Building a Successful Crowdfunding Campaign

At nine o’clock in the morning, The Factory co-working space was starting to come alive as freelancers, entrepreneurs, independent consultants, and other digital nomads arrived, laptops and travel mugs in hand. Located in a converted brick building in what was once the city’s warehouse district, the space had all the characteristics of a gathering spot for twenty-first century techies: big open rooms, large windows, pockmarked wood floors, exposed brick, and a variety of tables and chairs assembled in different clusters and configurations. No cubes here. Instead, people staked out a space for the day at one of the tables, connected to The Factory’s WiFi network, and got to work.

At the far end of the large main room, Mitch Perkins and Bryce Grant sat face to face, laptop to laptop, at one of the co-working tables. Mitch, an engineer and computer scientist, met Bryce, a marketer interested in entrepreneurship, at a networking event The Factory had sponsored some months ago. Since then, the two had partnered on developing Mitch’s design for a new device for runners and other athletes: a thin insole that could be inserted in a shoe.

Unlike the drugstore variety, Mitch’s design incorporated a microchip and tiny sensors that collected data on the runner’s stride, speed, and pace. But more than the typical pedometer, the sensors detected variances in pressure on different parts of the foot, and recorded the data in a software program that mapped the person’s movement patterns. The results were useful to trainers and pros who wanted to push performance and find a competitive edge. Amateur
runners could also benefit from the wearable tech by learning how to improve their stride and reduce the risk of injury. People recovering from an injury and people who had difficulty walking could use the insoles to provide valuable data to physicians and physical therapists.

Today, the partners were discussing a set of recent prototypes. Excitement grew as they talked, due to the fact that these prototypes showed significant advancement in a couple of key areas.

“We’re definitely getting closer,” said Mitch. “The insole is well beyond what the industry has already—the sensors record at a much finer fidelity level, which makes the data more accurate and useful. And the biomechanical models we added to the companion software are providing much more sophisticated analyses.”

“Will that solve the ‘toddler-to-track-star problem’ for us?” asked Bryce, referencing their shorthand vocabulary for the range of potential applications. The goal was to create a device that could serve vastly different needs, including those of a child with skeletal development or balance issues, an elite marathoner, or a worker who was injured on the job and learning to walk again.

“It should,” answered Mitch, “It can now be calibrated for different body types and activities. And we seem to have struck a good balance with the construction: it’s tough enough to stand up to the heat and pressure of a runner’s shoe, but also light enough to be inconspicuous and not a distraction to the wearer.”

“This is good, this is good,” acknowledged Bryce. He leaned forward and put his palms flat on the table, “So…are we ready to move forward?”

“Well, it all looks promising. But we need to refine it, and that’s going to take more capital.”

“We always knew that would be the case,” said Bryce. “I think it’s time for us to take the next step.”

“And what is that step, in your mind?” asked Mitch.

“To me, it’s a market question,” answered Bryce. “We think there’s a market for a device like this, but the reality could surprise us. At scale, even a small difference between all our market research and what consumers actually do—buy or not buy—could mean success or failure of the whole enterprise.”

Mitch sat back in his chair and exhaled. “It feels like a chicken-and-egg problem: Getting the device into production requires investment and some level of confidence that it will succeed in the market. But to truly test the market, we need a viable product to introduce the concept to consumers.”

“Well said,” confirmed Bryce. “I think our next decision is to tackle that problem. And while you’ve been working on the latest prototype, I’ve been researching some options. In particular, crowdfunding.”
Mitch was cautious, “Okay, I’ve read a little about crowdfunding, but I have a feeling it’s not as easy as some of the popular press stories make it out to be.”

“The stories are always about the successes,” agreed Bryce. “And they often include eye-popping numbers—big dollar amounts raised in short time frames. But getting to that level requires a lot of planning and work, of course. That’s assuming that crowdfunding makes sense for us.”

“You mean, as opposed to other avenues?” asked Mitch.

“Yes. There’s a lot of buzz about crowdfunding, but traditional venture capital is still a primary route for many young companies. There are definite advantages. For example, VC’s can offer advice on business strategies. They often have useful connections to experts and other services, and insight into the kinds of questions and challenges we’re likely to face as we move forward. Obviously they want their investment to succeed, so many of them will bring more than just money to the table.”

“Yeah, I’ve had some experience with that actually, and it wasn’t entirely positive,” said Mitch.

Bryce raised his eyebrows, “What do you mean?”

“Remember how I told you I’d worked with a couple of my grad school professors on their spin-off company? They went through rounds of funding with a VC firm—one that wanted to be really involved with the project. The VC folks and the university people didn’t always see eye-to-eye on things, and when that happened, the VC people became somewhat overbearing.”

“I guess that doesn’t surprise me that much,” said Bryce. “The fact that they’d use control of the money to push things in the direction they want. But the thing is, every option has drawbacks.”

Mitch nodded. “So let’s talk through some of them.”

“Both VCs and crowdfunders can be challenging to accommodate. Would you rather deal with a few VCs or hundreds of end users? I’m not sure there’s a simple answer to that.

“Another thing we’d have to consider with crowdfunding is the fact that it’s usually an all-or-nothing endeavor. They call it a ‘provision point mechanism.’

“Another option entirely is the ‘friends and family’ plan. I don’t have any rich grandparents; do you?” Bryce asked, only half-jokingly.

“Rich enough to loan me large amounts of money, possibly never see it again, and still speak to me? I already went that route. Besides, I don’t need to create any more tension on that front,” said Mitch.

Bryce shrugged, “Hey, it’s an option,” he chuckled, “and it works for some people.”
“Can we go back to the crowdfunding option for a second?” continued Mitch. “Why are you leaning toward that option?”

“A couple of reasons,” said Bryce. “There are definitely examples of crowdfunding campaigns we can study as models. One of the most famous cases is the Pebble smartwatch. They faced some of the same market-acceptance questions we have. It seems obvious in hindsight, but when Pebble started up, they really didn’t know if consumers would want the product they envisioned. They thought there would be demand, but they had a hard time convincing venture capitalists that this was really the case. But the Pebble campaign raised $10 million in short order. That not only convinced them they were right, it also convinced the VCs, and they came knocking.”

“Yeah, I’ve read some of the stories about Pebble,” said Mitch. “Hard not to, seeing as they’ve been in Wired, PC Mag, and just about everywhere else. But that kind of success is not the norm.”

“You’re right: that kind of success isn’t the norm,” said Bryce. “But the crowdfunding industry continues to grow tremendously, so I think Pebble is still a useful example for what it can teach us. For example, most people worry about missing their fundraising target, but believe it or not, overfunding can be an even bigger problem.”

“I guess it’s possible to have too much of a good thing?” asked Mitch.

“Apparently,” said Bryce. “And while we’re on the topic, even a huge response from the crowd doesn’t guarantee the same from the broader market. Crowds can be wrong. Systems can distort behavior and opinions to look more significant or meaningful.”

“Now it sounds like you’re trying to talk me out of the idea,” said Mitch.

“We both just need to be aware of the risks,” stated Bryce. “But it’s not all risk; there’s definitely an upside. Companies like Starbucks and Dell have tapped into the crowd for innovative ideas. Other companies have used it as a way to test an idea.

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1 http://techcrunch.com/2013/05/16/pebble-nabs-15m-in-funding-outs-pebblekit-sdk-and-pebble-sports-api-to-spur-smartwatch-app-development/
2 https://medium.com/@Haje/how-a-half-million-dollar-kickstarter-project-can-crash-and-burn-5482d7d33ee1
“For example, Sony had a device made from e-paper. In that case, Sony wanted to test the idea’s merits—without the familiar Sony name attached. So they ran a stealth campaign to see if the crowd would respond to the product itself, even absent the Sony brand.”

“Interesting,” said Mitch. “No doubt that’s some valuable information for them to have. Not that we have that issue.”

“So listen,” said Bryce. “We don’t have to decide this today. I’ll do some more research and send you what I find. But at this point, what I really want to do is to talk with someone who has direct experience with this kind of thing.”

“I agree that makes sense.”

“Good,” Bryce said. “I’ll start asking around. Maybe somebody in our network can recommend a few names, and we can go from there.”

**The Campaign: First Decisions and Data-derived Insights**

A week later, Mitch and Bryce welcomed Celeste Bennett to The Factory. After introductions and a short explanation of the project, Bryce turned to Celeste and said, “So, if we go ahead with a crowdfunding approach, Andrea Delaney recommend you as someone who could help us navigate the process and optimize the campaign. Maybe you can explain a little more about your approach?”

“Of course,” said Celeste. “When I consult with clients on crowdfunding campaigns, I usually start by asking them to think about a few key things. One is the incentive or reward strategy. Are you going to offer funders some sort of premium for their investment in the idea. And if so, what?”

“Are incentives pretty much required?” asked Mitch.

“Not always,” answered Celeste. “Depending on the campaign, there may be an audience that’s really passionate about the idea and willing to fund it without any material incentive. Usually because they’re enthusiasts of one sort or another and just really want to see the idea brought to fruition.

“But offering incentives can enlarge the pool of potential funders,” continued Celeste. “Incentives and premiums are definitely a component that affects the overall equation. So we have to work through it and

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consider whether people will get something in return for their support, whether that’s early access, exclusive rewards, or something else.”

“Makes sense,” said Bryce. “But you mentioned there are a couple of key things you advise people to think about?”

“Yes,” said Celeste. “The second big one is slightly less obvious, but most entrepreneurs understand the importance of it when I bring it up: it’s the need for credibility. Basically, how are you going to convince potential funders that your idea is worthy and that the people behind the idea are credible and committed to it? This can be nuanced—some techniques are pretty subtle—so one thing I do is help clients understand what moves they can make to project credibility.”

“Okay, we can definitely use your guidance there,” said Bryce. “It sounds like it may be more complicated than I originally thought.”

“Some of it depends on the platform you use. Certain systems provide tools and mechanisms that can help, but it’s easy to make mistakes if you’re not disciplined in your approach.”

“Another thing I’m worried about is protecting our idea,” said Mitch. “I mean, if we reveal too much about the product, don’t we open ourselves up to potential theft of the intellectual property?”

“That’s a legitimate concern,” agreed Celeste. “There are things we can do to defend against that kind of threat.”

“But it’s more common to see these campaigns fail because they weren’t thought through carefully,” continued Celeste. “In addition, crowdfunding has been around long enough that we don’t have to guess when putting together a campaign. There’s more and more data coming available that we can analyze for clues to help us optimize your campaign.”

“So you look at data that shows how much people contribute, that kind of thing?”

“Yes. That and a lot of other factors,” said Celeste. “Crowdfunding platforms generate and store a lot of raw data about what’s happening in the system, what users are doing, and so on. By looking at the data streams, we hope to better understand and measure the impact of different factors, which can include everything from the day and time the campaign launches to the platform features available to users. Basically, I want to understand how each factor might impact the chances of overall success.”

“Meaning, the campaign reaches its funding goal?” queried Bryce.

“Exactly. We want to know which factors matter, which factors we can control or manipulate, and then make decisions about the campaign based on the evidence.”
“Awesome,” said Mitch. “I don’t like flying blind if I can help it.”

“Well, it’s worth keeping in mind that crowdfunding is evolving rapidly as more platforms emerge and more people have first-hand experience with it. So the answers are far from set in stone.”

“Got it,” said Mitch. “So what kinds of data are you able to get?”

“Depends on the system,” answered Celeste. “Getting activity logs is pretty easy—for example, we can track user actions on the platform over time. Also, there have been experiments that controlled some feature of the platform to see how, or if, it significantly changed a certain outcome.

“One of the bigger platforms recently made some interesting data available for study. I think it’s worth taking a closer look at,” said Celeste. “For starters, we can use it to investigate a number of questions.”

**Case Questions and Exercises**

Using the provided data set:

1. Imagine you’re working with Celeste. Give Mitch and Bryce some visual insights into the nature of crowdfunding. Plot the rates and volumes of success across geographies, campaign categories, and visually present any apparent seasonal patterns (i.e., when is the ideal time to start or end a campaign?).

2. Advise Mitch and Bryce on what actions they can take to ensure a successful campaign. Aim for a predictive model that improves the odds of campaign success. Attempt to build such a model using the logistic regression technique, and identify the factors that appear to impact the odds of campaign success the most. Preference should be given to variables that are likely to be under Mitch and Bryce’s control.

3. You and Celeste notice that some campaigns get oversubscribed and others get funded very quickly (fewer than 10 days). What features characterize those campaigns?