

# The Impact of Online Platform Financing on the Long-Term Success and Sustainability of Startups: Case Study of Oculus Rift and Jawbone

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## **Abstract:**

With the rapid growth of the entrepreneurial ecosystem, the diversification of financing methods for entrepreneurs has provided new options, especially as online platform financing is emerging as a viable alternative to traditional financing methods. This study aims to explore how online platform financing affects the long-term success and sustainability of startups and to compare it with traditional financing methods. Through in-depth analyses of two case studies, Oculus Rift and Jawbone, it is found that online platform financing not only provides financial support but also leverages the wisdom and resources of the investor community, thus enhancing the market competitiveness and brand loyalty of startups. However, there are also risks associated with online financing, such as the challenges of independence and strategic control that startups may face after success. The study suggests that a balanced approach combining online platform financing and traditional venture capital may offer startups a more promising growth path toward long-term success and sustainability.

**Keywords:** Online Platform Financing, Startups, Crowdfunding, Sustainability

## **1. Introduction**

The rapid growth of the startup ecosystem has led to a diversification of financing options for entrepreneurs, with online platforms emerging as a viable alternative to traditional financing methods. This study aims to investigate how financing through online platforms, such as crowdfunding and peer-to-peer (P2P) lending, influences the long-term success

and sustainability of startups compared to traditional financing methods.

Startups have various financing options available, ranging from traditional methods like bank loans, venture capital, and angel investments to more novel approaches like online platform financing [1]. Online platform financing, which includes crowdfunding and peer-to-peer (P2P) lending, has gained significant traction in recent years as a way for entrepreneurs to

access capital and engage with a broader community of investors. These platforms offer startups the opportunity to raise funds directly from a large pool of individual investors, often without the extensive due diligence and stringent requirements associated with traditional financing methods.

Traditional financing methods, such as bank loans, venture capital, and angel investments, have long been the primary sources of funding for startups. These methods typically involve a more rigorous evaluation process, where investors or lenders carefully assess the viability, growth potential, and long-term sustainability of the business [2]. This comprehensive due diligence often includes an in-depth analysis of the startup's business model, management team, market opportunity, and financial projections. The traditional financing approach aims to identify and invest in startups with the greatest chance of achieving long-term success, minimizing the risk for the investor or lender.

Online platform financing refers to the practice of startups raising capital through digital platforms that connect them with individual investors or lenders. Crowdfunding platforms, such as Kickstarter and Indiegogo, allow entrepreneurs to solicit donations or pre-purchases from a large number of backers in exchange for rewards or equity. Peer-to-peer (P2P) lending platforms, such as Lending Club and Prosper, facilitate direct loans between individual lenders and borrowers, often at more favorable terms than traditional bank loans.

This study aims to provide a comprehensive understanding of how online platform financing influences the long-term success and sustainability of startups compared to traditional financing methods. While existing literature has explored the determinants of funding success and loan performance on these platforms, there is a lack of research comparing the long-term outcomes of startups financed through online platforms versus traditional methods [1, 3, 4]. This study seeks to fill this gap by conducting in-depth case studies and data analysis to uncover the unique advantages, challenges, and implications of online platform financing for startups.

## **2. Literature Review**

Existing research has extensively examined the role of traditional financing methods, such as bank loans, venture capital, and angel investments, in supporting the growth and success of startups [5]. These financing options often involve a rigorous evaluation process, where investors or lenders assess the startup's business model, management team, market opportunity, and financial projections. The comprehensive due diligence aims to identify and invest in startups with the greatest potential for long-term

success, minimizing the risk for the investor or lender. Studies have found that traditional financing methods can provide startups with not only capital but also valuable guidance, mentorship, and access to industry networks [4, 6]. These additional resources, beyond just the financial investment, can be instrumental in helping startups overcome challenges, navigate the competitive landscape, and achieve sustainable growth. However, the literature also highlights the limitations of traditional financing, such as the lengthy approval process, high barriers to entry, and the risk-averse nature of some investors, which can make it challenging for certain startups to access the necessary funding [4, 7, 8].

In recent years, the emergence of online platform financing, including crowdfunding and peer-to-peer lending, has introduced a new avenue for startups to raise capital. Previous studies have investigated the determinants of funding success on these platforms, such as the role of social networks, the value of entrepreneurial signals, and the impact of platform design features. [4]. The literature suggests that online platform financing offers several key advantages for startups compared to traditional financing methods. These include broader access to a diverse pool of investors, the ability to engage with and leverage a community of backers, and potentially more flexible and favorable funding terms [4, 5, 9]. Startups can tap into the collective wisdom and resources of the crowd rather than relying solely on a small number of institutional investors or lenders. This can lead to not only financial support but also valuable insights, feedback, and network connections that can contribute to a startup's long-term success and sustainability. However, the literature also highlights potential drawbacks, such as the risk of lack of investor due diligence, the challenge of managing a large and dispersed investor base, and the potential for regulatory uncertainty. The existing literature provides a solid foundation for understanding the distinct characteristics of traditional financing methods and online platform financing. However, there is a lack of comprehensive research that directly compares the long-term outcomes and sustainability of startups funded through these different channels. While individual studies have examined the determinants of funding success and loan performance on online platforms, as well as the advantages and disadvantages of traditional financing, there is a need for a more in-depth comparative analysis that explores the long-term implications of each approach. Such research would offer valuable insights into the relative merits, challenges, and suitability of online platform financing versus traditional methods in supporting the growth and sustainability of startups over time. A deeper understanding of these differences could inform the decision-making of entrepreneurs, investors, and pol-

icymakers as they navigate the evolving startup financing landscape.

### 3. Case Studies

A series of detailed comparative case studies were conducted to compare the long-term success and sustainability of startups financed through online platforms with traditional methods.

#### 3.1 Case Study of Oculus Rift

Oculus Rift, a virtual reality headset startup, successfully raised \$2.4 million through a crowdfunding campaign on Kickstarter in 2012 [10]. In 2014, Facebook acquired Oculus for \$2 billion, a testament to the company's long-term growth and success.

The Oculus Rift case exemplifies both the potential and the challenges of this funding model. Initially, Oculus VR's Kickstarter campaign resonated strongly with its target audience, raising substantial funds and building a dedicated community around the promise of innovative virtual reality technology. This allowed Oculus to develop its prototype rapidly and gain traction in the market. Its early success demonstrated crowdfunding's ability to validate a product's market viability and attract early adopters.

This case also highlights a key advantage of online platform financing, which is its ability to provide startups access to a diverse pool of investors and tap into the collective enthusiasm and support of a passionate community of backers [6]. Through its digital campaign, Oculus was able to raise substantial funding from a wide range of individual contributors rather than relying on a small number of institutional investors or venture capitalists. Moreover, the engaged community of Kickstarter backers provided valuable early feedback, validation, and word-of-mouth marketing that contributed to Oculus's long-term success. This community-driven model of financing can be a powerful catalyst for startups, offering not just financial resources but also the collective wisdom and network connections of a group of supporters. As of right now, Oculus Rift is still a leading player in the virtual reality market and remains an example of the potential for online platform financing to support the long-term growth and sustainability of innovative startups.

However, the company's subsequent acquisition by a tech giant like Facebook also highlights the potential risks and tradeoffs of online platform financing. The company ultimately had to cede significant control and independence to Facebook in order to achieve the scale necessary for long-term growth and sustainability. This acquisition illustrates how startups financed through online platforms may face challenges in maintaining their autonomy and original

vision, as they may need to accept acquisition offers from larger corporations to access the capital and infrastructure required to commercialize their technology and achieve widespread adoption fully. The Oculus case demonstrates that online platform financing, while beneficial in unlocking early-stage funding and validating market demand, can also expose startups to risks of losing their independence and strategic control as they seek to transition from a promising prototype to a viable, long-term business.

#### 3.2 Case Study of Jawbone

Jawbone was a consumer electronics and wearable technology company that initially relied on traditional venture capital financing to fund its growth. The company raised over \$930 million from well-known venture capital firms such as Kleiner Perkins, Sequoia Capital, and Khosla Ventures over multiple funding rounds.

Jawbone's experience provides an interesting counterpoint to the Oculus Rift case. While Jawbone was able to secure substantial funding from institutional investors, the company ultimately struggled to achieve long-term success and sustainability [11]. In contrast to Oculus Rift's ability to leverage its crowdfunded community to drive long-term growth, Jawbone's reliance on traditional venture capital financing did not appear to provide the same level of strategic agility and operational flexibility that proved crucial for its long-term success.

Despite its early promise and innovative product lineup, Jawbone faced a number of significant challenges that ultimately undermined its long-term success and sustainability. The company grappled with intense market competition from other players in the wearable technology space, as rival products offered similar functionality and features. Jawbone also struggled with persistent product quality issues, as its devices were plagued by technical glitches and reliability problems that alienated customers and damaged the brand's reputation. Additionally, the company encountered difficulties in scaling its operations and manufacturing capabilities to meet growing demand, hindering its ability to produce and distribute its products efficiently. These multifaceted challenges, ranging from competitive pressure to operational bottlenecks, collectively eroded Jawbone's market position and financial viability over time despite its early advantages as a venture capital-backed startup.

Unlike Oculus Rift, Jawbone's reliance on traditional venture capital financing may have lacked the engaged community support and early market validation that the crowdfunding model provided for Oculus Rift. The lack of a strong, dedicated community of backers and early adopters could have hindered Jawbone's ability to gather

real-time feedback, build brand loyalty, and validate the market demand for its innovative products [11]. Without this community-driven feedback loop and grassroots support, Jawbone may have struggled to effectively identify and address critical product quality issues, optimize its operations and manufacturing, and maintain a competitive edge in the face of intense market competition. The Oculus Rift case demonstrates how online platform financing can unlock not just financial resources but also the collective wisdom and network connections of a passionate user base. These factors have been crucial in Oculus's long-term success and sustainability, which Jawbone lacked by relying solely on institutional venture capital.

Ultimately, Jawbone's reliance on traditional venture capital financing, without the benefits of the community-driven model, may have contributed to its eventual struggles and inability to achieve long-term viability as an independent company.

## **4. Discussion**

### **4.1 Key Findings**

The case studies of Oculus Rift and Jawbone illustrate the potential advantages and challenges of online platform financing compared to traditional venture capital funding for startups. The Oculus Rift case demonstrates how crowdfunding can unlock early-stage funding, foster a dedicated community of supporters, and provide valuable feedback and validation that can contribute to a startup's long-term success and sustainability. In contrast, the Jawbone case highlights how reliance on traditional venture capital financing may leave startups vulnerable to competitive pressures, operational challenges, and difficulties in maintaining their independent vision.

These findings suggest that online platform financing, such as crowdfunding, can be a valuable complement to traditional venture capital funding, particularly for startups seeking to develop innovative products and build strong, engaged communities of early adopters [6]. The community-driven model of online platform financing may provide startups with strategic agility, operational flexibility, and brand loyalty that can be crucial for navigating the complexities of scaling a business and maintaining long-term competitiveness.

Online platform financing offers startups several key advantages that can enhance their prospects for long-term success and sustainability. By tapping into a community of engaged backers and early adopters, startups can gain access to more than just financial resources—they can also leverage their supporters' collective wisdom, network connections, and brand advocacy. This community-driven

feedback loop can help startups refine their products, optimize their operations, and maintain a strong competitive position, even in the face of intense market competition.

Furthermore, the community engagement inherent in online platform financing can foster a sense of ownership and loyalty among backers, who are invested not just financially but emotionally in the startup's success. This brand loyalty and user advocacy can be a powerful asset as startups seek to scale their businesses and achieve widespread adoption. The engaged community can serve as a ready-made pool of early customers and even potential employees or partners, providing startups with a valuable competitive edge.

At the same time, the Oculus Rift case also highlights the potential risks of online platform financing, as startups may face challenges in preserving their autonomy and original vision as they seek to transition from a successful crowdfunding campaign to a sustainable, scalable business. Navigating this transition effectively will be a key consideration for startups seeking to leverage the benefits of online platform financing while maintaining their long-term strategic control and independence.

### **4.2 Policy and Industry Implications**

The findings of this research have several important implications for policymakers and industry stakeholders.

For policymakers, the research suggests that creating a supportive regulatory environment for online platform financing, such as crowdfunding, can be a valuable tool for fostering entrepreneurship and innovation. By providing startups with access to alternative financing channels, policymakers can help unlock new sources of capital and enable more entrepreneurs to bring their ideas to life [12]. At the same time, policymakers will need to carefully balance the benefits of online platform financing with the need to protect investors and ensure financial stability. Developing appropriate regulations and oversight mechanisms that address the unique risks and challenges of this emerging financing model will be crucial.

For industry stakeholders, such as investors, accelerators, and startup support organizations, the findings highlight the importance of understanding the distinct advantages and drawbacks of online platform financing compared to traditional venture capital funding. Recognizing the potential of online platform financing to foster community engagement and operational agility can inform investment strategies and project design to support better the long-term success and sustainability of startups [13]. Additionally, industry players can play a role in bridging the gap between online platform financing and traditional finance, helping startups navigate the transition from crowd-

ing to more conventional fundraising and growth strategies.

## 5. Conclusion

Overall, the research findings suggest that a balanced approach, incorporating both online platform financing and traditional venture capital funding, may offer the most promising path for startups seeking to achieve long-term success and sustainability. By leveraging the community-driven benefits of online platform financing, startups can enhance their competitiveness, build brand loyalty, and maintain strategic agility. At the same time, thoughtful integration with traditional financing sources can provide startups with the resources, expertise, and strategic guidance needed to scale their operations and navigate the complexities of the market. As the startup financing landscape continues to evolve, policymakers and industry stakeholders will play a crucial role in shaping the regulatory environment and supporting the successful adoption of this hybrid financing model.

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