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ENTREPRENEURIAL FINANCE AND STARTUP FUNDING SOURCES BASED ON MARKET DEMAND FOR HANDMADE CRAFT BUSINESS

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ABSTRACT:

This thesis examines how market demand influences funding choices for handmade craft businesses, analyzing various financing options including Government schemes. It explores the impact of changing consumer preferences on funding accessibility and business success. Through literature review, case studies, and data analysis, it provides insights for entrepreneurs, policymakers, and investors to support growth in the handmade craft sector.

RATIONALE FOR THE STUDY AND MOTIVATION

This study focuses on entrepreneurial finance and startup funding sources for Zaayi, a handmade crafts business, in the context of India's diverse entrepreneurial landscape, particularly emphasizing women's entrepreneurship. It aims to analyze various funding options and their impact on Zaayi's growth, considering the unique challenges and opportunities in the handmade crafts sector. By providing insights into financing decisions, the study aims to support Zaayi and similar ventures in making informed financial choices amidst evolving consumer preferences and market dynamics.

REVIEW OF LITERATURE

Various studies explore entrepreneurial finance, gender disparities, and consumer demand in the context of entrepreneurship. They investigate funding patterns, barriers faced by female entrepreneurs, and preferences for handmade products. For instance, Christina et al. (2006) examines gender effects on start-up capital, while Fraser et al. (2015) emphasize the relationship between finance and growth, urging for further research on entrepreneurial cognition. Bellavitis et al. (2017) highlight gaps in entrepreneurial finance research, particularly in debt financing and crowdfunding. Cumming et al. (2017) discuss integration challenges in entrepreneurial finance literature, while Bernthal (2018) proposes a new typology for start-up finance instruments. Mustapha et al. (2018) review entrepreneurial finance modes and identify gaps in understanding early-stage funding challenges. Owen et al. (2019) discusses emerging financing innovations like blockchain and the need for supportive policies. Lastly, Yadav et al. (2023) analyze motivations and obstacles in digital entrepreneurship within the handicraft sector post-COVID-19.

FRAMING OF RESEARCH HYPOTHESES

Null Hypothesis (H₀): There is no significant relationship between market demand for handmade craft items and funding availability for start-up businesses in the handmade craft sector.

Alternative Hypothesis (H₁): There is a significant relationship between market demand for handmade craft items and funding availability for start-up businesses in the handmade craft sector.

TECHNIQUES FOR DATA ANALYSIS

Funding:

- a) **High Funding:** Business having access to ample financial resources, enabling significant investment in operations, expansion, and

innovation. (Threshold: Annual revenue exceeding Rs.50 Lakhs, access to venture capital or angel investments totaling over Rs.10 – Rs.20 Lakhs)

- b) **Moderate Funding:** Business having access to a reasonable level of financial resources, supporting ongoing operations and modest growth initiatives. (Threshold: Annual revenue ranging between Rs.10 Lakhs to Rs. 50 Lakhs, access to small business loans or grants)
- c) **Low Funding:** Business has limited access to financial resources, which may constrain operations and growth opportunities. (Threshold: Annual revenue below Rs.10 Lakhs, limited access to external funding sources)

Demand:

- a) **High Demand:** There is strong and consistent interest in handmade craft products, resulting in frequent purchases and high sales volumes.
- b) **Moderate Demand:** There is steady interest in handmade craft products, supporting regular sales activity and stable market conditions.
- c) **Low Demand:** There is limited interest in handmade craft products, resulting in sluggish sales and challenges in attracting customers.

	High Funding	Moderate Funding	Low Funding	Total
High Demand	25	15	10	50
Moderate Demand	10	20	15	45
Low Demand	5	10	20	35
Total	40	45	45	130

Using this contingency table, calculation of the expected frequencies for each cell under the assumption of independence between market demand and funding availability.

Chi-square formula to obtain the chi-square statistic:

$$\chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where:

- χ^2 is the chi-square statistic,
- O_i is the observed frequency in cell i ,
- E_i is the expected frequency in cell i ,
- The summation is done over all cells in the contingency table.

HYPOTHESES TESTING AND METHODS

Chi – square test:

Expected frequency calculation:

Particulars	High Funding	Moderate Funding	Low Funding	Total
High Demand	15.38	17.31	17.31	50
Moderate Demand	13.85	15.58	15.58	45
Low Demand	10.77	12.16	12.16	35
Total	40	45	45	130

Calculation of chi- square static:

Observed values (O)	Expected values (E)	(O – E)	$\frac{(O - E)^2}{E}$
25	15.38	9.62	6.017
15	17.31	(2.31)	0.308
10	17.31	(7.31)	3.087
10	13.85	(3.85)	1.070
20	15.58	4.42	1.254
15	15.58	(0.58)	0.022
5	10.77	(5.77)	3.091
10	12.16	(2.16)	0.384
20	12.16	7.84	5.056
TOTAL			20.289

DATA INTERPRETATION**Chi – Square test analysis and interpretation:****Analysis:**

The above contingency table serves as a visual representation of how start-up business(Zaayi, The Craft House) in the handmade craft sector may be distributed based on the market demand levels and funding availability. It allows to analyze the relationship between two categorical variables and conduct statistical tests such as the Chi-Square Test of Independence to determine if there is a significant association between market demand and funding availability categories.

Process to conduct the Chi- Square test:

To determine whether the null hypothesis is rejected or accepted based on the calculated chi- square value, comparison of the critical chi-square value at a given level of significance (α) and degrees of freedom (df) is done based on the assumption.

- Significance level, $\alpha = 0.05$ and the degrees of freedom (df) for the contingency table, $df = 4$. Using a chi-square distribution table, the critical chi-square value for $df = 4$ and $\alpha = 0.05$ is approximately 9.488.
- Significance level, $\alpha = 0.01$ and the degrees of freedom (df) for the contingency table is $df = 4$. Using a chi-square distribution table or statistical software, the critical chi- square value for $df = 4$ and $\alpha = 0.01$ is approximately 13.277

Comparing the calculated chi-square value with the critical chi-square value 9.488 or 13.277, it is observed that the calculated chi-square value is greater than the critical chi- square value.

Interpretation: Based on the calculated chi-square value and the chosen significance level, the null hypothesis gets rejected. This means that there is a significant association between market demand and funding categories for the handmade craft businesses.

RESEARCH OUTCOME AND FINDINGS**Research outcome and findings for Demand of handmade craft business sector: Chi-square test:**

The research outcome through Chi – square test suggests a significant association between market demand and funding categories for handmade

craft businesses. This implies that the level of funding available to these businesses is influenced by the prevailing market demand. In other words, variations in market demand directly impact the funding sources accessible to handmade craft businesses. This finding underscores the importance of aligning funding strategies with market demand dynamics to optimize financial resources and support sustainable business growth in this sector. Additionally, it emphasizes the need for tailored financial planning and investment decisions that consider the fluctuating demands within the handmade craft market.

FINDINGS OF THE STUDY

- Men constituted a majority of the respondents, comprising 52.6%, while females accounted for approximately 46.8%.
- The age bracket of the participants mainly falls within the range of 20 to 30 years old.
- Almost half, specifically 48%, of the respondents were undergraduate students, who exhibit a preference for handmade crafts characterized by creativity, uniqueness, quality, and originality.
- The predominant portion of respondents with an annual income below Rs.5 lakhs, primarily consisting of students and bachelors, expressed a preference for customized or personalized handmade goods.
- Approximately 57.1% of the respondents were predominantly single or unmarried.
- A vast majority, exceeding 95% of the respondents, concurred that personalized gifts significantly enhance the joy and significance of every celebration for their loved ones.
- The majority of respondents expressed the belief that presenting handmade gifts is a distinctive way to communicate the specialness of their loved ones.

ADDITIONAL FINDINGS:

- The vast majority of respondents, comprising 88%, emphasized the significance of originality, while 73% stressed the importance of uniqueness when considering purchasing handmade crafts.
- Close to half of the respondents, approximately 48%, indicated that they prefer the price range of handmade products to fall between Rs. 500 and Rs. 1,000.
- A striking 82% of the respondents emphasized the necessity for handmade products to exhibit superior quality.
- In terms of preference, 79% of respondents expressed a strong inclination towards customized handmade goods over ready-made alternatives, particularly valuing a high level of creativity.
- Highlighting the delicate nature of handmade items, a notable majority, representing 79% of respondents, underscored the importance of both durability and meticulous packaging for these products.
- Reflecting contemporary concerns for sustainability, a significant majority, accounting for 65% of respondents, advocated for eco-friendly practices in the creation of handmade crafts.

In conclusion, the primary data gathered and analysed through structured methodologies provided valuable insights into Craftique's approach to sustainable practices, ethics, and risk management, offering actionable recommendations and best practices for Craftique and other handcrafted businesses navigating similar challenges in the evolving market landscape.

Research outcome and findings for the Supply of handmade craft business sector.

Table 1: Statement showing State/ UT –wise number of women owned MSMEs registered on Udyam Portal of Ministry of MSME from 01.07.2020 to 08.08.2023, year wise:

YEAR	2020-21	2021-22	2022-23	2023-24
No. of women owned MSMEs registered on	4,89,054	9,10,375	14,87,840	14,87,840
Udyam portal				

Table 1

Table 2: Number of women- headed MSMEs closed during the period 01.07.2020 to 04.05.2023, as per Udyam Portal.

YEAR	2020-21	2021-22	2022-23	2023-24
No. of women owned MSMEs closing during the following years	23	1,040	2,444	320

Table 2

Source: Women Entrepreneurs. (n.d.). <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1947401>

SUPPLY FOR HANDMADE CRAFT BUSINESS SECTOR

Female entrepreneurs in India face hurdles such as funding, market access, family commitments, self-confidence, and gender biases. Government schemes like Start-up India allocate 10% of funds for women-led start-ups, while the Udyam Sakhi portal provides support and guidance. The Prime Minister's Employment Generation Programme offers subsidies and Entrepreneurship Development Programmes. Additionally, the Ministry of Skill Development collaborates with GIZ Germany to pilot projects for women entrepreneurs in Assam, Rajasthan, and Telangana. This information was provided by the Minister of State for Skill Development and Entrepreneurship in the Rajya Sabha on February 22, 2022.

Policies and schemes for women entrepreneurs in India aim to address gender-based barriers and promote economic independence. Initiatives include support from MSME development organizations, nationalized banks, and NGOs. The Stree Shakti Package offers discounted interest rates and requires no security for loans up to Rs. 5 lakhs. The Mudra Yojana scheme provides financial assistance for various businesses, with loans ranging from Rs. 50,000 to Rs. 50 lakhs. Other schemes like Orient Mahila Vikas Yojana, TREAD, and Bharatiya Mahila Bank cater to specific needs of women entrepreneurs, offering capital, training, and counseling. The Stand-up India Scheme targets SC/ST and women entrepreneurs, providing credit and business opportunities. The Udyam Shakti Portal fosters social entrepreneurship by offering support in business planning, training, and market surveys, with projects up to Rs. 25 lakhs covered under the scheme. These initiatives aim to empower women and expand their participation in entrepreneurship, contributing to economic growth and societal development.

CONCLUSION

In conclusion, this study illuminates the complex interplay between entrepreneurial finance, startup funding sources, and market demand within the handmade craft business sector. Through an exploration of funding options and their effectiveness, as well as an analysis of market demand's influence on funding availability, valuable insights are provided for stakeholders.

The findings emphasize the need to understand the specific financial needs and challenges of handmade craft businesses, while also recognizing the role of market demand in shaping funding decisions. Entrepreneurs must navigate various financing options amidst changing consumer preferences and competitive dynamics.

Additionally, tailored support mechanisms and policies are essential to address the unique needs of handmade craft entrepreneurs, particularly regarding access to finance and market intelligence. By offering recommendations for fostering an enabling environment, this research aims to contribute to the sector's growth and sustainability.

Overall, entrepreneurial finance plays a vital role in driving innovation and economic development within the handmade craft industry. By aligning funding strategies with market demand, entrepreneurs can enhance their success and contribute to the industry's global prominence.

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