

## **Kickstarter projects generate millions of dollars selling products before they exist**

Peter Svensson, AP Technology Writer, The Associated Press

NEW YORK (AP) -- A funny thing happens on Kickstarter, the website where people ask for money to finance their projects. Sometimes, they get more money than they ask for.

Sometimes, they get millions more.

In April, three-person startup Pebble Technology sought to raise \$100,000 to make 1,000 wristwatches that can be programmed with different clock faces. Donors on Kickstarter showered them with more than 100 times that amount: \$10.3 million. It would have gone higher had Pebble not put a cap on contributions and ended the fundraising early.

"We had tried raising money through the normal routes, and it didn't really work," said Eric Migicovsky, the 25-year-old founder of Pebble.

Kickstarter is the largest of dozens of sites devoted to crowdfunding, in which donors contribute small sums of money to get a project off the ground.

Inventors, artists and entrepreneurs post their projects on a Kickstarter page, usually with a video presentation. They set a fixed duration for their fundraising, from one to 60 days, and a dollar goal for contributions. Anyone can contribute. If the goal isn't reached by the deadline, no money changes hands and the project is cancelled.

Usually, the contributors get something beyond the satisfaction of knowing they helped turn a dream into reality - like a ticket to a theater production, or in the case of Pebble, a programmable watch.

Designer Casey Hopkins asked for \$75,000 to make a luxury iPhone dock out of solid aluminum. He got \$1.4 million. When that happened, in February, his was the first Kickstarter project to surpass \$1 million. There have been eight more since then. Artist Rich Burlew asked for \$57,750 to put his comic books back in print, and ended up with \$1.3 million.

Since launching in 2009, Kickstarter has raised \$323 million for projects. Starting a project is free, but Kickstarter takes 5 percent of contributions if a project is funded, and Amazon.com Inc. takes another 3 to 5 percent for processing the payments. The funds are usually subject to taxes as well.

Crowdfunding started as a way to fund band tours and albums. Kickstarter wasn't the first site of its kind. It is, however, the most successful. Co-founder Perry Chen

has said that the site was born out of his frustration at being unable to organize a concert. But it's becoming a potent launchpad for tangible products as well, upending in some cases the usual way things get made.

There's a time-worn route for entrepreneurs: They come up with an idea, find funding, make a product, sell it, then pay back the funders - with interest or an equity stake in the fledgling company. Under that model, funders are usually looking for a big payoff on their early investment.

Finding funding is, of course, where many projects hit the rocks. Those who put up money for a project have to be convinced that it will yield something others want - and that's not easy to figure out.

For contributors to take part in a Kickstarter project, all they have to do is ask themselves: Do I want that?

In that sense, Kickstarter is a great way to sell things that don't yet exist. In effect, Pebble sold 85,000 watches, and artist Rich Burlew sold 94,000 books. Now, they just have to make these things.

Migicovsky, the Pebble founder, is based in Silicon Valley, where venture capital runs in rivers. He got some funding from "angel investors" - wealthy individuals - early on and produced a small run of watches last year. But to realize his vision of a programmable watch that only needs to be charged once a week, he needed more money. The venture capitalists, who generally invest bigger sums than angels, didn't bite. They're used to backing Web and software projects but are apprehensive about hardware, he says.

So Migicovsky went to Kickstarter, figuring he'd raise enough money for a production run of 1,000 watches. But the project got attention from technology blogs, and the orders started pouring in. Over 37 days, he sold one watch every 38 seconds. Frantically trying to satisfy the orders, he hired six people in two weeks, tripling Pebble's staff.

The watches will be ready this fall - without the help of venture capital.

"You want to spend your time talking to customers. You don't really want to spend your time talking to venture capitalists. Because at the end of the day, they're just guys with money," Migicovsky says.

The success of Pebble and others is clearly attracting more ambitious projects. A Los Angeles-based startup, Ouya, is collecting money to create a game console. It set a \$950,000 minimum - reflecting the complexity of competing against the PlayStation, Xbox and Wii - and hit \$8.6 million in pledges.

David Tisch, the founder of "startup accelerator" firm TechStars, says posting a product on Kickstarter is a great way to gauge demand. If it turns out to be strong, that can make it easier to attract investment that can turn the project into an ongoing business.

"For the first time, there's a way to get customer feedback with money attached to it," he said.

While entrepreneurs revel in the attention they get from donors on the website, Kickstarter's founders are uncomfortable with the site's role as a fundraising tool for products. The company wouldn't comment for this story, and it doesn't release financial data to the public because it's a private company.

In past interviews, co-founder Yancey Strickler has suggested that Kickstarter wasn't intended to be an engine of commerce or a route to riches.

"There is this greater idea of helping people out and that art still has value in the world," he told board-game blog Purple Pawn earlier this year. "We generally don't like Kickstarter to be used to, say, start a business."

Of course, several Kickstarter projects have turned into businesses, like ElevationLab, the Portland Ore.-based startup that makes the Elevation iPhone docking station and Touchfire, a company in Redmond, Wash., that created a keyboard for the iPad.

The majority of Kickstarter projects are still non-commercial ventures like photo books and amateur musicals. At this year's South by Southwest Film Festival in Austin, 33 films, or 10 percent of the lineup, were funded through Kickstarter.

Kickstarter's focus on artistic and creative pursuits to the exclusion of others might make it vulnerable to competition. Sam Gordon, who funded his "Brydge" keyboard for the iPad through the site, says Kickstarter needs to clearly define its guidelines for product development.

"If they don't, then there's room for other sites," Gordon said.

Business and technology consultant Scott Steinberg, who has written a guide to crowdfunding, says it's inevitable that commercialism would seep into it as the phenomenon grows.

"Crowdfunding is almost in the pre-K phase, and it's about to grow up very fast here, and become more complex," he says. "Inevitably, more businesses and profit-minded organizations are going to gravitate there."

For the time being, Steinberg thinks crowdfunding will be dominated by products whose appeal is easily communicated visually, like the Pebble watch, or products aimed at fans of existing creators or products, like Burlew's "Order of the Stick" comic.

Burlew says he believes it was crucial to have a core base of fans. His "Dungeons & Dragons"-themed Web comic has been running for eight years, and has supported Burlew and his family for most of that run.

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"Have an established audience before you launch your Kickstarter drive. Don't rely on word-of-mouth or sheer luck for people to find your project," Burlew advises.

Once fans got it started, Burlew's Kickstarter project turned into a self-propelled marketing tool. As contributions rose, the project drew attention from comics and publishing blogs, driving more contributions in a "snowballing" effect, Burlew says.

Added to that was the sense of urgency the project instilled, he says.

"I had a lot of readers who either never thought about buying books, or thought about it as something they'd like to do in the nebulous future," Burlew said in an email interview from his home in Philadelphia. "The Kickstarter drive gave them a strong incentive to buy the books right now, so I was able to convert more readers into sales than usual."

Burlew, who says he's "generally a suspicious person," was wary of getting prematurely excited about the size of his Kickstarter fund.

"I kept waiting for the other shoe to drop. It hasn't yet," he says.

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