CROWDFUNDING: AN ATTRACTIVE SOURCE OF FUNDING

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ABSTRACT

Crowdfunding is when a "crowd" funds a project or business, rather than a couple of major investors. Crowdfunding is when businesses, organizations or individuals fund a project or venture with small donations from many individuals. There are four types of crowdfunding - donations, rewards, debt and equity. From an investor's perspective, crowdfunding offers an easy way to invest using any online platform and they can invest in multiple ventures thus diversifying their portfolio. Effective communication with the backers, sharing of relevant material and overall focus on the campaign can easily help collect the required amount. All in all, crowdfunding is set to grow significantly and will be a very good source of funding for small ventures and start-ups.

Keywords: *crowdfunding, donation, reward, debt, equity, campaign*

Introduction

Crowdfunding is when a "crowd" funds a project or business, rather than a couple of major investors. Crowdfunding is when organizations, businesses, or individuals fund a venture or project with small donations from many individuals. By receiving the necessary lift to cash flow, these ventures can make headway or launch new projects. The vast majority of these campaigns happen via internet platforms, have set time periods for when cash can be raised and disclose explicit monetary goals (Johnson, 2021).

Crowdfunding types

1. Donation: Donation-based crowdfunding is when individuals give a campaign, company or person money for nothing consequently. The individuals who give money do this is because of support for the development of the business and nothing else.
2. Debt: Debt-based donations are peer to peer (P2P) lending, which is a form of crowdfunding. In donations that are debt-based, the money pledged by the backers is a type of loan and should be repaid with interest by a certain deadline.
3. Rewards: This is when donors get something as a trade-off for their donations. The rewards vary by the size of the donation, which incentivizes higher commitments. Based on how much money participants provide for a campaign, they may get a T-shirt, the product or service – often at a discounted rate.
4. Equity: While some crowdfunding campaigns don't allow backers to claim a portion of the company they're supporting, equity-based crowdfunding allows small businesses and startups to part with a portion of their business in exchange for funding. These donations are a sort of investment, where participants get shares in the business based on how much money they contribute.

Literature Review:

There is considerable research on the topic of crowdfunding. Below are a few abstracts from the recent literature.

Cumming et al. (2020), have posited that, reward based crowdfunding campaigns are regularly offered in one of two models through fundraising goals set by an entrepreneur: "Keep-It-All" (KIA), where the entrepreneur keeps the whole sum raised regardless of accomplishing the goal, and "All or none" (AON), where the entrepreneur keeps nothing except if the goal is achieved. We estimate that AON powers the entrepreneur to bear more serious risk and urges crowd-funders to pledge more capital empowering entrepreneurs to define bigger goals. We further guess that AON is a costly signal of commitment for entrepreneurs yielding a separate equilibrium with higher quality and more imaginative projects with better success rates. Empirical tests support both hypotheses.

Chemla and Tinn (2020), have argued that, we foster a model in which reward-based crowdfunding enables firms to obtain a reliable proof of concept early in their production cycle: they learn about total demand from a restricted sample of target consumers preordering a new product. Learning from the crowdfunding sample creates a valuable real option because firms contribute just whenever updated expectations about total demand are adequately high. This is particularly valuable for firms facing a serious level of uncertainty about consumer inclinations, like developers of innovative consumer products. Learning also enables firms to defeat moral hazard. The higher the assets raised, the lower the firms' motivating forces to redirect them, if outsider platforms limit the sample size by confining campaign length. Even though the probability of the campaign being successful decreases with the sample size, the expected funds raised get maximized at an intermediate sample size.

Petruzzelli et al. (2019), have opined that, despite the fact that there is a large assortment of knowledge rapidly accumulated on crowdfunding as well as the developing relevance of this marvel for sustainability, there are not very many investigations on the part of crowdfunding for sustainability-situated projects, and many related issues are still far from being completely understood. This signals a clear requirement for disclosing the main dynamics of the relationship among crowdfunding and sustainability, and also opening up useful bearings for future research on this relationship. In order to conceptualize the repercussions of crowd funding for sustainability, it us proposed to use a framework, consisting of five parameters, namely project creator, the campaign itself, the backers, the crowd funding platform, the outcomes of crowdfunding campaigns. By deciphering and adjusting the discoveries arising out of the extant crowdfunding literature to the particular setting of sustainability-situated projects, we foster recommendations that give important implications to this kind of initiatives.

According to Ellman and Hurkens (2019), this paper characterizes profit-and welfare-maximizing reward-based crowdfunding, characterized by an aggregate funding threshold for production. We disentangle crowdfunding's selling and funding roles, locating its vital advantage in its market test job of adapting production to demand. Various prices demonstrate necessary for viable learning and adaptation, even with relatively large groups. Mechanism configuration demonstrates general optimality in our baseline and shows the value of limiting reward quantities. Funding is not fundamental and crowdfunding may even supplement traditional finance. We characterize welfare consequences, model price dynamics and distinguish platform designs and regulations that enhance innovation and social benefits.

According to Vismara (2019), existing examinations on the relationship among sustainability and crowdfunding are focused on campaigns that give rewards to backers. Equity crowdfunding is substantially different as far as motivations to invest as well as in size, horizon, and expectations of the investment. For the first time – using a sample of 345 initial equity offerings in United Kingdom platforms Crowdcube and Seedrs in the period 2014–2015 – this investigation gives proof of the attractiveness of sustainability-oriented ventures in equity crowdfunding. Results show that, although sustainability orientation doesn't increase the chances of achievement or of engaging professional investors, it attracts a higher number of restricted investors.

Moreover, Bassani et al. (2019), Mochkabadi and Volkmann (2020), Bagheri et al. (2019) and Sauermann et al. (2019) have dealt with various aspects of crowdfunding.

Crowdfunding challenges

1. Finding and implementing a cost-effective marketing strategy before, during and after the campaign
2. Crafting the right messaging in the campaign depiction that will drive interest in the product or service
3. Developing an informative and exciting campaign video that explains the product and its benefits (the main challenge being that it's expensive to create a great and high-impact video)
4. Creating and planning the rewards program to strategically maximize the ROI
5. Finding the most effective and cost-efficient fulfillment technique for the rewards

Benefits to investors

1. Investors appreciate a low-risk venture, and crowdfunding offers simply that. Since it is not a part of the financial market, investors don't have to worry about the impacts of the economy or stock market impacting their investment.
2. It's easy to invest in a crowdfunding campaign. Investors can place money into a project or company through a direct online interaction.
3. Equity crowdfunding allows investors to support various campaigns, which assists them with expanding their financial opportunities and differentiate their portfolios.

Conclusion

Crowdfunding is when a "crowd" funds a project or business, rather than a couple of major investors. Crowdfunding is when businesses, organizations or individuals fund a project or venture with small donations from many individuals. There are four types of crowdfunding – donation, when the donor does not get anything; rewards, when the investor gets some reward at a discounted price; debt, when the investors get back his money with interest and equity, when the investor gets stake in the project or venture. There are certain type of challenges for funding through crowdfunding, such as, cost effective marketing strategy for the campaign, crafting the right messaging for the campaign, developing an informative video on the project, planning a rewards program and finding a cost-effective method of rewards fulfilment. From an investor's perspective, crowdfunding offers an easy way to invest using any online platform and they can invest in multiple ventures thus diversifying their portfolio. Effective communication with the backers, sharing of relevant material and overall focus on the campaign can easily help collect the required amount. All in all, crowdfunding is set to grow significantly and will be a very good source of funding for small ventures and start-ups.

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