROWDFUNDING_AT_INDIA_A_STUDY_OF_INDIAN_ONLINE_CROWDFUNDING_PLATFORMS
- 2) <https://en.m.wikipedia.org/wiki/Crowdfunding>
- 3) https://www.worldwidejournals.com/paripex/recent_issues_pdf/2016/January/January_2016_1453103797__77.pdf
- 4) <https://www.godaddy.com/garage/top-20-crowdfunding-platforms/>
- 5) <https://p2pmarketdata.com/4-types-of-crowdfunding/>
- 6) crowdsourcingweek.com
- 7) p2pmarketdata.com
- 8) expenseinfo.blogspot.com
- 9) www.iosrjournals.org
- 10) www.ijetsr.com
- 11) scholarcommons.usf.edu
- 12) www.startups.com
- 13) imperialjournals.com
- 14) mafiadoc.com
- 15) www.tandfonline.com
- 16) ijldai.thelawbrigade.com
- 17) www.ijmra.us
- 18) www.scribd.com
- 19) thehackerstreet.com
- 20) www.kulguru.com
- 21) www.navajyotijournal.org
- 22) worldwidejournals.com
- 23) bijubodheswar.blogspot.com

