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## Crowdfunding: A Fintech Revolution In The Indian Scenario With Special Reference To Selected Start-Ups

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### ABSTRACT

In India, the procreation of the connected devices has led to the development and growth of starts- ups in the finance and technology sector. Technology is altering the way people handle banking transaction. Entrepreneurs in India now have access to a new class of capital through crowdfunding. The emergence of this concept has helped people to visualize their idea and cater the same to the public. Crowdfunding is a very feasible way to reach diverse audience. Crowdfunding is potentially the trend of start- up eco system. It is definitely offering itself as a credible and exciting alternative to traditional means of financing. Entrepreneurs' innovative revolutionary concepts that will change the peculiar mindset of the people there by motivating people to participate in crowdfunding.

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In the past 20 years, the internet and social media have brought about dramatic changes in scientific practice towards a more collaborative and connected approach with the general public and citizen scientists. This changing paradigm is also opening new ways to raise funds for various start ups. These entrepreneurs have started to seek funding through “crowdfunding”.

Crowdfunding is the concept of funding a venture, project or a start-ups by way of raising money from a large number of people generally through an online platform. Crowdfunding platforms can be used to raise equity, debt, donations or for providing rewards in return for funding. There is also uncertainty about the long-term implications of crowdfunding, such as whether existing projects ultimately deliver the products they promise. In short, this important and growing area of entrepreneurial activity and government action is

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understudied, even as both practice and policy continue to rapidly advance. New ventures require resources to succeed, and one of the most critical of these is financing (Gompers and Lerner, 2004; Gorman and Sahlman, 1989; Kortum and Lerner, 2000). In recent years, crowdfunding has emerged as novel way for entrepreneurial ventures to secure funds without having to seek out venture capital or other traditional sources of venture investment. The crowdfunding mechanism is also related to social networking, where consumers actively participate in online communities to share information, knowledge and suggestions about a new initiative and/or brand. However, crowdfunding goes beyond conventional social-network participation by incorporating more proactive roles for consumers, such as selecting new initiatives to support and providing financial backing for them.

### **Types Of Crowdfunding:**

1. **Equity-based crowdfunding:** Before knowing more about this kind of crowdfunding, you should know that equity-based funding is illegal in a country like India. In simple words, it is a joint effort made by individuals to support the cause of other people or any other organizations in the form of equity. This is legal when we consider the United States, where it is mentioned in the 2012 legislation which allows a pool of small investors to come together.
2. **Reward-based crowdfunding:** This type of Crowdfunding is also known as the non-equity way of funding your project. It has been widely used for funding campaigns like supporting a free development of software, promotion of motion pictures, aiding scientific research and development of inventions, etc. The people who are funding are hopeful of returns from the project.
3. **Debt-based crowdfunding:** This is popularly known as 'Peer to Peer,' 'P2P,' 'marketplace lending' and even 'crowdlending.' Borrowers create campaigns to fulfill their financial needs, and lenders contribute towards the goal for an interest.
4. **Litigation crowdfunding:** It is a type of crowdfunding in which the plaintiff reaches out many different people to get funds for a court case; it mostly happens confidentially. The plaintiff asks money either in the form of a donation or gives a reward in return. Later on, if the claimant wins the case, the investor may get more than what he has invested.
5. **Donation-based Crowdfunding:** The best example for this would be raising funds from individuals to support personal or social causes.

## Applications Of Crowdfunding India

1. Crowdfunding for personal & Individual Use
2. Crowdfunding for real estate
3. Crowdfunding for startups (In India)
4. Crowdfunding for businesses in India
5. Crowdfunding loans
6. Crowdfunding college debt

### Crowdfunding for Startups:

In the recent times, India has witnessed a massive growth in the startup industry. It is because people want to break out of the barrier of working 9-5 and our government supports it. The government has a significant role to play in this, as they're offering some advantages for startups such as relief from paying tax for the first three years and much more. Startups often look out for investors and try to approach VCs to get funding. Sometimes it gets tedious. Startups can try using crowdfunding as it increases the brand reach and it's easier than approaching a VC. Crowdfunding for businesses also comes under this. If one plans to start a business and running short of funds, then they might have thought of approaching a bank to get a loan for yourself. Getting loans from banks isn't easy as it has a lot of formalities involved. Crowdfunding will help you fetch funds easier than any bank.

### Setting up of a Crowdfunding Project

There are many ways to set up a crowdfunding project.

1. **Choosing a platform** – There are a lot of different crowdfunding sites to choose from, such as Rang de, Faircent, catpooft etc to choose the platform that is right for and to create ones project.
2. **Makingan idea enticing** – In order to get the attention of potential investors, it should be made sure that short and snappy sales pitch and some great imagery or video content related to the idea. This will help the new entrepreneur stand out.
3. **Offering good rewards for investment** – With all projects, the rewards for investing are based on how much someone chooses to invest. Considering early access to the product or service, discounts and extra goodies that will attract the people and make sure that they will actually get something back for their money.

4. **Having an appropriate range 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 the investors are offered a few different levels of investment.
5. **Making it easy to share your project** – Successful crowdfunding projects often do so well because investors are excited about the idea they have contributed to and want to tell others, so make sure they can share it on social media easily.
6. **Letting people know about it** – No matter how good the idea is, if not known to the public, how can one invest? A great emphasis has to be given on how to utilise social media, give networking a try, and definitely keep the potential investors updated on the progress of the campaign.

### **Success stories of start ups in India**

Several businesses and organisations abroad have been raising funds through crowd funding platforms for years, and now the trend is catching on fast in India, as well. Crowd funding is a new-age concept, where people from all over the world connect through online platforms to support a business idea, campaign or an organisation. This is an excellent way to raise funds for small business owners and budding entrepreneurs, as it cuts down the formalities of traditional fundraising techniques of grant applications and permissions while fostering a community of support for your business. There are many start ups which have succeeded through the funds raised through crowd funding. Here are a few:

- **Spin Academy** : Academy is a dance academy based out of Ahmadabad, Gujarat. The campaign – Be Fit! Be Spin! was launched in Aug 2013. The academy raised money for their new dance and fitness DVD – 25-minute long workout session combining Zumba, Weight Training and Cardio. In a short span of 60days, the academy was able to raise Rs 4,03,901, crossing their target by a few thousands. This campaign was supported by 339 contributors, who believed in the academy's ability and vision.
- **Printajoy.com** :Three young men from Gujarat came together and started Printajoy.com – India's first affordable, online printing tool that converts instagram pictures into print copies. This start-up company approached [www.wishberry.in](http://www.wishberry.in) to raise funds for infrastructure, printing, packaging and marketing their product. Through crowd funding they raised a total of Rs 1,02,500, kick starting their journey to entrepreneurial success.

## **An exploratory study**

As an exploratory empirical study, the goal of this paper is to develop initial evidence about the nature of crowdfunding and its role in entrepreneurship research. Thus, rather than formal hypothesis testing, the remainder of the paper will examine the key issues around crowdfunding from the perspective of entrepreneurship involving the technological aspects: its links to existing theory, the effects of a new form of fundraising, and the success or failure of the process.

For this study, we sampled both successful and unsuccessful projects. In order to examine projects that most closely approximated more conventional start-up companies and few potential investors who were a part of crowdfunding and investors who were planning over their investment through crowdfunding.

## **Research Methodology:**

The research is the common parlance that refers to search of knowledge. Research is, thus a original contribution to the existing stock of knowledge making for its advancement. The method used for this research is The Mailing of Questionnaire Method. This method is selected as it is free from bias of interviewers, less time consuming and economical. This study uses data provided by investors who has invested in crowdfunding companies like Rang de, Faircent, Catpooolt and BitGiving and also received response from willing investors.

Sample size: 35 respondents

Sampling: Simple Random Sampling

## **Crowdfunding as a Fintech Revolution**

The crowdfunding activity is just one of many aspects of FinTech.

- This strategy not only allows you to gauge the scope of general consumer interest in, and test the validity of, new concepts.
- This type of funding helps overcome all the technical issues with respect to traditional funding.
- It is a revolutionary method in both areas of financing and information technology.

- From an entrepreneur's standpoint, it's hard to argue with the results. Under typical scenarios, business owners make educated guesses about products that people will be interested in, and how much they'll be willing to buy.
- Crowdfunding projects can begin sourcing contributions with as little as a polished pitch – and may exceed funding goals many times over, without having to justify each additional rupee contributed.
- It provides an inexpensive learning experience – what you take away from the process will be subjective, but there's no question that such knowledge will apply to future projects and campaigns.
- The entrepreneurs get feedback from the crowd regarding the product and it certainly play a big role in motivating them to use crowdfunding.
- Crowdfunding essentially relies on the idea of democratizing the flow of money into a project.
- Crowdfunding as it is today allows an entrepreneur to gain market validation and avoid giving up equity before going all out and taking a product concept to market.
- Crowdfunding makes the concept reliable by showing investors and convincing he entrepreneurs that the venture has received sufficient market validation at an early stage is hard.
- Launching a crowdfunding campaign gives an entrepreneur the ability to pre-sell a product or concept that they haven't yet taken to market.

### **Challenges of Crowdfunding**

- Plotting successful crowdfunding ventures demands a different kind of preparation than traditional product pitches
- Success requires investing tireless effort into ongoing social marketing campaigns, and constant self-promotion, throughout the entire duration of the fundraising campaign.
- It doesn't always work. That's not to say that you should be discouraged about the chances of successfully crowdfunding a project, but you do have to be realistic, and prepare yourself for potential failure.
- Unsuccessful ventures may be seen as less viable when presented to potential future investors. You are unlikely to meet with success selling a project to prospective

investors that has previously failed when presented through a crowdfunding campaign. The value of such ventures will be assumed to be greatly reduced.

- Crowdfunding can help businesses raise smaller amounts of money from multiple backers. Not only does it save time and money, but also it can help a startup to establish a customer base, organize multiple marketing campaigns, and maintain control over how to reward shareholders.

### **Findings and summary**

Crowdfunding, which allows a large number of individuals to collectively finance a new business venture through a technology platform, has risen rapidly as a popular way of financing a wide range of activities including business ventures, personal loans, and charity projects. The modern crowdfunding business mode consists of three types of players: the project proposers who provide the original idea/blueprint/project that requires external finance, potential investors who are interested in the idea, and an internet platform that brings all parties alongside to kick-start the new business venture.

- The purpose of crowdfunding is purely monetary, by providing funding from the crowd to small projects and ventures.
- The mindset of the Indians is still not digitalized as they fear losing the money invested.
- This concept has gained its importance in India due to the fintech revolution approach of funding
- As the concept is new investors are sceptical to invest
- The investors in India are keen on regulations and regulatory authorities governing the funding.
- This concept focuses on investing the creative ideas and therefore motivates the investors to invest for creative idea creation.
- It can prove effective to get through the first trial of a business product, it is not a viable long-term option for funding and it does not work for complex businesses or startups with large capital requirements.
- Crowdfunding is not just about raising money. It's also about validating one's idea and getting an early commitment from customers.

- The surge of crowdfunding in India has forced creative individuals to step out of their comfort zones and chase their dreams wildly with a club.

## Conclusion

Without a doubt, crowdfunding in India is looked upon as a key factor in raising funds for start-ups and new ventures. There are no serious concerns if India brings crowdfunding under legal scrutiny. After all an efficient and the all inclusivecrowdffunding system is about to play a catalytic role in bringing start-ups ideas into reality. Moreover entrepreneurs and start-ups should not shy away from using crowdfunding model as an essential means of raisng

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