CROWDFUNDING: AN INNOVATION IN THE AGE OF DIGITAL MARKETING

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ABSTRACT

Entrepreneurs today establish the startups based on their own value chain using digital technology. Digital Marketing helps startups to focus attention of crowd through innovation and new marketing techniques. Crowdfunding is the collection of funds from people by marketing product / idea / startup online through internet platforms using digital technology.

Crowdfunding is emerging as a billion dollar industry with funding opportunities available across platforms to entrepreneurs, organizations, and companies like Honda, Coca-Cola etc. Crowdfunding allows customers to fund for a product or cause themselves. Dell used this to fund the purchase of a laptop for college students. Honda used the platform of Indiegogo.com to raise funds for a project (social cause). Kimberly-Clark used this on moms to develop innovative products for children (FMCG product). The most famous crowdfunded product ‘Pebble Watch’ started pushing hard on the founders to make the watch waterproof (by the crowd) that the company had to add this feature before it closed the campaign.

Smart brands have realized that crowdfunding provides focus groups online which help elevate the value n existence of their product. If any firms / organization or company wants to be at the forefront of digital cutting-edge integrated marketing tool it has to ‘innovate’. The paper tries to analyze crowdfunding as an opportunity for innovation in the digital age. It uses questionnaire to gather data from platform providers and startups to judge how important is digital technology for crowdfunding. It also lists certain pros and cons for crowdfunding in the age of digital marketing.

Keywords: Crowdfunding, Honda, Dell, Kickstarter, Ignite Intent, Wishberry, Ketto

1. INTRODUCTION

Crowdfunding is a way to solicit funds from other individuals to realize projects. It is defined as an open call over the internet for financial resources in the form of monetary donation, sometimes in exchange for a future product, service or reward. Online Crowdfunding is an emerging and innovative online platform that provides small businesses and start-ups with opportunities to increase their social media presence, investment base, and funding prospects [1]. It uses web technologies and existing online payment systems to facilitate transactions between creators (people who request funds) and funders (people who give money). The ideas span across fields and vary in scope.

One can create an online profile and explain the project and fund-raising goals and share the same with public at large, including your peers,
relatives, friends of friends, and so forth. It connects investors with small business startups and projects through an online transaction portal that removes barriers to entry. It can be understood as E-trade opportunity for private companies instead of public ones [2]. It has the benefit of giving SMEs access to a pool of expertise in the shape of their investors. It can be of three types.

1. Donation and reward based: The platform accepts a donation from many entrepreneur for projects. In most cases, the return involves finished goods. Many religious places are developed with this type of investment.
2. Lending based: These crowd funds take money from different people and facilitate loans or microfinance to the needy. Microfinance platform Milaap is an example of such crowd sourcing in India [3].
3. Equity based crowdfunding: This mode of crowdfunding, where donors take a share of equity in the project or start up, is not legal in India yet.

This new investment opportunity is rapidly being looked upon as a serious way of raising funds for startups and new businesses. RBI and SEBI are still reluctant to include crowd financing into the mainstream financial market [4]. The projects financed so far prove that efficient crowdfunding system can play the role of catalyst in bringing the startup ideas into reality. Ecommerce in India only got a boost when they initiated the concept of cash on delivery. Similarly, crowdfunding will have to look at building an offline base to finally induce mass awareness and encouraging larger participation.

2. Review of Literature

Crowdfunding involves all disciplines in the area of finance, HR, marketing and IT. The wide span of network allows communication regardless of boundaries and provides scope for research in the field. Many research papers have emphasized the development of this source of finance to help people collect funds for upcoming businesses [5].

Cosh (2009) analyzed a broad range of alternative methods for startup financing and finally suggested that social networking methods like crowdfunding could provide a solution for seed capital. Adam (2010) in his paper found that crowdfunding platforms are the result of a social movement and the emergence of Web 2.0 technologies are enabling new forms of social networking. People’s motivation differs from those of traditional investors.

“Crowd funding: disinter mediated investment banking” a paper published in MPRA in 2012 by Rubinton discusses investment banking opportunities due to Crowdfunding. In 2013 a paper published elaborated why people are motivated to post fund projects on Crowdfunding platforms. This funding option has also inspired microfinance companies to raise finance using social media [6].

Sebastian Dehling (2012) reports on crowdfunding as a multifaceted concept and diverse nature of crowdfunding. This thesis answers a research question about the underlying concepts of crowdfunding and how do they influence the selection mechanisms that the entrepreneur is asked to identify the right crowd. The complex composition of the additional utility that the crowdfunder can gain and the motivation of the entrepreneur are influencing the rational model based on efficiency.

Ethan R. Mollick (2013) on a dataset of over 48,500 projects with combined funding over $237M wrote a paper explaining underlying dynamics of success and failure among crowdfunded ventures. He suggested that
personal networks and underlying project quality are associated with the success of crowdfunding efforts, and that geography is related to both the type of projects proposed and successful fundraising [7].

Loreta And Sima (2013) said that crowdfunding is an innovative and relatively new concept that connects investors to entrepreneurs. The strengths of crowdfunding are: a chance to test marketability, the accessibility of capital, benefits for communities, rights to make company’s decisions stay in the hands of entrepreneurs. Weaknesses include administrative and accounting challenges, the possibility of ideas being stolen, weaker investor protection and potential for fraud, also, crowdfunding is exceptionally internet based, so investors might lack advice. Identified opportunities include the existence of niche, information society and positive effects crowdfunding is expected to have on economy, also, such threats as the risky nature of small business and unsuitable legal restrictions arise [8].

Ross Brown; Suzanne Mawson; Alexander Rowe and Colin Mason (2014) discuss about Equity crowdfunding and its importance for entrepreneurs today. The study found strong demand for equity crowdfunding from entrepreneurs in consumer-focused, early stage firms. Crowdfunding also seems to confer important intangible benefits to investee companies, in terms of firm valuation and product validation.

Elizabeth Gerber and Julie Hui (2015) shed light on this new social phenomenon by the first cross-platform qualitative study of the crowdfunding community. By performing 83 semi-structured interviews, the study discovered motivations and deterrents to crowdfunding participation [9].

3. SIGNIFICANCE OF THE STUDY

Crowdfunding has the potential to transform the way companies collect fund, build corpus and manage relationships with their investors and customers. Moreover, in today’s economic climate, it is becoming increasingly important for companies to find new ways of adding value to their profit generation and customer relation. We need to focus on new ways to improve the reach of Crowdfunding and increase investor base [10].

Smart brands have realized that crowdfunding provides focus groups online which help elevate the value of existence of their product. If any firms / organization or company wants to be at the forefront of digital cutting-edge integrated marketing tool it has to ‘innovate’. The paper tries to analyze crowdfunding as an opportunity for innovation in the digital age. A ready available social media will provide the platform for faster customer interaction to business [11]. As well as it will also help companies to better the corporate image. This new online finance raising opportunity is a good way to collect finance and employ for social benefit. Professions, Artists and small film makers in Pune find it as an attractive option of raising fund.

4. OBJECTIVES OF THE STUDY

1. To study the impact of various Social Media Networks on Crowdfunding.
2. To explore Social Media for developing business & investor network.
5. RESEARCH METHODOLOGY

A) Coverage:
Geography: - The area selected for study is online and cannot be geographically marked.
Target Group: - The target group selected is people using Social Media Networks, people involved in business activity through Crowdfunding and budding entrepreneurs.

B) Method of data Collection:

Primary data is collected by using structured questionnaire through personal interviews and online interviews. The online discussion forums (Chat rooms, blogs) are also used for collection of primary data. Secondary data is collected through Magazines, Websites, published research papers, online journals, Reference Books etc.

C) Sample Size:
The Purposive & Convenience sampling method is used as a sampling method. The Total Sample size will be as follows.

<table>
<thead>
<tr>
<th>People on Social Network (Investors)</th>
<th>Platform Providers</th>
<th>Crowdfunded Projects</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>75</td>
<td>10</td>
<td>100</td>
<td>185</td>
</tr>
</tbody>
</table>

D) Hypothesis:

**H$_{01}$**: There is no impact of marketing using Social Media Networks on Crowdfunding.

**H$_{A1}$**: There is positive impact of marketing using Social Media Networks on Crowdfunding.

**H$_{02}$**: Social Media Marketing has no importance for developing business & investor network for crowdfunding.

**H$_{A2}$**: Social Media Marketing has importance for developing business & investor network for crowdfunding.

6. DATA ANALYSIS

Data analysis is a process of gathering, modeling and transforming data with the goal of highlighting useful information, suggesting conclusions and supporting decision making. Data analysis has multiple facts and approaches, encompassing diverse techniques in various domains. The tools used for data analysis in current project are tables, graphs and charts. Some statistical methods also get used to find out the conclusion.

Table 1: Demography of respondents according to their involvement in the process of raising funds through crowdfunding

<table>
<thead>
<tr>
<th>Types of Respondent</th>
<th>Number of Respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crowdfunding platform providers</td>
<td>10</td>
</tr>
<tr>
<td>Who raised funds</td>
<td>100</td>
</tr>
<tr>
<td>Social media network users</td>
<td>75</td>
</tr>
</tbody>
</table>

**Interpretation**: The Platform providers are Kikstarter, Wishberry, Ignite Intent, Ketto etc. The fund raisers are the people who have
received full finance for their venture or startup idea. The social media users are investors interested in the ventures and have invested online at least once.

**Figure 1: Fund providers view in respect of overall effectiveness of crowdfunding for growth of business**

**Interpretation:** 80% fund providers accept that the benefits of crowdfunding in respect of growth and new job opportunities are reasonable. 20% fund providers find crowdfunding platform as an effective way to increase job opportunities and growth of any business.

**Figure 2: Views of Social Entrepreneurs on the benefits of crowdfunding**

**Interpretation:** 70% fund providers recognise crowdfunding as good platform for enhancement of Social Entrepreneurs. With a view on ‘Make in India’ this was of relevance and related to growth of e-commerce and digital marketing.
Figure 3: View of respondents as to the innovativeness of crowdfunding as an alternate finance medium through online platforms

Interpretation: 70% fund providers recognise crowdfunding as good platform for innovation, using creativity to market the products, get first hand review of upcoming product or service before official launch.

Figure 4: Responses in view of crowdfunding helping budding entrepreneurs to collect funds for research on new innovative products or services.

Interpretation: 70% of fund raisers find Crowdfunding platform is beneficial for sharing new ideas and development of research via online marketing.
Figure 5: Crowdfunding as a new age e-commerce tool to raise finance through small investors

Interpretation: Most of the Fund raisers believe that Crowdfunding is the best way of raising fund and provide potential benefit for growth of Small Retail Investors.

Table 2 – Overall Potential Benefits of using Crowdfunding Platform for raising fund and development of business with the view of Fund Providers using Lickert Scale Technique

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Stress Level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>12</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>14</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>3</td>
<td>15</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>4</td>
<td>17</td>
<td>5</td>
<td>50%</td>
</tr>
<tr>
<td>5</td>
<td>18</td>
<td>2</td>
<td>20%</td>
</tr>
</tbody>
</table>
Interpretation: The result shows that maximum respondent’s find Crowdfunding as a new age marketing Technique to develop / grow and finance any new business. Result of 15 on likers scale is favourable for proving the objectives as scale ranges from level 6 to 18. The arithmetic mean and standard deviation for the satisfaction level is 14.3 and 1.56 which means that nearly 80% of the investors and entrepreneurs are satisfied with the new e-commerce technique [12].

7. CONCLUSIONS

1. For the study 185 responders gave responses which were analyzed using charts, graphs and other tools. These participants included investors, platform providers and fund raisers.

2. 80% fund providers accept that the benefits of crowdfunding in respect of growth and new job opportunities are reasonable. 20% fund providers find crowdfunding platform as an effective way to increase job opportunities and growth of any business. 70% fund raisers recognise crowdfunding as good platform for developing marketing through Social Entrepreneurship and beneficial for development of research and as a new age e-commerce tool to raise finance through small investors. Thus we can reject the null hypothesis and accept the alternate hypothesis ‘There is positive impact of marketing using Social Media Networks on Crowdfunding’.

3. The result shows that maximum respondent’s find Crowdfunding as a new age marketing Technique to develop / grow and finance any new business. Result of 15 on likers scale is favorable for proving the objectives as scale ranges from level 6 to 18. The arithmetic mean and standard deviation for the satisfaction level is 14.3 and 1.56 which means that nearly 80% of the investors and entrepreneurs are satisfied with the new e-commerce technique. Thus we can reject the null hypothesis and accept the alternate hypothesis ‘Social Media Marketing has importance for developing business & investor network for crowdfunding’.

8. LIMITATIONS OF THE STUDY
The study involves data collection from online sources and therefore the data can have some percentage of variation. Due to the geographical spread of the respondents there can be some percentage of error and face-to-face interaction was not possible for all platform providers.

REFERENCES