CROWD FUNDING: A DISTINCTIVE PHENOMENON OF RAISING FUNDS

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ABSTRACT
With the advent of technology, role reversals in every field is emerging and same is the case of financing business. Start Ups are the new Buzzword in today’s entrepreneurial environment. Start Ups and fund requirements go hand in hand. Every business requires funds and as a result new vistas of fund raising are in vogue. To meet the fund requirements technology is playing a pivotal role and a distinctive phenomenon for raising funds using internet technology is Crowd Funding.
This paper attempts to elucidate the concept of crowd funding, the various categories of crowd funds, processes of crowd funding and associated benefits and risks.
Keywords: Crowd funding, Process, Financing, Fund raising, Start Ups

1. INTRODUCTION
Crowd funding is an Umbrella Term. It is a relatively new Phenomenon and an Initiative undertaken to raise money from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause.
Crowdfunding is a form of alternative finance, which has emerged with the traditional financial system. Crowd funding has been a particularly important tool for entrepreneurs trying to start their projects up without having a large amount of capital already raised. Crowdfunding today is full of legal obstacles, it’s an easier path to funds for entrepreneurs looking to grow their small business.

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It is the process of getting capital for businesses or ideas through multiple avenues that mainly involve networking in any possible way. In the future, it will likely also fund entire companies that sell equity to investors. CrowdFundingBank.com Provides support to organizations or individuals through enlisting the cooperation, and funding from large number of angel investors or just anyone willing to support the initiative with small amount of money and/or advice.

1.1 DIFFERENT PLAYERS IN CROWDFUNDING
There are different players involved in crowdfunding models. First, Project Initiator who propose ideas. These people want to use crowdfunding to get direct access to the market and to gather financial support from truly interested supporters. Secondly, Individuals/ Groups, there is the crowd of people that decide to financially support these projects, bearing a risk and expecting a certain payoff. These supporters
co-produce the output, selecting -- and sometimes developing -- the offers they deem to be most promising or interesting. A Third player is the Crowdfunding Organization, which brings together those who want to deliver the new initiatives using crowdfunding mechanisms and those who may wish to support such initiatives through their investment efforts. Crowdfunding has been boosted by recent technological developments – Web 2.0 in particular – that offer new opportunities and scenarios where consumers can use, create and modify content and interact with other users through social networks.

1.2 APPLICATIONS OF CROWDFUNDING:

The crowdfunding is raising money from multiple investors through a web-based platform or social networking site for a specific project. There are various sectors, where crowdfunding is applicable.

1.2.1 MUSIC SECTOR: In the music sector, crowdfunding makes possible connections between music lovers and artists. Music lovers can choose to contribute funds to a favorite artist or music group, who can then record a professional album when the collective funding level reaches a specified target. Examples: SellaBand, Slicethepie and Bandstocks are examples of crowdfunding platforms for the music industry that enable new and established artists to raise money directly from music fans.

1.2.2 FASHION SECTOR: Crowdfunding initiatives are also being used fund fashion designers. Cameesa, a clothing company based in Chicago, was the first site to pioneer “crowdfunding fashion”. In Cameesa, the designers submit their T-shirt designs, and supporters choose their favourite design and fund it with a minimum amount of $10. When the cumulative funding for a proposed design reaches a target of $500, the T-shirt is produced and goes on sale on the website. Another example of this type is Catwalkgenius, where designers can upload images of their existing collections for a wide range of products (clothes, jewellery, shoes, etc). Potential supporters check out the collection, choose their favorites and invest in them. Profits from the sales of the chosen offerings are shared among the designer, Catwalkgenius, and supporters.

1.2.3 FINANCIAL SECTOR: Another application of crowdfunding is in the financial sector. Trampoline Systems, a social analytics software house, is attempting to raise 1 million pounds from up to 100 investors through crowdfunding in order to finance the development and commercialization of solutions and applications related to its software. Example: MyBar is another example of applying this innovative approach to raise capital. The aim of this project is to build a bar in Beirut owned by a crowd of investors.

2. REVIEW OF LITERATURE

Cosh et al. (2009) founded that Crowdfunding provides an alternative option for entrepreneurs to raise funds externally. Ex-ante it is unclear to the financier, whether investing into the entrepreneur and her project is a good idea. These information asymmetries (combined with cash constraints of potential entrepreneurs) may result in efficiency losses. Worthy projects would go unfunded, because financial intermediaries are unable to evaluate them respectively. As documented by, for instance, entrepreneurs indeed face difficulties to secure funding from the external finance options.
Ordanini et al. (2009) explained that Consumers have recently begun to play a new role in some markets: that of providing capital and investment support to the offering. This phenomenon, called crowdfunding, is a collective effort by people who network and pool their money together, usually via the Internet, in order to invest in and support efforts initiated by other people or organizations. Successful service businesses that organize crowdfunding and act as intermediaries are emerging, attesting to the viability of this means of attracting investment. Employing a “Grounded Theory” approach, this paper performs an in-depth qualitative analysis of three cases involving crowdfunding initiatives: SellaBand in the music business, Trampoline in financial services, and Kapipal in non-profit services. These cases were selected to represent a diverse set of crowdfunding operations that vary in terms of risk/return for the investor consumer and the type of consumer involvement. The analysis offers important insights about investor behaviour in crowdfunding service models, the potential determinants of such behaviour, and variations in behaviour and determinants across different service models. The findings have implications for service managers interested in launching and/or managing crowdfunding initiatives, and for service theory in terms of extending the consumer’s role from co-production and co-creation to investment.

Hemer (2011) distinguishes between the following forms of crowdfunding: crowd lending, crowd equity, crowd donations, crowd pre-selling. The first two can be regarded as the crowd analogies of the traditional financing instruments bank loan and venture capital. Crowd donations and crowd pre-selling bring interactions known from other environments to the entrepreneurial finance context. Crowd donations are unconditional payment pledges of funders given to the entrepreneur. While there is no obligation for the entrepreneur to give anything in return, often some kind of reward is given to crowdfunders who donated to the project. This reward can be in the form of acknowledgments, for instance, in the credits of the crowd funded movie or a sticker/postcard of the project. Crowd pre-selling means that the entrepreneur promises to deliver early versions of the product/service for a specified price.

Miceli, et al. (2011) this paper is to analyze the emerging crowd-funding phenomenon, that is a collective effort by consumers who network and pool their money together, usually via the internet, in order to invest in and support efforts initiated by other people or organizations. Successful service businesses that organize crowd-funding and act as intermediaries are emerging, attesting to the viability of this means of attracting investment.

Nava et al. (2012) This paper aims to take stock of the extant knowledge on an emerging practice in the entrepreneurial finance landscape: crowdfunding, which seems to play an increasing important role for the seed financing of entrepreneurial projects. We provide a systematization of what it is known on this theme, which can be useful to scholars, practitioners, and policymakers interested in the phenomenon from different angles. Adopting a phenomenon-based approach, which is deemed to be appropriate when investigating new and rather unexplored phenomena, we first review the emergent literature on the theme to single out the aspects that so far have attracted the bulk of scholarly interest. Then, we compare the crowdfunding with other forms of entrepreneurial finance. Finally, we offer a first survey on Italian crowdfunding platforms.
Belleamme et al. (2013) define it in the following way: Crowdfunding involves an open call, mostly through the Internet, for the provision of financial resources either in form of donation or in exchange for the future product or some form of reward and/or voting rights. Crowdfunding originated in the creative industries (music, movies), but nowadays entrepreneurs from a wide range of backgrounds have adopted it to finance their projects. Giudici, et al. (2013) explained that Crowdfunding implies mobilizing the crowd to finance projects which are posted on dedicated websites, known as Crowdfunding platforms. Funding is provided by web users in exchange for some claims the project revenues, or for a reward, or simply for donation. In this paper, we aim at learning more on what determines the probability of a project to reach the target funding.

Crosetto and Regner (2014) explained that, over the past years crowdfunding emerged as an alternative funding channel for entrepreneurs. In contrast to traditional financiers (banks, venture capital firms or angel investors), crowdfunding allows individuals to fund entrepreneurs directly even with small amounts. We received individual level data from Start next, the biggest crowdfunding platform in Germany, enabling us to investigate funding dynamics, explore pledges’ motivations and analyze projects’ success determinants. We and substantial heterogeneity of how success (about half of the 2,252 projects in our dataset get funded) is reached. When two thirds of the funding duration has passed, the majority of projects (59%) that eventually get funded are not on a successful track. However, pledges in the external phase can only partially be explained by a rush to get still unfunded projects succeed. Overall, 18.7% of pledges are made to projects that already reached their funding target and our analysis shows that the increased funding towards the deadline is due to pledges to projects that already made it, particularly pre-selling pledges.

Teigland and Ingram (2014) Accumulation of small investments in individual projects by large number of individuals (the “crowd”) via or with help of Internet and social networks. It is explained that In just a few years in Sweden alone, Company Founded Business Klarna 2005 E-commerce payment services, MyLoan 2006 Loan broker, Trustly 2008, Online payments TrustBuddy 2009 P2P lending, iZettle 2010 Mobile payments, FundedByMe 2011 Crowdfunding, crowd equity Tink 2012 Personal finance ,Safello 2013 Cryptocurrency exchange, KnC Miner 2013 Cryptocurrency mining equipment.

Bruton et al. (2015) explained that New financing alternatives, such as microfinance, crowdfunding, and peer-to-peer lending, have expanded rapidly. To date, few studies have investigated the antecedents and consequences of these financing mechanisms. This special issue provides an academic foundation for understanding new financial options that entrepreneurs can now use to start and grow ventures. In the introductory article, we integrate strands of the literature on emerging innovations in entrepreneurial finance and provide a framework for a systematic approach to new research questions. We conclude with a discussion of the six papers in the special issue and demonstrate how they contribute to the framework.

3. NEED AND OBJECTIVES OF THE STUDY:

The basic need and objectives of the study is described as follows:

3.1 Needs of the Study

However, this increasingly important sector is critically under-studied and often misunderstood. Within the alternative finance industry, taking a narrower definition, online platform-based alternative
financing activities such as donation-, reward- and equity-based crowdfunding, peer-to-peer consumer and business lending. To Date, few studies have investigated the antecedents and consequences, of these Financing Mechanism. The need of the study is the emerging crowd-funding phenomenon, that is a collective effort by consumers who network and pool their money together, usually via the internet, in order to invest in and support efforts initiated by other people or organizations. Successful service businesses that organize crowd-funding and act as intermediaries are emerging, attesting to the viability of this means of attracting investment and also to explore the categories with the help of different platforms.

3.2 Objectives of the Study:

- To understand the meaning, categories and processes of Crowdfunding.
- To explain Benefits and Risks of Crowdfunding.
- To explore the various platforms for raising Funds trough crowdsourcing.

The inputs of the individuals in the crowd trigger the crowdfunding process and influence the ultimate value of the offerings or outcomes of the process. Each individual acts as an agent of the offering, selecting and promoting the projects in which they believe. They will sometimes play a donor role oriented towards providing help on social projects. In some cases they will become shareholders and contribute to the development and growth of the offering. Individuals disseminate information about projects they support in their online communities, generating further support (promoters).

4. CATEGORIES OF CROWDFUNDING

With this new opportunity came the need to facilitate the transfer of funds from those who were looking to donate or invest to those in need of the capital. Crowdfunding platforms are online intermediaries that facilitate this process, whose numbers have been growing rapidly. The platforms operate by allowing those seeking finance to make a pitch on the site outlining how much money they need, what they need it for and what, if anything, you get in return for contributing. Potential funders can then view pitches on the platform, interact with both those looking for finance and other potential funders and then decide whether or not they want to back the campaign. The majority of platforms operate the all–or–nothing model where, if the target amount is not raised within a given timeframe, contributions are returned to funders and no financing goes ahead.

There are four major categories which make up crowdfunding. Each category has their advantages and disadvantages, so knowing these beforehand is crucial to make sure the right option is picked to fulfill the needs of the project. These categories are: donation, reward, debt, royalty and equity.

![Categories of Crowdfunding](image)

**Figure 4.1 Categories of Crowdfunding**

These are explained as follows:

**4.1 DONATION CROWDFUNDING**: The donation model of crowdfunding is a means for charities, or those who raise money for social or charitable projects, to gather a community online and to enable them to donate to a project. While most established charities facilitate this through their own website, crowdfunding is popular for small organisations and people raising money for personal or specific charitable causes.

In simple words: crowdfunding is pretty straightforward. In this case, a crowd funder literally gives
funds away to a campaign, without expecting anything in return other than the feeling that they did something good. A tax break may also be possible depending on the nature of the organization receiving the funds. This type of crowdfunding is usually employed by non-for-profits, charities, political campaigns, or other social causes (such as raising money for medical bills). The reason being that most people who fund an entrepreneurial venture expect the owner to make some profit off of his/her venture, and if profit is to be made, they want something in return for their funds.

Examples: Popular sites include Crowdrise and Causes.

4.2 REWARD CROWDFUNDING: The most popular form of crowdfunding to date has been the reward model which has grown significantly in the funding of creative, social and entrepreneurial projects. The model allows people to contribute to projects and receive non-financial rewards in return, usually operating a tiered system where the more you donate the better the reward you receive. The model often closely resembles philanthropy with the donation far exceeding the monetary value of the reward or the reward costing the fundraiser little, such as experience or recognition-related rewards. For some projects the model is similar to a presale agreement. In these cases entrepreneurs or artists crowdfund the production cost of their record, movie, game or product and allow the donors to be the first recipients once the production is complete. Examples: Popular platforms operating the reward model are Kickstarter and Indiegogo and Peoplefund.

4.3 PEER TO PEER LENDING: Crowdfunded lending is largely an evolution of the peer-to-peer model of lending, pioneered by firms such as Lendingclub and Zopa. Projects or businesses seeking debt apply through the platform uploading their pitch, with members of the crowd taking small chunks of the overall loan. Some platforms focused on social causes offer interest-free loans such as micro-lending site Kiva. Others operate more as an investment, where interest rates are decided either by those seeking the loan or using a market for loan parts, such as that used by UK platform FundingCircle.

4.4 EQUITY CROWDFUNDING: The final type is the application of crowdfunding to investing for equity, or profit/revenue sharing in businesses or projects. This form of the model has been the slowest to grow due to regulatory restrictions that relate to this type of activity. Some European platforms have been pioneers of the equity crowdfunding model, allowing anyone to take a small stake in an unlisted or private business through crowdfunding. The most popular sites in offering this model are CrowdCube and Symbid. Others such as Quirky offer a revenue or profit-sharing model allowing you to capitalise on the success of the projects you back.

5. PROCESS OF CROWDFUNDING:
Crowdfunding is the process to raise money from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause. The following diagram shows the process of Crowdfunding:

![Figure 5.1 Process of Crowdfunding](image)

5.1 PRE LAUNCH: As with campaigns of any kind, preparation is critical. Decisions made here can make or break the project. It is important to plan the campaign with care and forethought.
Preparing and Assessing the Project: The first step is preparing and Assessing the Project. Under this, crowdfunding campaign is going to consist of several phases. These are as follows:

- Study the Project
- Prepare Assets in Advances
- Perfect Pitch
- Plan the Rewards
- Project Budgeting and Completion
- Funding Targets
- Campaign Duration
- Run a system Check
- Makes initial Outreach
- Engage Fans Early
- Get Ready to Proceed

These steps help in the Success of the Project. This is an Crucial Stage, which helps for succeed.

Creative and Effective Pitch: The pitch is the first point of contact with potential backers, and opening salvo in the war to win their hearts and minds. For an effective pitch requires exhaustive preparation and execution. For this Firstly Plan it. Work it. Refine it. Test it on unsuspecting friends. Solicit feedback. For an Effective Pitch the Video Pitch is must for giving the Face to the Pitch. Usually Pitch Include:

- Amount of Capital Desired
- Time Limit of campaign
- Introduction of the Product and Services to be Created
- Why Capital is Needed
- What Investor get in Return for their funds.

Following Points helps for making EFFECTIVE PITCH: and these are:-

- Make a Convincing Case
- Validate the Approach
- Certify the Credentials
- Transcend from Project to Movement.

Building Effective Rewards: For running the crowdfunding project it is important to offering anything tangible in return. If the rewards are not offering the Pitch cannot be launch and the contributors are not attracted to contribute. For consumer products, the first and most powerful reward would be to provide backers with a digital or physical copy of the item in advance and/or at a price far less than the typical retail value.

Final Check: At last, The final checking before Launch is needed. Double-check the video pitch and make sure it’s correctly paced, toned and gets the point across; be certain that rewards make sense, are attention-getting and are appropriately priced; and ensure that homepage pitch and supporting assets are all first-rate.

5.2 LAUNCH: In this stage the project and product is actually launch. The first step for any entrepreneur looking to start a crowdfunding campaign is to sign up to a crowdfunding platform. There are many platforms, each with their niches and individual characteristics which are unique to them, so determining which platform best suits your project needs is important. The two biggest crowdfunding platforms in terms of the amount of projects hosted and the amount of capital pledged, are Indiegogo and Kickstarter. The entrepreneur then uploads his “pitch” to the platform and establishes the details of the campaign. The pitch usually works best in video form, as it is the easiest way to communicate the details of the project and create a “face” for the project, helping to establish a relationship with potential e-investors.

This pitch should include details about the amount of capital desired, the time limit of the campaign, an introduction of the product or service to be created, why the capital is needed, and what the investors get.
in return for their funds. Whether the entrepreneur gets to keep the funds that are raised depends on the platform, for example, Kickstarter will only release the raised funds to the entrepreneur if the full amount is raised in time. Indiegogo on the other hand, will release all the funds regardless of whether the totalities of the funds were raised on time or not. Both of these approaches have their ups and downs, so it’s up to the entrepreneurs to determine which platform works best for them. The sole purpose of the platform is to connect entrepreneurs with potential investors.

5.3 POST LAUNCH: In the post launch, the Marketing and Advertising is needed for succeed into the market. and to take a cut from the money raised, so maximizing traffic and providing tools for entrepreneurs to make their campaigns successful is in their best interests. Although crowdfunding is considered a way to raise direct investments, entrepreneurs also get a lot more than that, they get comments and recommendations from their investors, they get additional market information, they get a greater reach/publicity for their projects and they get the experience which helps them work out kinks in their business plan before the full launch. A crowdfunding campaign is a great “testing ground” for new products or services, which allows for learning and experience while minimizing the risks and capital needed to run this “test”.

All these points shows the process of the Crowdfunding which helps to raising the capital through Website platform.

6. DIFFERENT PLATFORMS OF CROWDFUNDING:

There are different platforms of crowdfunding, which helps for launch their product and project. There are various e-investors, which helps to contribute the funds for marketing the product or project.

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<th>Table 6.1 DIFFERENT PLATFORMS OF CROWDFUNDING</th>
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<td>Kickstarter</td>
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<td>Razoo</td>
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Table 6.1 Platforms of Crowdfunding

These are explain as follows:

KICKSTARTER: Kickstarter is a platform where creative projects raise donation-based funding for domains like films, games, music, art, design and technology. Since their launch in 2009, they have raised $ 819 Million in funding for 49,000 creative projects.

INDIEGOGO: Indiegogo allows donation-based fundraising campaigns for different projects related to personal finance needs and charities. Since its inception in 2008, they have had great international growth because of their flexibility and broad approach to industries.

CROWDFUNDER: Crowdfunder allows start-ups and small businesses to raise funds by selling equity, debt and revenue-based securities, while attracting angel investors and venture capitalists to your company. The company has localized crowdfunding and investment to help develop entrepreneurial ecosystems and access to capital outside Silicon Valley.

APPBACKR: A wholesale market providing funding and distribution for the best new apps to platforms and stores. It offers a chance to let the backers fund the apps that are currently on sale or in the stage of
development, but backers could earn back their money by backing the app.

MEDSTARTR: MedStartr is a crowdfunding platform designed specifically for healthcare. The founder, Alex Fair noticed that healthcare projects have a dismal record on crowdfunding Web sites with a funding rate of only 5-10%. Alex Fair seized this opportunity for Crowdfunding Healthcare platform by launching Medstartr.

PLEDGE MUSIC: Pledge Music is an effort to provide new talent into the music industry. Through Pledge Music, artists create new music projects, and when you contribute to a campaign, you gain access to new music as well as exclusive content and experience the music creation process alongside the artist, all before the album officially hits the masses.

RAZOO: Razoo is a site that focuses heavily on social causes over profitable projects. Razoo divides its platforms into Non-profits, Individuals, Corporations, and Foundations, each with its own benefits. Razoo has raised more than $97,000,000 for thousands of worthy causes.

ROCKETHUB: Rockethub powers donation-based funding for a wide variety of creative projects. What’s unique about RocketHub is its FuelPad and LaunchPad programs that help campaign owners and potential promotion and marketing partners connect and collaborate for the success of a campaign.

SPACEHIVE: Spacehive’s founder describes it as “an online funding platform for neighbourhood improvement projects” – and primarily for those based in England at that. Approval is required to launch A campaign. Fees: Scale with size of project. Money is in English Pounds. Goals: Meet goal or get nothing. You can’t earn more than the goal you set.

7. BENEFITS AND RISKS:

7.1 BENEFITS AND RISK ASSOCIATED WITH CROWDFUNDING

Many countries see the benefits of crowd-funding which is a form of market-based finance; primary among them is the ability to raise capital efficiently and effectively. An individual or organisation can raise the required capital they need, in most cases without giving up large equity interest. As a result, many jurisdictions have actively sought to encourage the development of these markets through various regulatory means. Other benefits associated with these innovative industries include:

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<th>BENEFITS</th>
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<td>Economic Growth</td>
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<td>Liquidity Risk</td>
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<tr>
<td>Increase Competition</td>
<td>Risk of Cyber Attack</td>
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Table 7.1.1 Benefits and Risks

a) Helping economic growth through new and increasing flows of credit to SMEs and other users in the real economy: This is the benefit most cited by governments who want to encourage the growth of SMEs, and the role they play, in their respective economies. SMEs are an important engine of economic growth. As such, any mechanism that helps those entities more efficiently access capital for their development and expansion helps job creation and aids economic recovery. While some jurisdictions do not offer this form of capital raising, some others encourage investing in ventures like SMEs through this market activity.
b) **Fills a gap left by banks**: The tighter restrictions on traditional lenders through higher capital requirements have reduced their appetite to issue uncollateralised credit, for personal loans or other loans. Market-based finance is an alternative to traditional lending and peer-to-peer lending and equity crowd-funding platforms have moved in to serve this niche market, and as a result have grown exponentially since the crisis.

c) **Lower cost of capital/high returns** - Leveraging off a lower cost basis In an era of low returns for investors and scarce capital for those who need it, crowd-funding provides a low cost alternative for channelling savings to the real economy, usually at lower rates than through traditional funding. Additionally, venture and seed capital requests are rarely subscribed to in the current economic environment. Crowd-funding alternatives provide an affordable and attainable option for raising capital.

d) **Provides a new product for portfolio diversification**: Peer-to-peer lending platforms have in effect provided investors with a brand new asset in the form of un-collateralised debt. This innovation enables investors to further diversify their portfolios. The diversification of assets can reduce the build-up of systemic risk, as it reduces the overreliance of investors on a single asset and reduces the amount each one invests in each product. Instead, funding requests are met by many investors, each investing a proportionately smaller amount.

e) **Cost efficient**: One benefit of all the different types of online platform is that, unlike banks, they have little need for a physical presence in a locale. This, coupled with the streamlined cost of using algorithms to determine the creditworthiness of applicants, allows for the platform to operate with a relatively low infrastructure cost. Hence, online platforms may be more cost efficient than traditional lenders who need a physical presence and manpower to operate effectively. Lower overhead reduces the cost of the loan for the borrower but also increases the return rate for investors as the administrative costs are lower.

f) **Convenient**: An online platform has the added benefit of convenience. Many platforms emphasise this advantage in their marketing campaigns. Online platforms are more accessible to users, who may find it easier to manage their portfolio as a result. Unlike traditional investments, which may be available only at certain times of day, these online portfolios are accessible at any time.

g) **Increases competition in a space traditionally dominated by a few providers**: Increased competition benefits borrowers and lenders, as well as the economy as a whole. It lowers costs and helps establish value. In addition it creates the incentive for traditional entities to innovate, reduce cost and increases efficiency. This will not only help borrowers to access credit in a timely manner, but will also reduce the cost of contracting a loan: Traditional entities will compete with the effective credit assessment techniques currently used by the lower cost rivals, namely the online platforms. In addition the competition of traditional investments with online platforms can result in higher returns for investors and lower costs for business ventures or other borrowers.

### 7.2 RISKS

There are a number of risks associated with crowd-funding, and which challenge retail investor protection. These include:

a) **Risk of default**: Default rates are an important consideration in crowd-funding. When Prosper, one of the largest peer-to-peer lending platforms in the USA, debuted in 2006 it had a low threshold on the
creditworthiness of the borrowers able to obtain loans from the platform. It expected lenders to differentiate between investment opportunities through consideration of interest rates, with higher interest rates relating to higher risk investment opportunities. The higher rates of return associated with the less credit-worthy borrowers was compounded by the auction system used by Prosper at the time, which pushed down interest rates as more lenders got involved.

b) Platform risk: The platform risk is the risk of a platform being temporarily or permanently shut down. If the platform closes it could put the lenders portfolio of loans at risk of not being repaid as the intermediary position, responsible for the collection of repayment, is unable to be fulfilled. As most crowd-funding platforms have yet to show a positive turnover, this raises the risk of this occurring. An example of this risk transpiring is the now defunct peer-to-peer platform Quackle. In 2011, Quackle closed suddenly overnight leaving no information on the borrowers or lenders. Consequently the contracts could not be fulfilled resulting in 100% loss.

c) Risk of fraud: Peer-to-peer lending suffers from the same risks associated with any other credit provision institution, which include: identity theft, money laundering, terrorism financing, consumer privacy, and data protection violations. But, in order to take advantage of the lower costs associated with technology most platforms operate solely through an internet portal or website. This means that there is a higher chance of fraud in both peer-to-peer and equity crowd-funding platforms due to the inherent anonymity that the internet offers.

d) Information asymmetry and quality: Due to the anonymous nature of the peer-to-peer lending market, the lender lacks hard information on the borrower. The only hard information available to the lender is the interest rate assigned by the lending platform to the borrower. This is to maintain the borrower’s anonymity. Lenders must base their decisions on unverified soft information.

e) Risk of investor inexperience: Another risk is the risk of investor inexperience particularly for retail investors. This risk could be increased by the perceived credibility and safety of these industries through governments lending money through these sites, and the continued regulatory changes in order to allow the industries to grow through the use of exempt markets. This may be perceived as the rubber stamping of crowd-funding, which less experienced retail investors may see as a sign of the industry’s safety, and not follow due diligence when they invest in this industry. In peer-to-peer lending there is no investor protection so far by way of a compensation scheme to cover defaults.

f) Liquidity Risk: The risk of illiquidity is an important risk as well as there is no secondary market for most platforms. Investors may not fully understand the risks involved in investing in illiquid stocks, and may be spurred by the promise of higher returns to invest in companies with a high chance of failing. Consequently a number of retail investors could lose money through equity crowd-funding.

g) Risk of cyber-attack: As peer-to-peer lending and equity crowd-funding are largely an internet phenomenon, there is a significant risk related to cyber-security. This could come in many forms, from overloading the platform’s infrastructure, to confusing accounts and/or identity theft. The platform’s creators may need to ensure they have enough technical expertise to prevent such cyber security issues.
8. EXAMPLES OF CROWDFUNDING:

There are some examples of crowdfunding which helps to the entrepreneurs to success into their business by providing financial help:

<table>
<thead>
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<th>Table 8.1 Examples of Crowdfunding</th>
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- **Entheon Backers** – 1510 Funding received - $ 210,127 Pledged initial – $125,000 Entheon is a sanctuary (exhibition space) of Visionary Art. It is a place to discover the creator within, since creativity is a global language shared by everyone. It is under construction at CoSM (Chapel of Sacred Mirrors) a centre for visionary arts located in New York’s Hudson Valley. The concept creator Alex Grey has included new technologies like 3D sculpting, scanning, and modeling to bring life into this unique structural design. Some of the main themes include love, family, eco-awareness, and a portrayal of the human evolution through art.

- **Pebble Backers** – 68, 929 Funding received - $ 10,266,845 Pledged initial – $ 100,000 Pebble is a customizable watch with downloadable watch faces and useful internet-connected applications. Pebble connects to iPhone and Android smart phones using Bluetooth, alerting you with a silent vibration to incoming calls, emails and messages. The current prototype of Pebble is now close to entering the production phase and we may see the product on people’s wrists very soon.

- **Urban Air Backers** – 68, 929 Funding received - $ 10,266,845 Pledged initial – $ 100,000 Urban Air transforms existing urban billboards to living suspended bamboo gardens. It was born as an artwork by Stephen Glassman. This artwork of an Urban Green Billboard sparked interest and lead to the formation of a team of structural environmental engineers, technologists, billboard fabricators and outdoor advertising specialists to design and develop a system kit that enables any standard billboard to be easily transformed into an Urban Green Space.

- **Dreambox Backers** – 282 Funding received - $ 29,277 Pledged initial – $ 26,000 Dreambox is a social experiment based on the premise that collective humanity is a powerful means of positive change. It is a solar powered eight feet steel cube which glows at night and shines during the day. Dreambox allows people to privately record their lifelong dream into a high density camera. The interactive touch screen interface allows you to enter contact information so that viewers can get in touch with you in case of any assistance.

- **Flipbookit Backers** – 1856 Funding received - $ 137,567 Pledged initial – $ 5,000 Flipbookit makers Mark Rosen and Wendy Marvel create moving art that tells stories that tickles our sense of nostalgia. In 2011, a series of these flipbooks began touring with art galleries and special events internationally. The original gallery versions of the artwork were expensive and available only in limited edition but the public response was so overwhelming that Wendy & Mark decided to share this magical form of art display with as many people as possible. To develop the idea of Flipbook kit animations, they teamed up with Steven Goldstein, a Disney imagineer, who has guided many products through the production and development stage.
- **Oculus Rift Backers** – 9,522 Funding received - $2,437,429 Pledged initial – $250,000 Oculus Rift is a new virtual reality (VR) headset designed specifically for video games. With an incredibly wide field of view, high-resolution display, and ultra-low latency head tracking, the Rift provides a truly immersive experience that allows you to step inside your favorite game and explore new worlds like never before. Designed by gamers for gamers, the Rift takes 3D gaming to the next level.

- **Scandau Scout Backers** – 8,522 Funding received - $1,664,335 Pledged initial – $100,000 Scanadu Scout is designed to be a medical grade Tricorder using a Smartphone and Bluetooth to emulate an Emergency Room in your pocket. You simply place the device on the forehead for 10 seconds and the details of your vitals are displayed on a Smartphone. The details include heart rate, temperature, respiratory rate, blood pressure, ECG and emotional stress.

- **Kite Backers** – 11,254 Funding received - $557,254 Pledged initial – $75,000 Kite is a small powerful patch that disperses a non-toxic compound that makes humans invisible to mosquitoes for 48 hours. Kite, which has been termed by the press as “the answer to the spread of malaria” can be applied to any clothing like a sticker and is designed for use by all ages including infants and pregnant mothers. The Kite patch has been priced at a fraction of the existing mosquito repellents, but is said to be more effective than them.

- **Gravity Light Backers** – 6,219 Funding received - $399,590 Pledged initial – $55,000 Gravity Light is a revolutionary new approach to storing energy and creating illumination. With the simple design of Gravity Light, it only takes a few seconds to lift the weight, which creates enough energy for half an hour of light, whenever it is needed. It has no batteries to run out, replace or dispose of. It is completely clean and green.

- **FABtotum Backers** – 509 Funding received - $330,424 Pledged initial – $50,000 FABtotum is a multipurpose desktop personal fabrication device which can operate a wide range of Computer controlled (CNC) manufacturing and 3d-scanning processes. The functions include Print, Cut, Mill, Scan, Manipulate and Rinse. The FABtotum is a device designed to push the boundaries of personal fabrication. “FABtotum is not just a machine, but a vision.”

- **Muse Backers** – 1,613 Funding received - $287,472 Pledged initial – $150,000 Muse is a brainwave-sensing headband. It’s a comfortable, sleek, four-sensor headband that allows you to control applications, games, reduce stress, improve memory, concentration, and control devices directly with your mind. Muse measures your brainwaves in real-time and sends those brainwaves to your smartphone or tablet showing you how well your brain is performing. It also translates your brainwaves into instructions to interact with content on your iOS or Android device.

- **Wimoto Backers** – 343 Funding received - $42,354 Pledged initial – $500 Wimotoes are a family of small, wireless sensors for your iPhone, iPad, Android, Linux or Raspberry Pi device that measure environmental details such as ambient temperature, humidity, light, soil moisture, soil temperature, object temperature, human presence and movement. They last for about a year on a single battery and don't require an internet connection. Data are uploaded to their cloud service for analysis.

- **Structure Sensor Backers** – 2,123 Funding received - $769,084 Pledged initial – $100,000 The Structure Sensor gives mobile devices the ability to capture and understand the world in Three Dimensions.
(3D). With a Structure Sensor attached to your Smartphone you can instantly capture anything in a 3D digital form. Some examples include 3D maps of indoor spaces, instant captures of 3D models and objects that can be further imported to CAD for 3D printing.

- **Little Robot Friends Backers** – 1285 Funding received - $112,023 CAD Pledged initial – $55,000

  The Little Robot Friends are a collection of cute and smart autonomous objects. They can sense the amount of light in a room, they can hear with a small integrated microphone, they can detect one’s touch and they can also communicate with other Little Robot Friends using infrared light. Every Little Robot Friend has 6 different personality traits controlled by a function, e.g., if the robot is afraid of the dark, it feels fear but after you comfort it, the robot’s feeling might change. The mood change in the Robot is expressed through colors.

- **Sigmo Backers** – 2164 Funding received - $175,289 Pledged initial – $15,000

  Sigmo is a voice translating device that helps communicate and understand other languages. It has two modes of voice translation. One sets the native language, then the language to translate to. Once you press the first button and speak your phrase, Sigmo instantly translates and pronounces it in the language you have selected. The press of the second button will translate phrases from the foreign language instantly into your native language.

- **Robot Turtles Backers** – 12,942 Funding received - $586,169 Pledged initial – $25,000

  Robot Turtles is a board game for kids aged 3-8. It takes seconds to learn, minutes to play, and will keep them learning for hours. Kids will not know it but while they're playing, they're learning the fundamentals of programming. The kids put instruction cards down, driving the turtles through the maze, but a grownup acts like the computer, executing commands on the board. Each level changes the game to make it more challenging, so Robot Turtles can grow with your children.

- **Shadow Backers** – 2389 Funding received - $55,291 Pledged initial – $50,000

  Shadow is a mobile application that helps you remember and record your dreams. Shadow consists of an in built escalating alarm that gradually transitions you through your hypnotic state from sleeping to waking. Once you are awake, the application immediately prompts you to record your dreams via voice or text. If you are really struggling to remember the dream the application prompts you to answer a series of 5 – 10 questions designed to jog your memory. Over time, patterns emerge, the longer you use the application the more accurate and rewarding it becomes. You can also explore the dream content, context and sentiment that you and the others in the community experience.

- **Petcube Backers** – 824 Funding received - $102,899 Pledged initial – $100,000

  Petcube brings people closer to their loved pets. Petcube is a 4 x 4 x 4 inches gadget consisting of extruded aluminum casing, front glass, wide angle camera, 2 servo motors, low intensity laser, microphone and speakers, circuit board, notification LED and mini-USB port. The device is plugged into the wall with a mini-USB power adapter and is connected to your home Wi-Fi. You can check your pets via your Smartphone from anywhere across the globe. The in built speakers & microphone enables you to have conversations with your pet.

9. CONCLUSION AND IMPLICATION:

Seeking inputs from the information presented above, it is concluded that crowd funding will fundamentally change the way businesses are financed wherein the use of internet technology and use of social media
Platforms will become the primary device for all financial needs.

When fully operational across the globe, with all the countries making standardised legal procedure for the same and making it part of IFRS, crowd funding would be a win-win. It would be beneficial to the business community at large for acquiring finances and meeting their long term as well as short term needs.

The convenience of getting finance without complex formalities and just on a click on the link will make crowd funding a game changer in the economy. Above all, crowd funding will make a major impact on the economy as it would substantially end hassles in the financing decisions of the firms.

REFERENCES: