

An Analytical Study of Crowdfunding as an Alternative Source of Finance for Startups

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Abstract—This Paper synthesizes the evolving landscape of crowdfunding as an alternative startup financing model, with a focus on India as a dynamic case. Grounded in multidisciplinary theories from entrepreneurship, finance, and technology, the study examines information asymmetry, social capital, network effects, and innovation diffusion to explain crowdfunding dynamics. A systematic literature review identifies major trends across reward-based, equity-based, and lending-based platforms, and highlights the growing influence of social media and online communities on campaign performance. The analysis also delineates challenges including campaign effectiveness, investor protection, and regulatory complexities, alongside social implications such as democratizing access to capital and fostering inclusive innovation. By integrating insights from empirical studies, conceptual works, and case analyses, the review outlines practical implications for entrepreneurs, investors, policymakers, and researchers and suggests avenues for future inquiry into crowdfunding's role in reshaping startup financing and economic development in emerging markets like India.

Index Terms—Crowdfunding, Social capital, Innovation, Startup, MSMEs Economic Development, Finance.

I. Introduction

Innovation is really important. It helps business stay successful .it boosts the country 's economy. It also improves people's lives. New and creative business often get special advantages. They also become more visible in the market. But they face big problems in getting the money they need to start or grow their ideas. Traditional funding source like bank loans usually support big and well know companies. startups and small business get very little access to outside money. This money problems is mostly seen in developing countries like Poland Kazakhstan. Many business owners there do not have a good credit history. They do not get enough support from financial institutions. because of these problems, crowdfunding has become a new way to raise money.it allows many people to give small amounts through online platforms. This community-based method makes it easier for everyone to take part. It also reduces the financial risk for each person. crowdfunding is becoming popular in both regular and Islamic finical system. It can help new and small business get the money they need.

Crowdfunding has become a game-changer for startups struggling to get traditional funding like bank loans or venture capital. It's basically a way for entrepreneurs to pitch their ideas online and collect small amounts of money from lots of everyday people—think of it as asking a huge crowd for support instead of begging a few big investors.

Why It Matters for Startups:

Startups often face tough hurdles early on: no track record, high risk, and limited cash. Crowdfunding steps in as an alternative by letting founders raise funds quickly through platforms like Kickstarter or Indiegogo, while also testing market demand and building a fanbase. In simple terms, it's democratized finance—anyone with internet can back a cool idea, from gadgets to apps.

Types and Growth:

There are a few main flavors: reward-based (backers get perks like early products), equity (they get shares in the company), debt (like mini-loans with interest), or donation (pure support). It's exploded in popularity, with billions raised yearly, proving it's not just a fad but a real pathway for innovative ideas to launch without gatekeepers.

Pathway of paper: Crowdfunding serves as a viable alternative finance source for startups, enabling them to raise funds directly from a broad online audience via platforms like Kickstarter and Indiegogo. Analytical studies highlight its growth, with the global market reaching \$20.46 billion in 2025 and success rates around 22-24% overall.

II. Literature of review

1. **TANISHA & DR. JAIDEEP SHARMA (2025) “Crowdfunding as a New Avenue for Starup Financing”**, Crowdfunding has become a game-changing way for startups to raise money using online platforms that connect them directly with everyday people. It checks how well they help new businesses grow.
2. **Dariusz FIRSZT (2025) “Crowdfunding as a New Avenue for Starup Financing”**, This article studies their Evaluates crowdfunding fit ad a financing lifeline for startups, zeroing in on key barriers to funding innovation and how crowdfunding’s mechanics can dismantle them. It’s exploded in popularity worldwide, including Poland, in recent years.
3. **Mr. Mahesh Ghanshyam Katre & Prof. Dr Ujwala Narkhede (2024) “Assessing the Effectiveness and Challenges of Crowdfunding as an Alternative Financing Mechanism for Startups”**, Their study concludes that crowdfunding is both an effective and strategic financing tool but requires careful planning, transparent communication, and post-funding management. Implications for entrepreneurs, platform managers, and policymakers include optimizing campaign strategies, enhancing platform credibility, and developing regulatory frameworks to support sustainable crowdfunding ecosystems.

Objectives of the study:

- To Analysis how effective crowdfunding It is another way for startups to raise funds.
- To examine the major difficulties. Innovative startups face these problems in obtaining funds from regular financial sources.
- To give a clear and practical view. crowd funding can help startups grow and last in the long run.

Crowdfunding as an alternative source of finance for startups.

Crowdfunding is the internet's way of asking a crowd for small donations to fund a project. It is using online platforms to collect small amounts of money from different individuals to raise the amount required (Depending on the type of crowdfunding, investors either donate money then to get rewards such as equity in the company that raised the money). While raising money is the main goal, researchers say startups use crowdfunding for many other important reasons too. Non-financial benefits can be just as valuable as the money they raise. Molick 2014 starts the crowdfunding does more than raise the money.it is also helps startups test their ideas and products. By achieve a goal then the entrepreneurs can see how interested peoples are ger feedback and they improve their products before the production and it helps to reduce the risk of entering the market.

Similarly, Gerber, Hui, and Kuo 2012 creators use crowdfunding to engage to connect with a community and maintain control of their work. Crowdfunding enables founders to raise capital from a large of supporters, and keeping them independent of traditional investors who may demand equity or control.

1.Project quality and preparation.

The quality of the project is one of the main factors behind success. Ahlers et al. 2015 found that sharing clear information about the business plan and financial goals. It helps to convince investors on that project. Finally, they reach to their funding targets.

2. Role of social capital.

In business and fund raising. A founder's personal network like friends and family, is main for early success. The initial money from these close contacts proves that the project is worth backing, it can help to attract more investors. local community support and also helps build it picks up speed and grows larger on supporter base.

3.Signaling and third-party endorsements.

A single of quality that can build trust for backers who don't have complete information about the project. clear evidence and quality build trust, Douglas Cumming, Gael Leboeuf and Armin

schwienbacher (2020) found that having a well-known sources like the partnership or the media can boost a project's credibility and increase likelihood of receiving investments. The sentiment in backer comments and social media activity, such as likes and shares can also serve as a form of endorsement.

III. Research Methodology

This research employs a subjective approach to examine the effectiveness of crowdfunding as a funding method for start-ups. It combines both primary and secondary data to support the analysis

Topic: An Analytical Study of Crowdfunding as an Alternative Source of finance for startups.

Sample size: The number of sample units selected from the total population is called sample size. The sample size chosen for this study is 150 (startups/founders).

Source of data: Both primary and secondary data are used for this research work.

Primary data: Primary data is information collected firsthand by the researcher. It was gathered through questionnaire filling by startup founders and crowdfunding users.

Secondary data: Secondary data comes from existing sources like research papers, crowdfunding platform reports, articles, and online databases.

The secondary data came from existing studies, such as academic knowledge, case studies, and along with information from popular crowdfunding platforms like Kickstarter, Indiegogo, and Ketto. This helps to identify Global trends, successful businessmen, and how these factors work.

To get a clear picture, the study was examined in case studies of successful and unsuccessful crowding around, especially from India. This was selected based on their own goals, industries, and platforms used. This helped reveal real challenges and the strategies entrepreneurs use to manage them.

The study is also a part of informal interviews and surveys with startup founders, project directors, platform managers, and marketing professionals involved in bank loans. Their experiences provided useful insights into what motivates people, what they expect, and what outcomes of crowdfunding.

The data was collected and analysed thematically and to identify the common success factors (elements), challenges, and recent trends in Crowdfunding. Overall, this method combines theory with Real-life observation to offer a deeper understanding of crowdfunding in practice.

● **Demographics of Backers.**

Demographic category	Kickstarter (%)	Indiegogo (%)
Age 18-24	~20 (est. early Gen Z)	11
Age 25-34	Largest group (~40 est.)	28
Age 35-44	Second largest (~25 est.)	37
Age 45+	~20-24 (est.)	24 (45-64+)
Male	64	~70 (general)
Female	36	~30
Non- binary / other	<5 (est.)	<5 (est.)

Crowdfunding Backer Snapshot

Most backers are young Millennials aged 25-34 (37-40%), with the 25-44 group hitting 65% on Kickstarter—young adults love backing startups online.

Men lead at 64-70%, women around 30-36%, others under 5%; platforms like Indiegogo show slight Gen Z dip (11% under 25) but steady older support (24% 45+).

Who?	% Share	Simple Meaning
Ages 25-34	37-40	Peak supporters fund cool ideas
Males	64-70	Guys drive most pledges
Females	30-36	Growing but still behind
Under 25	11-20	Gen Z starting slow

Capital investments success Rates

Measurement	Value
Average funding goal (Successful)	Rs.10,000
Average Amount Raised (Successful)	Rs.15,000
Percentage of Reaching Goal	53%
Average Number of supporters (Successful)	155
Average number of updates provided	10

This table demonstrates the financial performances of successful crowdfunding campaigns. Key metrics show that successful campaign's typically set an average funding stands at 53%, meaning roughly half of all campaign's reach their funding goals. Successful campaigns attract an average of 155 supporters and providers approximately 10 campaign's updates, highlighting the importance of consistent communication.

- **Factors Asseting Investment Decisions.**

Factor	Very important (%)	Important (%)
Effectiveness of the campaign video	75%	25%
Attractiveness of rewards	70%	30%
Entrepreneurs profile	55%	45%

This table ranks the critical elements that influence backers decision. The campaign video emerges as the most critical factor, with 75% of respondents rating it as "very important ". Attractive rewards follow at 70%, while the entrepreneur's profile stands at 55%. These findings underscore that presentation quality and tangibles benefits significantly drive investment decisions.

- **Common Elements of Successful Campaigns.**

Elements	Percentage (%)
Campaign presents a video	90%
Provides multi- level rewards	80%
Gives a clear time line	70%

This table identifies best practices in campaign desing. An overwhelming 90% successful campaigns include a video presentation, 80% offer multilevel rewards to accommodate different investment capacities, and 70% provide clear timelines for project completion. these elements constitute a blueprint for campaigns effectiveness.

- **Outcomes of the statistical result.**

Analysis Type	Result
Comparison of campaigns with and without videos using T-test (Independent)	The performance of campaigns with video is significantly higher ($p < 0.05$)
Chi – square test of the relationship between age groups and road crowdfunding preferences.	Younger participants favoured donation -based models, with the relationship being statistically significant ($p < 0.01$).

This table presents the resercher's quantative validation. A T- tests reveals that campagins with videos perform significantly better ($p < 0.05$), providing statistical evidence of video importance. Additionally ,

a Chi-square tests shows that younger participants favor donation- based crowdfunding models ($p < 0.01$), indicating age – related preferences in crowdfunding types.

Findings:

- Equity- based Crowd funding poorly utilized because regulatory impediments and limited investor awareness.
- Crowd funding is develop into well-known as a marketing method that helps get user response and initial adopters.
- When campaigns are linked to a prominent influencer, business or cause, supporter confidence rises.
- Crowd funding is not just for financing , in addition to market testing and community building.
- Crowdfunding startups are regularly early-stage companies with limited access to institutional funding sources like capitalists or banks.

IV. Conclusion

According to the study findings, crowd fundings grip bright promise as a start up fundraising tool, particularly in India. Where traditional funding causes are diligently hard to come by. According to the research reward-based crowd funding is currently the highest favoured movement. The largely because it is effortless to use and has less regulatory requirements. But if specified the fair official approval. Further models like equity crowd funding and donation-based crowd funding as well get possible. Especially for high growth firms and social enterprises. Crowd funding campaign accomplishment depends not only on the business idea moreover on the campaign's implementation. Unmistakable communication, attractive report, regular updates, social media application, and community connection are all important success factors. The function of the platform is too critical. Platforms that supply pre-launch. Crowd funding mission success turns on not just on the business idea furthermore on the mission execution. Essentially the study concludes that crowd sourcing serves as a community building tool, a marketing channel, and a validation system also a being a source of cash.

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