

Crowdsourcing:  
A New Revolution for Start-ups

by

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## Abstract

In the last couple of years, the rise of crowdsourcing has revolutionized the way that start-ups operate, especially transforming the way they acquire entrepreneurial financing. Although a growing movement, this new business model has yet to prove its long-term sustainability. After an extensive analysis of several platforms to identify the key features that are essential for platform viability, I conclude that no one attribute ensures absolute success. Rather, different platform models need to implement unique elements that complement its distinctive purpose and appeal to its target audience. Going forward, with the passing of the Jumpstart Our Business Startups (JOBS) Act, the next couple of years will be crucial to the development of crowdsourcing, especially for platforms geared to foster entrepreneurial ventures such as Kickstarter. This law will amplify the benefits and risks associated with the crowdsourcing and reveal whether this new business model is truly viable in today's start-up marketplace.

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## Introduction

Traditional start-up companies face the difficulty of overcoming high barriers to enter new industries. New businesses usually have to invest in high, fixed-cost facilities before receiving any promise of revenue. Facing these pressures, start-ups generally have an average five-year survival rate of 50% and a 10-year survival rate of 29%.<sup>1</sup> Ever since the recent financial crisis, entry barriers have risen even higher, and small business survival rates have declined even further.<sup>2</sup> In the post-recession climate, both entrepreneurs and investors have become risk-adverse, reluctant to capitalize on new ideas and ventures.

A problem common to all small businesses is the difficulty of securing adequate financing in the initial stages of the venture. According to Sorenson and Stuart (2001), early-stage venture capitals tend to invest locally as they have better knowledge of the local market and can perform due diligence on the new entrepreneurs. In particular, most of the capital contributed to new ventures comes from the friends and families of the innovator. The “friends and family” group usually donates to causes with no expectation of repayment.<sup>3</sup> However, this source of funding has limitations.

Catalyzed by the recent market pessimism as well as the rapid development of online social networks, “crowdsourcing” has emerged as a solution to venture financing difficulties. Crowdsourcing is a distributed problem-solving and production model that helps entrepreneurs and investors bring a product to market. Product development obstacles are broadcasted to unknown users via the Internet. These users then produce and send solutions back to the original broadcaster or crowdsourcer. Specifically, crowdsourcing for financing is known as

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<sup>1</sup> Shane, Scott. "Startup Failure Rates - The REAL Numbers." *Small Business Trends*. 28 Apr. 2008. Web. 23 Mar. 2012. <<http://smallbiztrends.com/2008/04/startup-failure-rates.html>>.

<sup>2</sup> Reuvid, Jonathan. *Start Up & Run Your Own Business: The Essential Guide to Planning, Funding & Growing Your New Enterprise*. 8th ed. Philadelphia: Kogan Page Limited, 2011. Print.

<sup>3</sup> Agrawal, Ajay, Christian Catalini, and Avi Goldfarb. *Friends, Family, and the Flat World: The Geography of Crowdfunding*. Thesis. University of Toronto, 2011. Print.

“crowdfunding”. In the case of crowdfunding, an innovator publicizes his or her funding needs via the Internet to individual investors, who offer monetary contributions, which are then aggregated by the platform and transferred to the project owner. According to Ajay, Catalini, and Goldfarb (2011), crowdfunding platforms have three common properties:

- 1) They provide a standardized format for entrepreneurs to present their project in a comprehensive manner to anyone with Internet access. The “crowd” in crowdfunding refers to the ability of these platforms to overcome distance-related frictions to reach a geographically widespread number of contributors.
- 2) They allow for small financial transactions to enable broad participation with limited downside risk. Because crowdfunding allows innovators to source funds from an unlimited number of people, each individual investor can contribute as much or as little as they prefer (i.e. funding an entire project or contributing just \$5).
- 3) They provide investment information as well as tools for investors to communicate with each other. Crowdfunding platforms are public websites in which investors can gauge the interest in a product through feedback by other investors. Popular projects usually reach funding requirements faster and generate additional popularity.

In the past three years, crowdsourcing has revolutionized the start-up landscape. In February 2012, the computer game “Double Fine Adventure” successfully raised \$3.45 million dollars through crowdfunding and challenged traditional financing means for the first time.<sup>4</sup> In addition to entrepreneurial ventures, crowdsourcing has improved the funding possibilities for freelance artists and musicians. In 2012, the total amount of contributions raised on the platform Kickstarter surpassed the annual funding granted by the National Endowment for the Arts. Furthermore, Pivot Power – a product developed through crowdsourcing – achieved bestselling

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<sup>4</sup> “Double Fine Adventure.” *Wikipedia, The Free Encyclopedia*. Web. 23 Mar. 2012. <en.wikipedia.org/wiki/Double\_Fine\_Adventure>.

status on the retail market, earning approximately \$100,000 in its first month.<sup>5</sup> Finally, crowdsourcing has gained so much momentum and popularity that the public sector responded with an act to further lower barriers to entry for small businesses. On April 5, 2012, President Obama signed the Jumpstart Our Business Startups (JOBS) Act into law, calling it a “game-changer” that would allow start-ups and small businesses access to a “big, new pool of potential investors for the first time”.<sup>6</sup>

This paper offers the following contribution. Despite its surging popularity, crowdsourcing is still a new business model and has not yet proven its long-term sustainability. To determine the long-term viability of crowdsourcing, the following research will analyze four popular crowdsourcing platforms: Kickstarter, IndieGoGo, Quirky, and Kiva Microfunds. Using the case study method, I will explain in detail the mechanisms of each platform and then analyze their differences in order to determine which characteristics contribute to platform success. In addition, I will look at the crowdsourcing movement as a whole, explain why this business model was able to generate such widespread popularity, and discuss its growth potential going forward.

## Platforms

I decided to pursue the case study method based on its exploratory nature as a preliminary research method to investigate a contemporary, real-life phenomenon.<sup>7</sup> As discussed above, crowdsourcing is a new business model that has not yet proven its success despite

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<sup>5</sup> Christopher, Benjamin. "Crowd-Sourcing Innovation." *Why Didn't I Think of That?* 17 Feb. 2012. Web. 5 May 2012. <<http://thinkofthat.net/2012/02/17/creative-outlet-how-quirky-is-crowd-sourcing-innovation/>>.

<sup>6</sup> Bruce, Mary. "Obama Signs JOBS Act Into Law." *ABC News*. 5 Apr. 2012. Web. 5 Apr. 2012. <<http://abcnews.go.com/blogs/politics/2012/04/obama-signs-jobs-act-into-law/>>.

<sup>7</sup> Yin, Robert K. *Case Study Research: Design and Methods*. 4th ed. Vol. 5. London: SAGE Publications, 2009. Print.

extensive media coverage. In addition, this approach can aptly juggle many variables of interest.

My research will look at the following variables:

- Geographic scope – Is an international platform more sustainable than a domestic one?
- Project regulations – Does the structure provided by regulations increase the sustainability of platforms?
- Provision point mechanism – Does the implementation of a provision point mechanism or threshold system positively or negatively affect the popularity of a platform?
- Fees – How sensitive are users to fees?
- Type of support – Which platforms generate more popularity: funding-based platforms or service-based platforms?
- Social element – Does the social mission of a platform contribute to its economic sustainability?
- Fraud – How has evidence of fraud affected the performance of a platform and how sensitive are contributors to instances of fraud?

Finally, as an exploratory study, my paper will offer an in-depth explanation for reasons behind the popularity surrounding the movement of crowdsourcing as a whole.

I selected the following platforms for this case study: Kickstarter, IndieGoGo, Quirky, and Kiva Microfunds. These particular platforms were chosen for their similarity in popularity in their respective crowdfunding subcategories. Kickstarter is the largest platform for creative projects. IndieGoGo is noted for its success as an open platform that does not stipulate its crowdsourcers to adhere to a category or a specific project. Quirky engages in product development, and it is one of the most successful crowdsourcing platforms with several bestselling products on the retail market. Finally, Kiva is one of the largest nonprofit,

microfinance crowdfunding platforms. The following section will describe why each platform was founded, how they operate, and what achievements have they realized since being established.

## **Kickstarter**

Kickstarter is the largest crowdfunding platform in the world for creative projects. It was founded by Yancey Strickler, Perry Chen, and Charles Adler on April 28, 2009. Chen first came across the idea for Kickstarter after he reluctantly canceled a concert in New Orleans upon weighing its expected attendance rate against the \$15,000 upfront cost. This setback caused Chen to stumble upon crowdfunding as a business model and brought about the creation of Kickstarter. Chen later brought on board Strickler, a former music magazine editor, and Adler, an interaction designer who developed Kickstarter's website, and the platform was born. Kickstarter is based in Manhattan's Lower East Side, and Perry Chen is the current CEO of the company.

When Kickstarter originally launched, the platform primarily hosted creative projects such as photography, film, and music. Over time, Kickstarter's initial popularity brought about further expansion. Today, the 13 different categories of projects include: art, comics, dance, design, fashion, film, food, games, music, photography, publishing, technology, and theater, with film, music, and design being the most popular among users. Kickstarter only supports projects that can be categorized according to the above criteria. In addition, the platform prohibits charity funding, "fund my life" projects (i.e. tuition, vacation money, etc.), and other specific subject matters such as contests, raffles, and drugs. Kickstarter is only available to users with a U.S. bank account.

The company manages its funding process in the following manner. Following the submission of a project idea, Kickstarter's staff evaluates the proposal according to the above guidelines and verifies its suitability to the platform. If the design fails to match Kickstarter's requirements, it is returned to the Creator along with feedback and encouraged for resubmission. However, if approved, the staff provides edits and revisions to improve the marketability of the project's final posting. Once the Creator completes the amendments, the project is then officially hosted on Kickstarter and becomes open to pledges from Backers. The hosting period for a project lasts up to 60 days and cannot be changed once set. A characteristic unique to Kickstarter is its threshold pledging system or provision point mechanism. The threshold or provision point refers to the funding target that the Creator sets prior to the funding period. Only after the threshold is met can a Creator draw upon the funds that he or she has raised. Otherwise, the pledges are invalid, and no money is transferred from the Backers to the Creator. This mechanism eliminates projects with inadequate funding that are more prone to failure, which avoids wasting of funds. In addition, the threshold pledging system also has the side effect of getting Backers invested in spreading the word out to their friends to ensure the success of the projects that they are interested in<sup>8</sup>. Once the monetary transactions are complete, Kickstarter then takes 5% from fully funded projects, and Amazon Payments, which facilitates the money transfer, takes 3-5%. Furthermore, Kickstarter requires Creators to offer Backers rewards in return for their contributions. These rewards are mementos such as T-shirts, posters, and music recordings, whose worth can range anywhere from \$1 to \$10,000. Kickstarter has no equity claims to the projects; however, all projects hosted on the Kickstarter platform are archived on its website and open to the public. Finally, Kickstarter helps promote projects hosted on its website

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<sup>8</sup> Grobe, Hannes. "Crowdfunding Revolution: Should I Do This?" *Core77*. 6 Feb. 2012. Web. 10 Feb. 2012.  
<[http://www.core77.com/blog/kickstarter/crowdfunding\\_revolution\\_should\\_i\\_do\\_this\\_21697.asp](http://www.core77.com/blog/kickstarter/crowdfunding_revolution_should_i_do_this_21697.asp)>.

through its columns “Projects We Love” and “Staff Pick”. (See Exhibits I and II for a list of notable projects that have been hosted on Kickstarter)

Despite its thorough funding system, criticisms have been raised towards the platform. The main concern regarding Kickstarter is its reliance on the honor system. Skeptics argue that since there is no guarantee that the projects will be done or that the raised funds will be used towards building the project, Creators can host false information and expend the funds for personal use. (See Exhibit III for a list of fraudulent projects that have been hosted on Kickstarter) In addition, Backers gain no benefits from funding a project: they have no equity claim if a product becomes successful nor tax deductions since their contributions are not donations. The only repayment for Backers is little mementos, which are immaterial in the long run.

In response to the criticism, the Kickstarter staff asserts that Kickstarter does have a reliable accountability system to control fraud. First of all, its staff hand selects the projects that will be posted on its platform. In addition, the company offers marketing and strategic advice to the Creators. Lastly, the provision point mechanism ensures that there is a market for the products offered, and the funding process provides the mechanism for the projects to reach the market. After the different measures of quality control, only 46% of projects become fully funded.<sup>9</sup> In addition, historically, the platform has very rarely seen instances of fraud. Despite the drawbacks of the system, Kickstarter does have hundreds of serial donors who have donated to countless projects. Strickler suggests that, in addition to monetary compensation, Backers are also eager to participate in the creation experience, which their contributions buy.<sup>10</sup> As for artists and other project owners, they claim that Kickstarter enables them to pre-sell and gauge

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<sup>9</sup> Franzen, Carl. "Kickstarter Expects To Provide More Funding To The Arts Than NEA." *TPM Idea Lab*. 24 Feb. 2012. Web. 25 Feb. 2012. <<http://idealab.talkingpointsmemo.com/2012/02/kickstarter-expects-to-provide-more-funding-to-the-arts-than-nea.php>>.

<sup>10</sup> Kickstarter. " Kickstarter. " Kickstarter. Web. 23 Feb. 2012. <<http://www.kickstarter.com>>.

consumer interest before their product is made. This method gives them a better sense of the commercial success of their final product and allows them to focus on their profession and forte, which is creating art.

In summary, Kickstarter has proven to be a successful business model. "It has the traffic, the reputation and the track record of success that none of the other sites can come close to."<sup>11</sup> Strickler has attributed this success to Kickstarter's unique market position as the "new form of commerce and patronage"<sup>12</sup>. In 2012, Kickstarter surpassed the National Endowment for the Arts with \$150 million in pledges in comparison to the endowment's \$146 million.<sup>13</sup> As of April 2012, Kickstarter has over \$175 million in lifetime funding and over 20,000 successful projects.<sup>14</sup> VentureBeat's Ben Popper approximates Kickstarter's 2012 estimates to be around \$300 million.<sup>15</sup> Many publications such as CNN, WIRED magazine, NPR, and the NYTimes have praised the platform for its innovative success. The company currently has over \$10 million in funding with contributions from Union Square Ventures, Betaworks, and business angels such as Twitter co-founder Jack Dorsey, Vimeo co-founder Zach Klein, and Flikr co-founder Caterina Fake.<sup>16</sup> The exact amount of funding is suspected to be larger than \$10 million, but Kickstarter has declined to reveal the exact number. Despite the excitement surrounding the company, CEO Perry Chen denies any plans to take on series funding.<sup>17</sup> He says once Kickstarter goes corporate, its current honor system would no longer be applicable, and the platform would lose its unique personal touch. In addition, the company would need to offer more transparency than it currently

<sup>11</sup> Grobe, Hannes. "Crowdfunding Revolution: Should I Do This?" *Core77*. 6 Feb. 2012. Web. 10 Feb. 2012. <[http://www.core77.com/blog/kickstarter/crowdfunding\\_revolution\\_should\\_i\\_do\\_this\\_21697.asp](http://www.core77.com/blog/kickstarter/crowdfunding_revolution_should_i_do_this_21697.asp)>.

<sup>12</sup> "Kickstarter." *Kickstarter*. Web. 23 Feb. 2012. <<http://www.kickstarter.com>>.

<sup>13</sup> Franzen, Carl. "Kickstarter Expects To Provide More Funding To The Arts Than NEA." *TPM Idea Lab*. 24 Feb. 2012. Web. 25 Feb. 2012. <<http://idealab.talkingpointsmemo.com/2012/02/kickstarter-expects-to-provide-more-funding-to-the-arts-than-nea.php>>.

<sup>14</sup> Locke, Laura. "Kickstarter Crowdsourced Cash Empowers US Innovators." *BBC News*. BBC, 28 Mar. 2012. Web. 25 Apr. 2012. <<http://www.bbc.co.uk/news/technology-17531736>>.

<sup>15</sup> Shontell, Alyson. "Kickstarter Is On Track To Generate ~\$300 Million In Funding This Year." *Business Insider*. 21 Apr. 2012. Web. 25 Apr. 2012. <[http://articles.businessinsider.com/2012-04-21/tech/31377591\\_1\\_kickstarter-junkies-innovation](http://articles.businessinsider.com/2012-04-21/tech/31377591_1_kickstarter-junkies-innovation)>.

<sup>16</sup> Kafka, Peter. "Kickstarter Fesses Up: The Crowdsourced Funding Start-Up Has Funding, Too" *All Things D*. Dow Jones & Company Inc. Retrieved 7 February 2012. <<http://allthingsd.com/20110317/kickstarter-fesses-up-the-crowd-sourced-funding-startup-has-funding-too/>>.

<sup>17</sup> Adler, Carlyle. "How Kickstarter Became a Lab for Daring Prototypes and Ingenious Products." *Wired.com*. Conde Nast Digital, 18 Mar. 2011. Web. 25 Apr. 2012. <[http://www.wired.com/magazine/2011/03/ff\\_kickstarter/all/1](http://www.wired.com/magazine/2011/03/ff_kickstarter/all/1)>.

prefers. Kickstarter's present plan is to continue growing as is. (See Exhibits IV – VIII for statistics about Kickstarter's performance)

## **IndieGoGo**

IndieGoGo is the largest international crowdfunding platform. Unlike Kickstarter, IndieGoGo has no limitations and is suitable for all people in need of funding. Founder Slava Rubin first encountered the need for crowdfunding after losing his father to cancer. Frustrated by his attempts to raise money for bone marrow cancer research in honor of his late father, Rubin launched IndieGoGo with colleagues Danae Ringellmann and Eric Schell at the 2008 Sundance Film Festival. Today, healthcare is interestingly one of the most highly funded categories on the website. However, because IndieGoGo does not impose funding regulations and allows borrowers to seek funding for any purpose (charity, life projects, etc.), critics have shown doubt towards IndieGoGo's ability to glean which of the projects submitted show promise and to successfully commercialize their ideas. Top funded ventures on IndieGoGo are significantly less popular and less funded than that of their competitor Kickstarter. IndieGoGo discourages focusing solely on its platform and emphasizes the importance of complementing its services with that of other social media outlets in order to realize widespread popularity. Despite these concerns, Rubin stands steadfast by his original idea. He states "One of the most important things is we're completely open to any projects, and you can start immediately. Some other players out there decide whether or not your project deserves to be on there and we think that fundamentally goes against the reason the internet was created and how to best use an Internet platform."<sup>18</sup> The company is currently based in San Francisco, California.

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<sup>18</sup> Bell, Mark. "Wake Me Up Before You IndieGoGo: Interview With Slava Rubin." *Film Threat*. 5 Oct. 2010. Web. 25 Apr. 2012. <<http://www.filmthreat.com/interviews/26476/>>.

There are key similarities and differences between IndieGoGo and Kickstarter, which determine their user demographics and ultimately affect the popularity of each platform. Both platforms allow borrowers to retain equity in their projects and help borrowers bring their ideas to market. Similar to Kickstarter's marketing mentorship of its projects, IndieGoGo promotes projects with "GoGoFactor" and partners with MTV Media in order to provide users with marketing, management, and other business advice. In addition, the funding process for both platforms is carried out in a similar manner. However, the similarities end here. First of all, the pledging period on IndieGoGo is 120 days. Borrowers have the option of "Fixed Funding" or "Flexible Funding". With Fixed Funding, the mechanism works similar to that of Kickstarter, and borrowers either acquire all or none of their raised funds depending on their ability to surpass the funding threshold. Successful Fixed Funding projects are charged a 4% fee. Borrowers also have the option of Flexible Funding, which allows them to retain all of their funds regardless of whether they reach their provision point. Under this system, if the funding target is met, IndieGoGo charges a 4% fee; if not, the platform charges a 9% fee. In addition, third party fees are 3%, and the platform also requires a one-time \$25 fee for international users. Another differentiating point is IndieGoGo's tax deduction system. Due to its partnership with Fractured Atlas, the crowdfunding platform offers tax deductions for its lenders who contribute to nonprofit causes. Furthermore, in line with its open business model, IndieGoGo does not require rewards. However, it does recommend that its borrowers offer perks to their lenders. Finally, IndieGoGo does not require a U.S. bank account, hoping to cater to a more international and diverse user base. In summary, IndieGoGo has a more flexible business model than Kickstarter and enforces fewer regulations upon its borrowers. However, it employs an extensive

fraud review system, and like Kickstarter, has seen only rare instances of fraudulent activity on its platform. (See Exhibit IX for notable IndieGoGo campaigns)

Since inception, IndieGoGo has helped raise millions of dollars for over 65,000 campaigns across 212 countries.<sup>19</sup> As of September 2011, the platform has about \$1.5 million in funding from ventures such as MHS Capital, Actacrus Funds, and ffVenture, and individuals such as Zynga co-founder Steve Schoettler, Withoutabox co-founder David Straus, and Georges Harik, a former Google engineer.<sup>20</sup> In April 2010, IndieGoGo was nominated for Best Community Site in the 14<sup>th</sup> Annual Webby Awards. In April 2011, IndieGoGo joined President Obama's Startup America Partnership as the Funding Site for White House-Supported Entrepreneurship Initiative.<sup>21</sup> Other partners in the initiative include Microsoft, Google, and American Express. According to Rubin, IndieGoGo's success can be attributed to its democratizing values: "equal opportunities, but not equal results guaranteed".<sup>22</sup> (See Exhibit X for IndieGoGo's traffic statistics)

## **Quirky**

Unlike Kickstarter and IndieGoGo, which provide crowdfunding services, Quirky is a social project development tool that offers assistance in the industrial design of products through crowdsourcing. CEO Ben Kaufman, who had been a struggling inventor since high school, founded Quirky in 2009 after selling his wildly successful first business Mophie, an iPhone accessory company that generated approximately \$1 million in revenues in 2006.<sup>23</sup> While

<sup>19</sup> "IndieGoGo." *IndieGoGo*. Web. 25 Apr. 2012. <<http://www.indiegogo.com>>.

<sup>20</sup> Kincaid, Jason. "IndieGoGo Raises \$1.5 Million For Its Crowdfunding Platform." *TechCrunch*. 7 Sept. 2011. Web. 25 Apr. 2012. <<http://techcrunch.com/2011/09/07/indiegogo-raises-1-5-million-for-its-crowdfunding-platform/>>.

<sup>21</sup> "IndieGoGo.com Joins Startup America Partnership as the Funding Site for White House-Supported Entrepreneurial Initiative." - *Press Release*. 20 Apr. 2011. Web. 25 Apr. 2012. <<http://www.ereleases.com/pr/indiegogocom-joins-startup-america-partnership-funding-site-white-housesupported-entrepreneurial-initiative-50290>>.

<sup>22</sup> Hockenson, Lauren. "Crowdfunding: How IndieGoGo Connects Concepts with Cash." *Mashable*. 24 Apr. 2012. Web. 25 Apr. 2012. <<http://mashable.com/2012/04/24/indiegogo-video/>>.

<sup>23</sup> Boutin, Paul. "Quirky's 23-year-old CEO Finds Love with the Supply Chain." *VentureBeat / News About Tech, Money and Innovation*. 27 Apr. 2010. Web. 25 Apr. 2012. <<http://venturebeat.com/2010/04/27/quirky-ben-kaufman/>>.

visiting outsourced Mophie manufacturers in China, Kaufman realized the idea for Quirky. Rather than going through the invention process himself, he could facilitate a community-wide product-development discussion and then manufacture the promising projects through outsourced partners. Since its conception, Quirky has gained immense popularity among users as well as retailers. Today, the rapidly growing company is located on Broadway in New York City.

Quirky's product development crowdsourcing process begins with inventors, who pay \$10 to submit their ideas on Quirky's website. "Influencers" and the Quirky staff then discuss and review the proposals. "Influencers" are users who contribute to the project by editing the original ideas, designing project logos, and creating unique taglines. Evaluation factors include uniqueness, manufacturing complexity, and intellectual property rights.<sup>24</sup> Every week, an idea is selected and then later manufactured, marketed, and brought to the market with the help of product development experts on Quirky's staff. Quirky's idea office and headquarters is located in Noho Manhattan, and the company has a model maker in Queens, a manufacturer in Guangdong, China, and a warehouse in Pennsylvania. Their retail partners include Toys R'Us, Target, Bed Bath and Beyond, OfficeMax, The Container Store, ACE Hardware, Barnes & Noble, Frontgate, Safeway, Microcenter, and Amazon.com. If their ideas sell successfully on the retail market, inventors and their contributors are eligible for 30% of the profit. Quirky's staff retains another 30%, and the rest of the profit is divided among project "influencers". One characteristic specific to Quirky's platform is its takeover of project ownership rights. This characteristic has been unpopular with inventors who want to retain equity in their ideas. Once a proposal is submitted and selected, that project becomes Quirky's intellectual property, and the inventors sever their legal claims. Quirky has the power to file for intellectual property patents and use these patents to leverage their ideas. Finally, due to the amount of regulation it has over

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<sup>24</sup> "Quirky | Social Product Development." *Quirky*. Web. 26 Apr. 2012. <<http://www.quirky.com>>.

its platform, Quirky has not seen fraudulent activity. (See Exhibit XI for Quirky's top ten best-selling products)

Like Kickstarter, Quirky has been met with widespread popularity. The social product developer started with \$1.6 million from friends and family.<sup>25</sup> In April 2010, Quirky raised \$6 million in Series A funding led by RRE Ventures with contributions from Village Ventures, Contour Venture Partners, and Lowercase Capital.<sup>26</sup> In September 2011, the company underwent a series B funding of \$16 million led by Norwest Venture Partners with RRE Ventures once again participating.<sup>27</sup> Kaufman plans to use the new funding towards expansion, hiring more product developers and product designers. The platform currently receives approximately 20,000 idea submissions every week and produces around 60 products a year. As of August 2011, Quirky has also started a Sundance Channel reality show focusing on the daily operations and projects at the company. Going forward, Kaufman hopes that Quirky will serve as a catalyst for creation. He states, "When anyone says, 'I have a great idea', I want people to say, 'You have to take it to Quirky.'"<sup>28</sup> (See Exhibit XII for Quirky's traffic statistics)

## **Kiva Microfunds**

Kiva is a 501(c)(3) non-profit organization that crowdfunds entrepreneurial loans to third-world countries through microfinance intermediaries called Field Partners. The word "Kiva" means "unity" in Swahili. Current CEO Matt Flannery and his then wife Jessica Jackley first became interested in microfinance in 2003 at a Stanford Business School lecture featuring Muhammad Yunus, founder of Grameen Bank. Inspired by Yunus, Jackley moved to East Africa

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<sup>25</sup> "Your Idea Can Become a Successful Product." *30mag*. 16 June 2011. Web. 26 Apr. 2012. <<http://www.30mag.com/design/quirky-your-idea-can-become-a-successful-product>>.

<sup>26</sup> Boutin, Paul. "Quirky's 23-year-old CEO Finds Love with the Supply Chain." *VentureBeat / News About Tech, Money and Innovation*. 27 Apr. 2010. Web. 25 Apr. 2012. <<http://venturebeat.com/2010/04/27/quirky-ben-kaufman/>>.

<sup>27</sup> Rao, Leena. "Quirky Raises \$16 Million For Social Product Development Platform." *TechCrunch*. 4 Aug. 2011. Web. 26 Apr. 2012. <<http://techcrunch.com/2011/08/04/quirky-raises-16-million-for-social-product-development-platform/>>.

<sup>28</sup> Wang, Jennifer. "Quirky: The Solution to the Innovator's Dilemma." *Entrepreneur*. 26 July 2011. Web. 26 Apr. 2012. <<http://www.entrepreneur.com/article/220045>>.

to work for a non-profit called Village Enterprise Fund, which helps local entrepreneurs start their businesses. During their stay in Africa, Flannery and Jackley interviewed small business owners and learned about the difficulties entrepreneurs face in developing countries. In April 2005, the couple started testing Kiva's business model and disbursed their first seven business loans. It took five months for the borrowers to fully repay their loans. By then, the couple realized the sustainability of their microcredit idea. They officially founded Kiva as a nonprofit in October 2005. In 2006, Flannery and Jackley brought on board Premal Shah of PayPal and Reid Hoffman, CEO and founder of LinkedIn to join their staff. Today, Flannery operates as CEO, while Jackley is no longer part of the team. Kiva is currently headquartered in San Francisco and has 189 Field Partners.

Kiva uses a web-based platform to disburse loans from lenders in developed countries to borrowers in third-world countries. First, Kiva partners with microfinance institutions around the world and inaugurates them as Field Partners. In order to apply to become a Field Partner, a microfinance institution must meet the following requirements:

- Serve at least 1,000 active borrowers with microfinance services
- Have a history of a minimum of 2-3 years of lending to poor, excluded, and/or vulnerable people for the purpose of alleviating poverty or reducing vulnerability
- Be registered as a legal entity in its country of operation
- Have at least one year of audited financial information<sup>29</sup>

The evaluation process to become a Field Partner is not disclosed to the public. Field Partners disburse loans to local businesses and students and have the authority to choose which locals are eligible for loans. Once the borrower has been approved, the Field Partners submits his or her information to Kiva, which then gets uploaded onto Kiva's website. Kiva includes personal

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<sup>29</sup> "Kiva." *Kiva*. Web. 26 Apr. 2012. <<http://www.kiva.org>>.

stories from each entrepreneur in order to establish an intimate atmosphere that engages both lenders and borrowers.<sup>30</sup> Lenders browse and choose their lending targets. The smallest required lending amount is \$25 and the largest is the entire amount of the loan. Lenders can only lend in increments of \$25.<sup>31</sup> Kiva aggregates these contributions and transfers them to Field Partners. As individual entrepreneurs repay their loans, Kiva collects the repayments from its Field Partners. Lenders recoup their contributions in the form of Kiva Credits, which they may either withdraw via PayPal or relend to another entrepreneur in need. As a nonprofit, Kiva does not charge interest on its loans and is purely supported by grants, loans, and donations from users, corporations, and other institutions. Therefore, Kiva lenders are not compensated by interest income. The loan-facilitating platform PayPal also does not charge fees. However, Kiva's Field Partners charge their borrowers high interest to cover the risk of unpaid loans. Field Partners offer borrowers idiosyncratic rates that reflect the different risk conditions in different countries.

Criticisms of the platform include its use of Field Partners as intermediaries between Kiva and its borrowers. Muhammad Yunus, among others, has argued that microfinance institutions charge too high of a rate to its borrowers. Competitors such as Zidisha have completely eliminated intermediaries and allow lenders to directly crowdfund individual borrowers. In response, Kiva argues that the rates offered by its Field Partners are lower than the rates found at other local lending institutions. Critics also suggest that due to the long chain of intermediaries between Kiva and its borrowers, there is uncertainty regarding the accuracy of the reported default rates. The repayment rates offered by some Field Partners seem unrealistically high. Critics suggest that some Field Partners may continue to repay Kiva even after their borrowers default. Furthermore, evidence shows fraud and corruption at the Field Partners level.

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<sup>30</sup> Flannery, Matt. "Kiva and the Birth of Person-to-Person Finance." *Innovations* (2007). Print.

<sup>31</sup> "Kiva." *Kiva*. Web. 26 Apr. 2012. <<http://www.kiva.org>>.

Information regarding fraudulent Field Partners can be found on Kiva's website. The company provides full transparency of its operations and operational difficulties. Kiva's Field Partners that have been identified of corruption include the following, among others:

- Women's Economic Empowerment Consort (WEEC) used loans to pay off debts instead of disbursing them to local entrepreneurs.
- Supporting Enterprises for Economic Development (SEED) failed to provide entrepreneurs with the full amount of their loans, which is against Kiva's policies. In addition, this Field Partner has defaulted on its entire loan portfolio.
- Women's Initiative to Eradicate Poverty (WITEP) was a shell MFI that funneled money to one of Kiva's founders, Moses Onyango.
- Rural Agency for Development (RAFODE) embezzled funds away from borrowers.
- Afrique Emergence & Investissments (AE&I) was suspected of irregular activities after a computer crash publicized its records. The microfinance institution was investigated and eventually let go.
- MIFEX inflated their loan sizes and used the extra money towards operational funding.<sup>32</sup>

Every one of these partnerships has been terminated. Since its inception, Kiva has ended partnership with 46 Field Partners, although some terminations were due to other risks such as government corruption, wars, and other country risks. Finally, reviewers have shown concern regarding Kiva's pre-disbursement system that extends borrowers the loan prior to crowdfunding the entire amount from lenders. They argue that pre-disbursement provides little transparency and allows money to funnel to businesses other than the ones chosen by lenders.

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<sup>32</sup> "Kiva." *Kiva*. Web. 26 Apr. 2012. <<http://www.kiva.org>>.

As of March 31, 2012, Kiva has distributed approximately \$300 million in loans from over 744,000 lenders through a total of 391,000 loans. The average loan size is \$392.13. Its current repayment rate is 98.94%.<sup>33</sup> As of April 1, 2012, 80.62% of Kiva's loans are extended to women. In a patriarchal society with extreme division of labor protocols, Kiva believes that its business model empowers female entrepreneurs and protects them from vices such as prostitution, drugs, and alcohol. Jackley suggests Kiva is "centered on creating innovative ways for entrepreneurs to access the resources they need to succeed, including not just new sources of capital but the engagement of robust, supportive communities."<sup>34</sup> (See Exhibit XIII for Kiva's traffic statistics)

## Discussion

### Observations and Comparisons of Platforms

According to web analytics, media coverage, and amount of money raised, Kickstarter is by far the most successful crowdsourcing platform. It has the highest traffic, pageviews, and Internet user reach both domestically and internationally. The platform is ranked significantly higher than the other three platforms and has exhibited the most rapid growth rate. Kickstarter is the only platform with projects that have gone viral and generated funding that surpassed their initial funding goals by several hundred-percentage points. On the other hand, IndieGoGo is statistically a less popular platform. However, the platform determines its "success" through different measurements. Its primary purpose is not to generate funding, but rather to use the democratizing powers of the Internet to help consumers and entrepreneurs realize their seemingly impossible dreams. IndieGoGo focuses more on the social purposes behind the

<sup>33</sup> "Kiva." *Kiva*. Web. 26 Apr. 2012. <<http://www.kiva.org>>.

<sup>34</sup> "Jessica Jackley - Home." *Jessica Jackley*. Web. 26 Apr. 2012. <<http://www.jessicajackley.com/index.html>>.

funding needs rather than hard numbers. For example, when discussing IndieGoGo's most notable projects, founder Slava Rubin praises IndieGoGo's ability to help users reach outlandish, socially impactful, and otherwise impossible goals rather than the amount of funding generated per project. Thirdly, Quirky, while not in command of the highest traffic statistics, proves to be the most engaging among users, demonstrating the lowest bounce rate and longest time spent on the website among the four platforms. Founder Ben Kaufman prides his company on the community effect produced by engaging influencers and innovators to create an "operational powerhouse".<sup>35</sup> Lastly, Kiva, founded in 2005, is the longest-surviving platform with the most stable traffic statistics and the highest percentage of recurring donors despite being the only platform with recurring instances of fraud. (See Exhibit XIV for the comparative statistics across all platforms)

## **Discussion of Contributing Variables of Different Platforms**

First of all, the geographic scope of the platform has little effect on the overall performance of the company. Although IndieGoGo prides itself on its international user base as opposed to Kickstarter's domestic outlook, the geographic distribution of users for both platforms are similar. 45.5% of IndieGoGo's users are based in the United States in comparison to 45.7% for Kickstarter.<sup>36</sup> In addition, both platforms include the United Kingdom, Germany, Canada, Japan, India, France, Australia, and Spain among its top ten most active countries.

Secondly, project regulations, provision point mechanism, and platform fees are all factors that lead to platforms success. However, the mere presence of one factor does not dictate absolute success or generate widespread popularity among users. Rather, the different features

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<sup>35</sup> Boutin, Paul. "Quirky's 23-year-old CEO Finds Love with the Supply Chain." *VentureBeat /News About Tech, Money and Innovation*. 27 Apr. 2010. Web. 25 Apr. 2012. <<http://venturebeat.com/2010/04/27/quirky-ben-kaufman/>>.

<sup>36</sup> Source: *Alexa the Web Information Company*. 12 Jan. 2012. Web. 25 Apr. 2012. <<http://www.alexa.com>>.

employed by a platform need to suit the distinctive objectives of the platforms' unique business models. For example, Kickstarter stipulates its projects must be goal-oriented creative works with provision points and requires comparatively expensive fees. Creators launch their projects on Kickstarter in hopes of bringing funding and widespread fame to their projects in a short period of time. Kickstarter's project regulations and provision point mechanism benefit the Creators by holding them accountable for their promises and help Creators to improve their projects to better suit the market. In return for these services and the added publicity, Creators willingly pay higher fees for Kickstarter. On the other hand, IndieGoGo is a less regulated and more open website. Its borrowers have no obligation to construct a product and can raise funds for any idea or life need. As such, IndieGoGo's lack of a provision point mechanism adds favorably to its business model. For example, a popular funding category on IndieGoGo is healthcare needs. Borrowers seeking healthcare needs set a funding goal prior to the funding period. However, they can benefit from any donations users contribute to the cause, even if the final amount is below their original request. In addition, these borrowers seek funding, but their purpose is not to generate a final funding amount that greatly exceeds their original goal. Therefore, because projects on IndieGoGo tend to raise less money than those on Kickstarter, IndieGoGo users also benefit from the platform's lower fee system. Lastly, because IndieGoGo hosts a variety of different projects, it provides different fee options to cater to the various projects on its open platform. Although Kickstarter and IndieGoGo implement opposing features on their platforms, their differing characteristics lend suitably to their different business models and target audience.

While Kickstarter's funding-based platform generates higher traffic, Quirky's service-based website is more successful at user engagement. This trend may be attributed to the fact that

Quirky does not require its users to invest monetarily to become a part of the community. With product development crowdsourcing, users can participate by simply offering their time and opinions. Therefore, users are more willing to engage and influence the development of Quirky's products. As Kickstarter's aim is to raise funds and Quirky's is to generate ideas, the differing business models cater to the platforms' different objectives.

Lastly, Kiva's seven years of sustainable operations despite evidence of fraud can be attributed to the social mission of the platform. Lenders on Kiva were attracted by the platform's social mission to improve opportunities for entrepreneurs in developing countries. Whereas lenders on the other platforms may be focused on the novelty of ideas and projects, Kiva donors focus on helping the less fortunate in third-world countries. With greater understanding of the complications inherent in working with this market, Kiva's lenders are more sympathetic to Kiva's fraudulent Field Partners. In addition, Kiva's sustainability can be attributed to its funding mechanism. Rather than returning its lenders' contributions as cash, Kiva retains them in the form of Kiva Credits, ready to relend to another entrepreneur. To withdraw their funds, lenders must undergo a somewhat complicated process. Once again Kiva's social element lends well to the overall mission of the platform keeps the platform sustainable despite recurring fraudulent activities.

## **Discussion of Crowdsourcing Movement**

As discussed above, each of the platforms have different features that cater to different platform objectives. All four platforms serve a unique purpose and occupy a distinct market niche. As such, it is difficult to predict the surviving potential of each platform or forecast which platform will be the most sustainable in the future. On the other hand, the crowdsourcing

movement as a whole has generated a substantial shift in the consumer lending landscape. With the recent passing of JOBS Act, the industry status quo will only continue to change.

## **JOBS Act**

On April 5, 2012, the concept of crowdsourcing and reducing barriers of entry for small businesses became even more relevant in today's marketplace as President Obama signed the JOBS Act into law. Previously, small businesses faced extensive regulations that limited their growth in their initial phases. For example, from the financing perspective, only high net-worth individuals had the opportunity to invest in early stage business ventures. However, with the advent of crowdsourcing, the composition of capital contributors for entrepreneurial ventures is shifting. Rather than turning to banks for a single loan, more and more project creators are seeking funding from multiple lenders via crowdsourcing platforms. However, as mentioned above, skeptics of the concept of crowdfunding argue that lenders lack incentive to continue contributing after the novelty of simply lending wears off. Even though Kickstarter and IndieGoGo exhort their borrowers to provide rewards in return for monetary contributions, these mementos have little use in the long run. The JOBS Act remedies this issue by allowing all early-stage investors to claim equity for the projects in which they invest. In addition, the act relaxes independent control regulations for small businesses during the first several years of their life to further encourage the rapid development of entrepreneurial ventures.

The JOBS Act passed in Congress with overwhelming support, achieving a 73-26 Senate vote and 380-41 House vote.<sup>37</sup> Legislators expect the JOBS Act to further increase the popularity of crowdfunding, which will spur the growth of small businesses and increase the national employment rate, thereby improving the national economy. Start-up entrepreneurs now have

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<sup>37</sup> Huhmann, Heather R. "JOBS Act To Jumpstart The Job Market." *Forbes*. Forbes Magazine, 05 Apr. 2012. Web. 26 Apr. 2012. <<http://www.forbes.com/sites/work-in-progress/2012/04/05/jobs-act-to-jumpstart-the-job-market/>>.

significantly more sources of financing. In addition, currently operating small-to-medium businesses also benefit from additional financing, helping them reach the IPO stage faster. Finally, proponents of the JOBS Act argue that fraud will decrease with the advent of crowdsourcing. Because more parties are involved in the operation of each business, new ventures will have additional means of independent monitoring that they did not under traditional financing. As a result of the JOBS Act, the crowdfunding industry is expected to flourish. Crowdfunding platforms already have proven they are capable of matching investors up with projects. Under JOBS Act, crowdfunders will earn more returns for their contributions, thus furthering increasing the value of crowdsourcing platforms.

On the other hand, opponents of the law suggest the following.<sup>38</sup> One of the primary concerns is the potential proliferation of fraud due to the relaxation of independent controls on small businesses. For example, the JOBS Act exempts companies from providing audited reports for the first five years after they IPO. In addition, as a result of fraudulent businesses or projects, uncanny investors may be at greater risk. Finally, some argue that because creators cannot retain equity in their recreations, they have less incentive to innovate and produce new creations. The JOBS Act has enormous influence on the future of crowdsourcing. The law will particularly affect entrepreneurial focused platforms such a Kickstarter and other similar models such as Sellaband and RocketHub. In the next years, all eyes will be closely monitoring the effects of the new act. Whether it succeeds or fails will also determine the fate of the crowdsourcing movement.

## Conclusion

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<sup>38</sup> Taibbi, Matt. "Why Obama's JOBS Act Couldn't Suck Worse." *Rolling Stone*. 9 Apr. 2012. Web. 26 Apr. 2012. <<http://www.rollingstone.com/politics/blogs/taibblog/why-obamas-jobs-act-couldnt-suck-worse-20120409>>.

In conclusion, although the concept of crowdsourcing has existed for decades, its recent rise in popularity can be attributed to the following three reasons:

- The difficulty that early-stage ventures encounter when securing traditional funding created the need for alternative methods of financing such as crowdsourcing.
- The general market pessimism brought by the economic recession further amplified the inadequacy of traditional loans and catalyzed the development of crowdsourcing.
- Social networks facilitated a means for uniting people who were previously separated due to geographic limitations and significantly enlarged the number of people that a single individual has access to, creating the foundation for crowdsourcing.

In my case study, I studied several factors to see whether they contributed to the success of different crowdsourcing platforms. With the exception of geographic scope, all other factors influence a platform's long-term sustainability. However it is unclear whether having certain features (regulation, provision point mechanism, fees, etc.) will have a positive or negative effect on platform popularity. Rather, a platform must ensure the features that it chooses complements its objective and caters to its target audience. The four platforms I studied, Kickstarter, IndieGoGo, Quirky, and Kiva Microfunds, all occupy unique market niches and employ different crowdsourcing mechanisms. Therefore, it is difficult to predict which platform will prevail and be the most successful in the long run. However, I can conclude that the JOBS Act will cause a shift in the current crowdfunding landscape. In particular, the law targets crowdfunding platforms focused on entrepreneurial ventures such as Kickstarter. While other crowdsourcing platforms may continue to develop as is, those affected by the JOBS Act will either suffer if the act espouses fraud or flourish if it successfully jumpstarts the national economy. Either way, the fate of platforms such as Kickstarter will be closely tied to the performance of the JOBS Act.

The commercial lending industry has been dramatically revolutionized by the advent of crowdsourcing in the last couple of years. Going forward, this new movement will only continue to develop at a rapid pace and further transform the market for start-up businesses.

## Appendix

### Exhibit I: List and Description of Top Funded Projects on Kickstarter

Rank	Project Name	Creator	Category	\$ Fund	% Fund	Backers
1	Double Fine Adventure	Double Fine and 2 Player Productions	Video Games	3,336,371	834	87,142
2	<i>Wasteland 2</i>	InXile Entertainment	Video Games	2,933,252	325	61,290
3	Elevation Dock	Casey Hopkins	Design	1,464,706	1,952	12,521
4	<i>The Order of the Stick</i> Reprint Drive	Rich Burlew	Comics	1,254,120	2,171	14,952
5	TikTok+LunaTik Multi-Touch Watch Kits	Scott Wilson	Design	942,578	6,283	13,512
6	Hidden Radio & BlueTooth Speaker	John VDN + Vitor Santa Maria	Design	938,771	751	5,358
7	Printrbot: Your First 3D Printer	Brook Drumm	Technology	830,827	3,323	1,808
8	<i>The Banner Saga</i>	Stoic Studios	Video Games	723,886	723	20,042
9	Galileo - Your iOS in Motion	Motrr	Design	702,427	702	5,227
10	Twine: Listen to your world, talk to the Internet	Supermechanical	Technology	556,541	1,589	3,966

Source: "Kickstarter." Wikipedia. Wikimedia Foundation. Web. 25 Apr. 2012. <<http://en.wikipedia.org/wiki/Kickstarter>>.

- Double Fine Adventure is a computer game made by Double Fine Productions for Microsoft Windows, Mac OS X, Linux, iOS, and Android platforms. The success of its funding period marked the first time that crowdsourcing threatened the market for conventional publishing.
- *Wasteland 2* is a post-apocalyptic role-playing video game made by Brian Fargo and InXile Entertainment for Microsoft Windows, Mac OS X, and Linux platforms. The project is noted for having successfully reached its provision point in less than 24 hours.
- The Elevation Dock, created by Casey Hopkins, is arguably the best iPhone dock thus created. It eliminates the common frustrations associated with all existing docks. This project was the first one launched on Kickstarter to reach the platform's \$1 million milestone project funding mark in February 2012, approximately three years since Kickstarter's inception.
- *The Order of the Stick* was previously a comedy-fantasy-adventure webcomic. Creator Rich Burlew launched a project on Kickstarter to bring these old comic stories to print. The venture reached its minimum funding requirement in less than 57 hours.
- TikTok+LunaTik are multi-touch watch kits designed by Scott Wilson that transform the iPod Nano into a watch. Prior to the Elevation Dock, this product held the highest record for funding with \$942,578 from 13,512 Backers.

## Exhibit II: Description of Other Notable Kickstarter Projects

- Diaspora is an open-source Facebook alternative created by four programmers from NYU's Courant Institute of Mathematics during the summer of 2010. The platform uniquely implements both privacy and connectedness, two characteristics that were previously considered mutually exclusive on existing platforms such as Facebook. In addition, the product is solely focused on its users in contrast to Facebook, which focuses on data framing and advertising. Diaspora is especially notable for its ability to surpass its funding goal of \$10,000 to raise approximately \$200,000 from 65,000 Backers in just 39 days. Unfortunately, after the funding period, Diaspora has not gained much popularity among users. One of the original founders recently passed away, and there has been little news about the website. Diaspora was the first project that generated popularity and media attention for Kickstarter and the viability of crowdsourcing.
- Coffee Joulies are stainless steel coffee beans that can absorb extra thermal energy from coffee three times as fast when too hot and later release thermal energy to keep coffee warm twice as long. The product was created by Dave Petrillo and Dave Jackson from San Francisco. Coffee Joulies is notable for having reached its funding threshold in only three days although it continued to be funded through the entire 30-day period. The project had a funding goal of \$9,500 but ultimately raised over \$306,000 from approximately 5,000 Backers. Unfortunately, since its widely successful funding achievements, Coffee Joulies has not sold very well and has seen a decline in its recognition from consumers. The product has been reviewed by many sources as minimally effective.
- "Tick Tock" is a short YouTube film by the student director Ien Chi from Emory University. The film follows a young man's during the last several minutes of his life. Although the project did not receive significant funding (\$2,256 from 33 Backers with an initial goal of \$2,200), "Tick Tock" gained widespread success and achieved countless national student film awards. This project established Kickstarter as a viable funding platform for artistic works. Today, film is one of the most funded categories on Kickstarter.
- Pebble is Kickstarter's new breakthrough project and currently holds the record as the highest grossing Kickstarter project with \$6,533,629 as of April 25, 2012 at 5:38PM. Created by a team led by developer Eric Migicovsky, this product is an e-paper watch that can be synchronized with the iPhone and Android phones, alerting users of incoming calls, emails, messages, etc. The funding period will end on May 18, 2012 at 11:00PM EDT.

### Exhibit III: List of Fraudulent Kickstarter Projects

- The Eye3 Camera Drone was a hexacopter that could lift up to fifteen 15 pounds of material. Backers on Kickstarter expressed skepticism towards the project as soon as it was launched. After some research, they discovered the following:
  - 1) Pictures of the project were actually photoshopped renditions of pictures that were already on the web.
  - 2) Creators of the project were allegedly in debt to Backers from a previous project. Upon hearing complaints, Kickstarter immediately took down the listing. No one lost money on this fraudulent project because the Creators had not yet reached their funding threshold when the scheme was disclosed.<sup>39</sup>
- “Mythic: The Story of the Gods and Men” was an adventure game designed to be played on the computer. Before its scam, the project actually generated a lot of popularity, having raised \$5,000 of \$80,000. Signs of fraud include the following:
  - 1) The template of the game background was taken from a Photoshop tutorial.
  - 2) The description of the project included features that could not be done on the budget of the project.
  - 3) Creators mentioned that this game would be like both the World of Warcraft and Skyrim, both very sophisticated online games.
  - 4) The reward tiers for contributions were mirrors of that of *The Banner Saga*, one of Kickstarter’s top ten projects.

Once again, this project was still in its pledging stage when it was pulled from the website.<sup>40</sup>
- Tech-Sync Power System is a system for controlling home lights from a mobile device over wifi. Seemingly very organized and promising, the project raised \$27,637, ten times the amount of the initial goal. However, when a Backer who had previously created a rudimentary version of this system asked for a prototype of the project, the Creators suggested that they could not release the information due to patent and copyright reasons. The listings for the suggested patents were never found. In addition, during the development stage, the original Creator suddenly passed on the project to another Creator and then deleted the project listing, his Kickstarter account, and his Twitter account. Fortunately, at this point, none of the Backers accounts had been charged, and no money was lost in the fraud.<sup>41</sup>
- “Synchronized” was a film by NYU junior Matias Shimada. The movie successfully raised \$1,726 and won the top prize at the Campus Film Festival before it was discovered of fraud. The Creator of “Synchronized” plagiarized the French movie “Replay”, a post-apocalyptic animated short.<sup>42</sup>

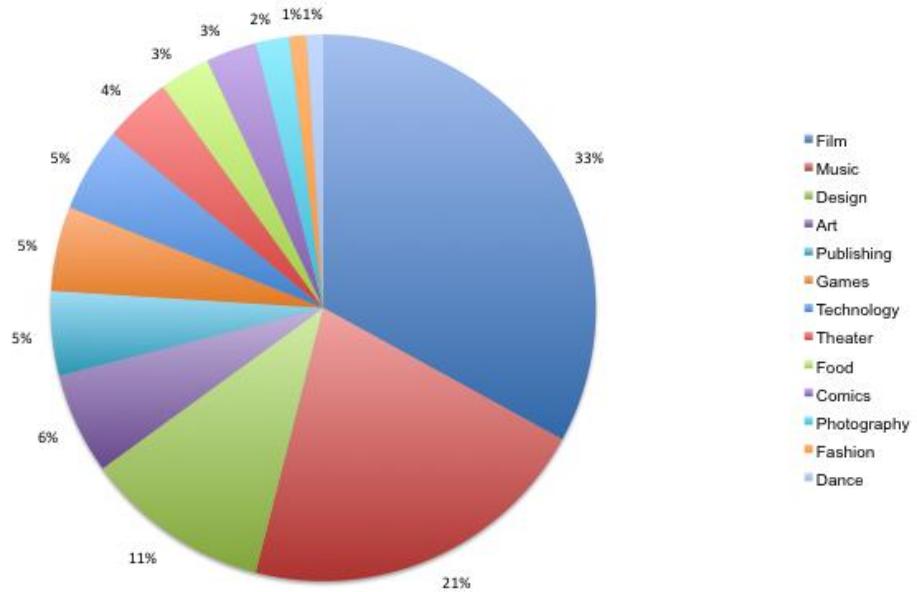
<sup>39</sup> Ackerman, Evan. "Update: Eye3 Drone Officially Too Good to Be True." *IEEE Spectrum*. 31 Jan. 2012. Web. 30 Apr. 2012. <<http://spectrum.ieee.org/automaton/robotics/diy/update-eye3-drone-officially-too-good-to-be-true>>.

<sup>40</sup> Cagle, Sean. "Violent Gamer: When Scammers Turn to Kickstarter." *Violent Gamer*. 29 Apr. 2012. Web. 30 Apr. 2012. <[http://www.violentgamerreviews.com/2012/04/when-scammers-turn-to-kickstarter\\_29.html](http://www.violentgamerreviews.com/2012/04/when-scammers-turn-to-kickstarter_29.html)>.

<sup>41</sup> Jeffries, Adrienne. "When Kickstarter Goes Wrong: Were 419 Backers Almost Taken for a \$27,637 Ride?" *BetaBeat*. 15 Sept. 2011. Web. 30 Apr. 2012. <[http://www.betabeat.com/2011/09/15/when-kickstarter-goes-wrong-were-419-backers-almost-taken-for-a-27637-ride](http://www.betabeat.com/2011/09/15/when-kickstarter-goes-wrong-were-419-backers-almost-taken-for-a-27637-ride/)>.

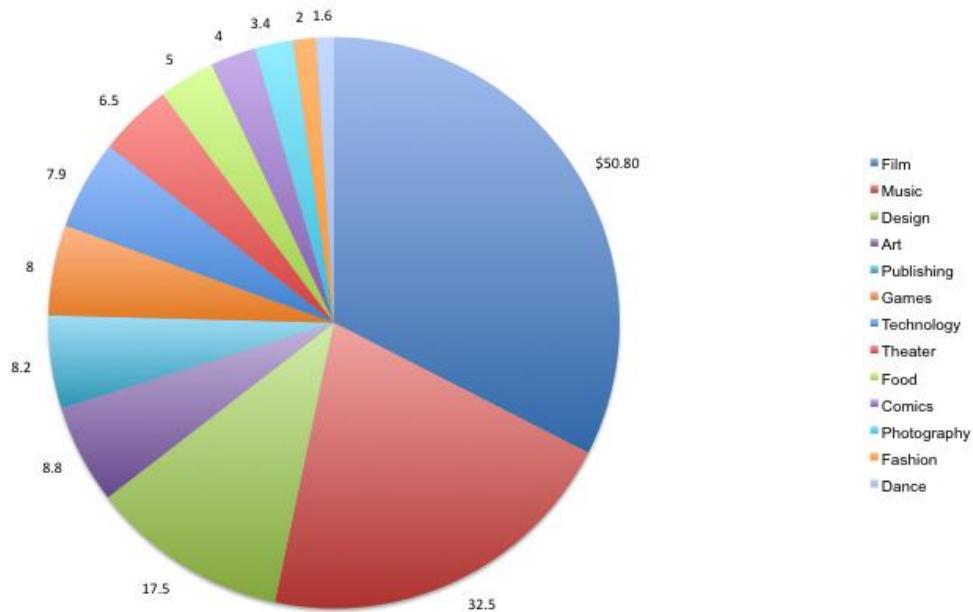
<sup>42</sup> Biddle, Sam. "NYU Film Student Fraud Plagiarizes His Way to Kickstarter Fame (Updated)." *Gizmodo*. 9 May 2011. Web. 30 Apr. 2012. <<http://gizmodo.com/5800006/nyu-film-student-fraud-plagiarizes-his-way-to-kickstarter-fame>>.

### Exhibit IV: Breakdown of Projects on Kickstarter



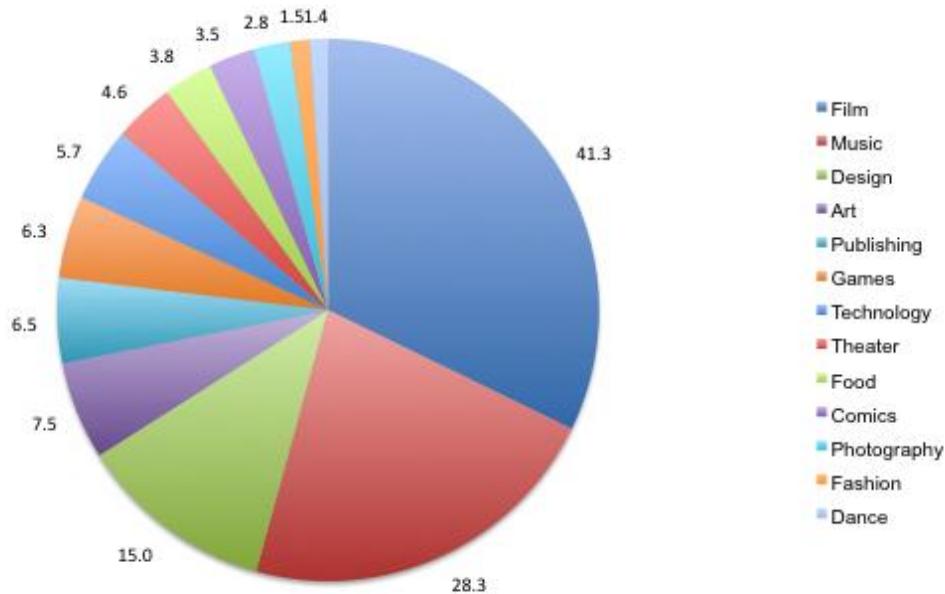
Source: Strickler, Yancey. "Kickstarter and the NEA." *Get up Stand up*. 27 Feb. 2012. Web. 25 Apr. 2012. <<http://yancey.tumblr.com/post/18391152408/kickstarter-and-the-nea>>.

### Exhibit V: Breakdown of Lifetime Pledges on Kickstarter (in \$ millions)



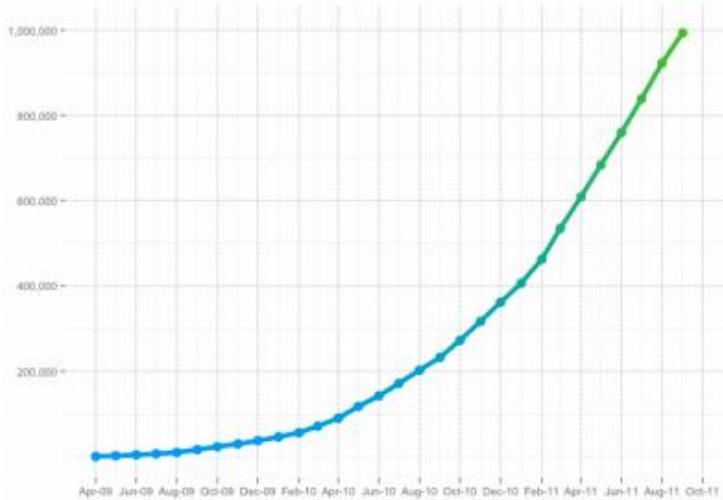
Source: Strickler, Yancey. "Kickstarter and the NEA." *Get up Stand up*. 27 Feb. 2012. Web. 25 Apr. 2012. <<http://yancey.tumblr.com/post/18391152408/kickstarter-and-the-nea>>.

### Exhibit VI: Breakdown of Disbursements on Kickstarter (in \$ millions)



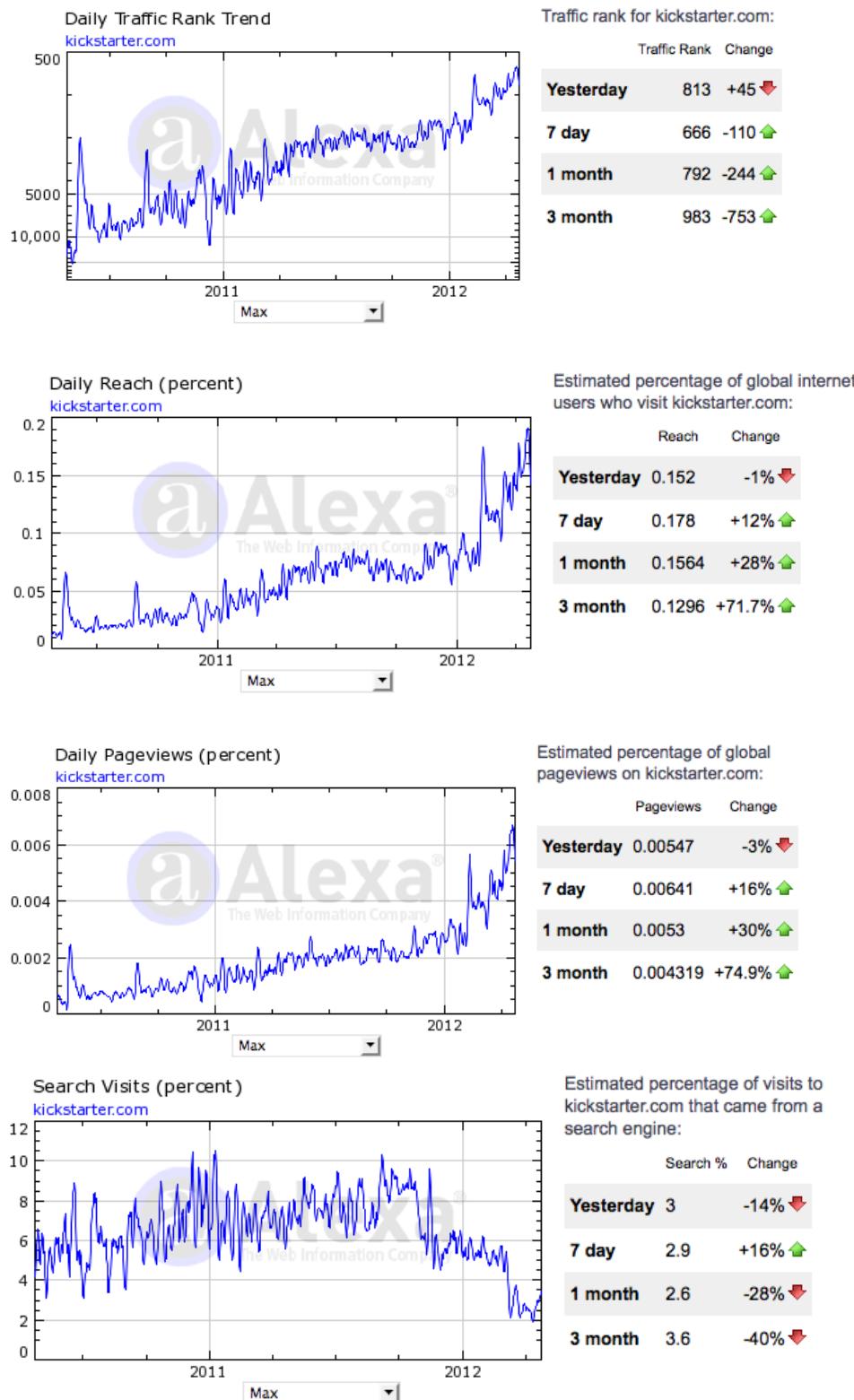
Source: Strickler, Yancey. "Kickstarter and the NEA." *Get up Stand up*. 27 Feb. 2012. Web. 25 Apr. 2012. <<http://yancey.tumblr.com/post/18391152408/kickstarter-and-the-nea>>.

### Exhibit VII: Growth Curve of Backers on Kickstarter



Source: Popper, Ben. "Kickstarter Funding Explodes, on pace to Triple This Year to around \$300M." *VentureBeat / News About Tech, Money and Innovation*. 20 Apr. 2012. Web. 25 Apr. 2012. <<http://venturebeat.com/2012/04/20/kickstarter-funding-growing-explodes-crowdfunding/>>.

### Exhibit VIII: Traffic Statistics on Kickstarter



Source: Alexa the Web Information Company. 12 Jan. 2012. Web. 25 Apr. 2012. <<http://www.alexa.com>>.

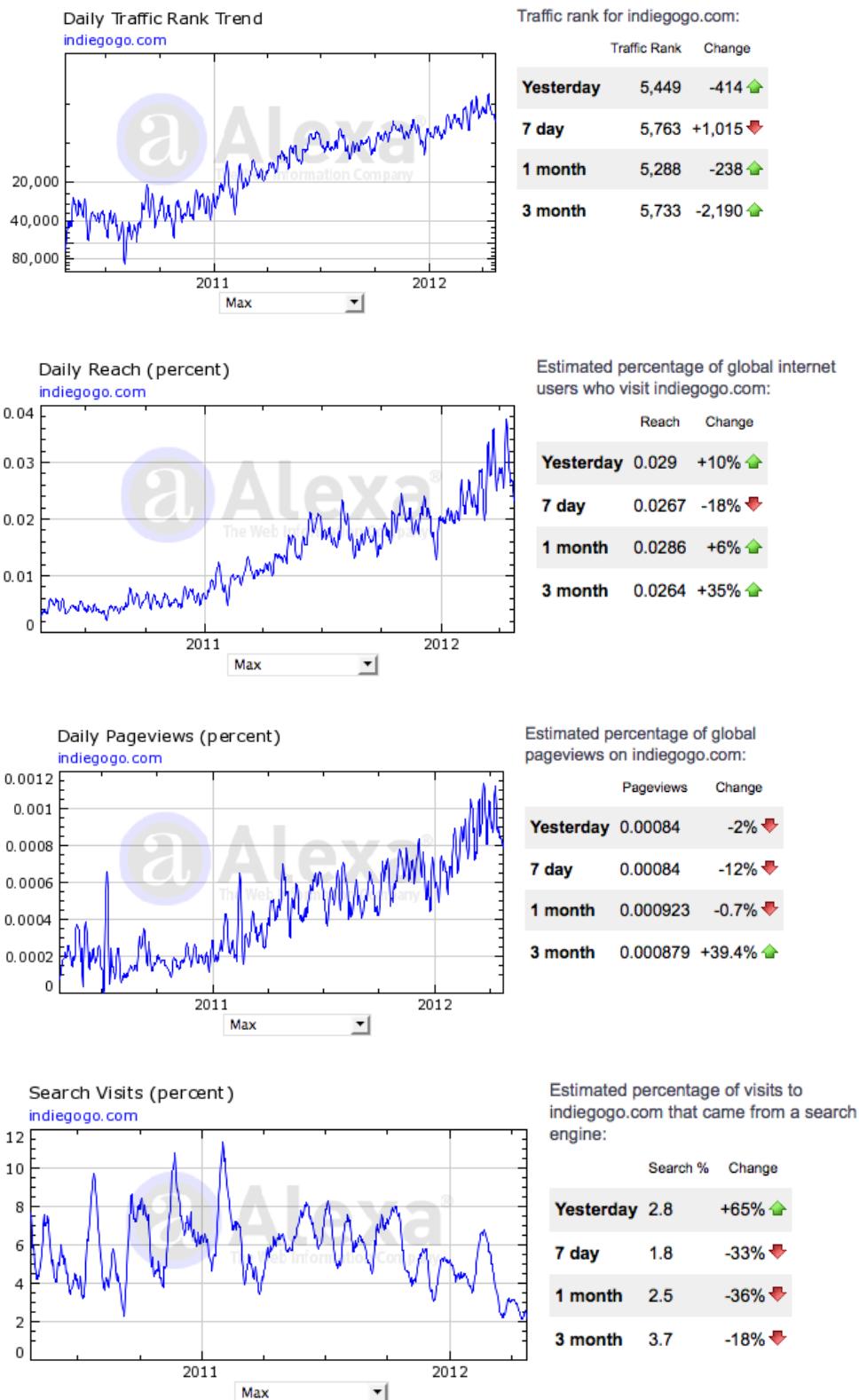
### Exhibit IX: List of Extraordinary IndieGoGo Campaigns

Project	Location	Goal	Money Raised
Atlantis Books	Santorini, Greece	\$40,000	\$40,570
Big Mama Needs a Mower	Tulsa, Oklahoma	\$2,500	\$2,535
The First Crowdfunded Baby	Melbourne, Florida	\$5,000	\$7,177
Awaken Café	Oakland, California	\$3,000	\$3,538
Satarii Star Accessory	Belmont, California	\$20,000	\$24,680
Campaign to Change Crowdfunding Law	Washington, D.C.	\$1,099	\$1,321
eMaker Huxley 3D Printer Kits	Milton Keynes, UK	\$30,000	\$158,658
Emmy's Organics	Ithaca, New York	\$15,000	\$15,326

Source: Rubin, Slava. "The CrowdFunders: IndieGoGo's Most Extraordinary Campaigns." *The Huffington Post*. TheHuffingtonPost.com, 22 Oct. 2011. Web. 25 Apr. 2012. <[http://www.huffingtonpost.com/slava-rubin/the-crowdfunders-indiegog\\_b\\_933193.html](http://www.huffingtonpost.com/slava-rubin/the-crowdfunders-indiegog_b_933193.html)>.

- Atlantis Books was a Greek bookstore that nearly went into bankruptcy due to the failing economy in Greece. The bookstore is now thriving due to IndieGoGo donations.
- “Big Mama Needs a Mower” refers to a project by a woman referred to a “Big Mama”. She was laid off from her job and resorted to mowing lawns to earn a living and lose weight at the same time.
- “The First Crowdfunded Baby” refers to an endeavor by a couple to crowdfund the medical costs of an operation that will increase their chances of conceiving a child.
- Awaken Café was an effort to revitalized downtown Oakland with a coffee shop.
- Satarii Star Accessory is a product that allows one’s mobile camera to follow his or her every move.
- The “Campaign to Change Crowdfunding Law” petitions lawmakers to allow lenders on crowdfunding platforms to retain equity in the projects they contribute to.
- The eMaker Huxley 3D Printer Kits is a 3D printer.
- Emmy’s Organics is a small business that made gluten-free, vegan, and raw foods.

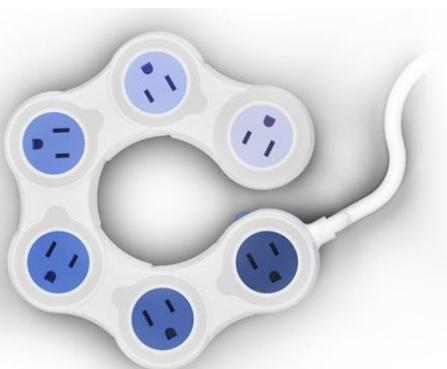
### Exhibit X: Traffic Statistics on IndieGoGo



### Exhibit XI: Description of Quirky's Top 10 Best-selling Products

Rank	Product	Inventor	Functions
1	Pivot Power	Jake Zien	Flexible electrical power strip
2	Trek Support	William Fine	Check-point friendly backpack that powers and protects electronic gadgets on the road
3	Cordies	Stephen Stewart	Cord management object
4	Broom Groomer	Bill Ward	Dustpan that cleans the broom by separating the tidbits from the broom after sweeping the floor
5	Ventu	Andrea Zabinski	Serving bowl with integrated strainer
6	Thor	Jim Johnston	Collapsible, double-blade snow scraper
7	Tether	Gary Rose	Flexible silicone rod that stabilizes wine glass in the dishwasher
8	Kosuko	Sara Carpenter	Retractable dog leash with reflective tape and integrated doggy waste bags and shock absorbent neoprene handle
9	PowerCurl	Jeff Scholen	Cord wrap for Apple laptops
10	Solo	Howard Tseng	Collapsible clothing hanger

- Pivot Power is a flexible electric cord designed by Jake Zien that can change shape and turn around furniture corners in order to save space. Inventor Jake Zien was then a 20-year-old student at the Rhode Island School of Design. Pivot Power has by far been the most successful Quirky product.
- Ben Kaufman has not publicly disclosed the revenues generated by each product.



Pivot Power

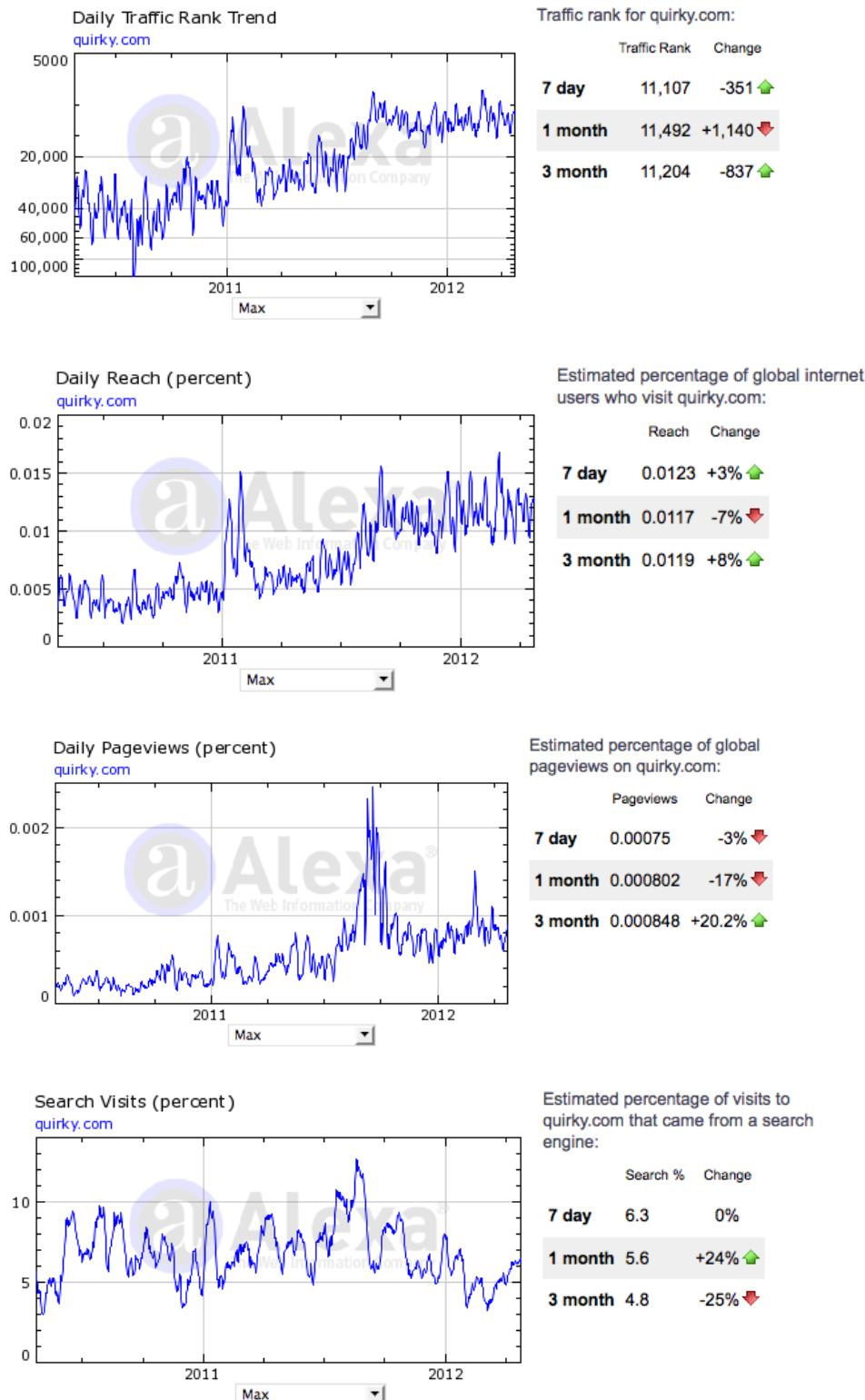


Trek Support



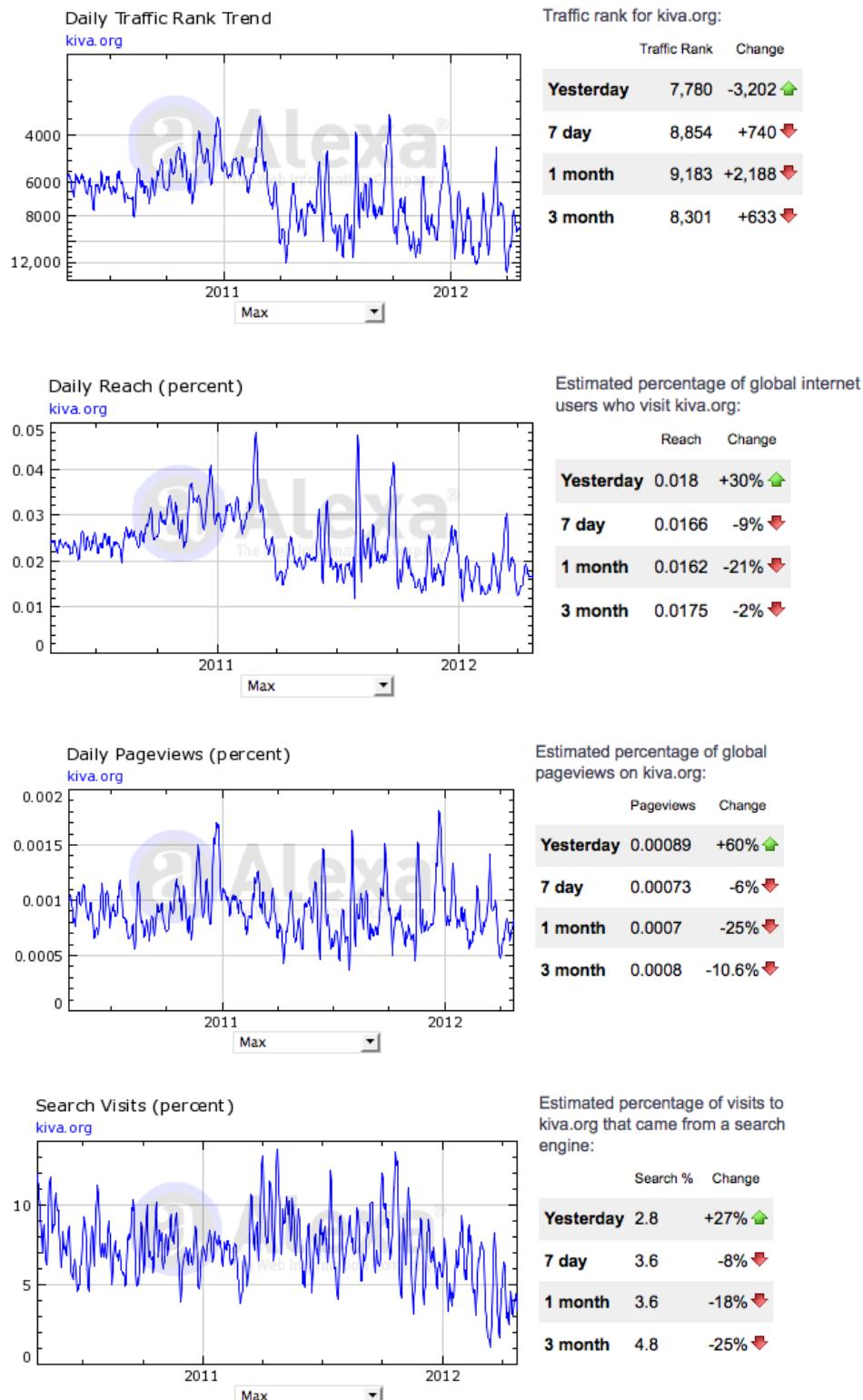
Ventu

## Exhibit XII: Traffic Statistics on Quirky



Source: Alexa the Web Information Company. 12 Jan. 2012. Web. 25 Apr. 2012. <<http://www.alexa.com>>.

### Exhibit XIII: Traffic Statistics on Kiva

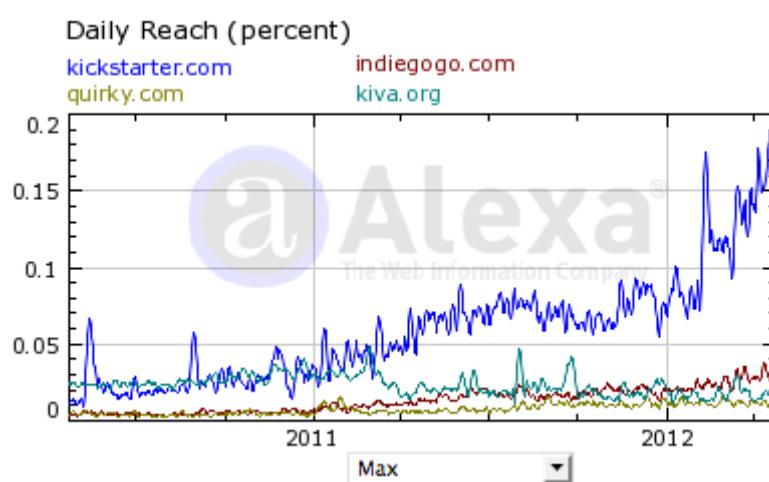
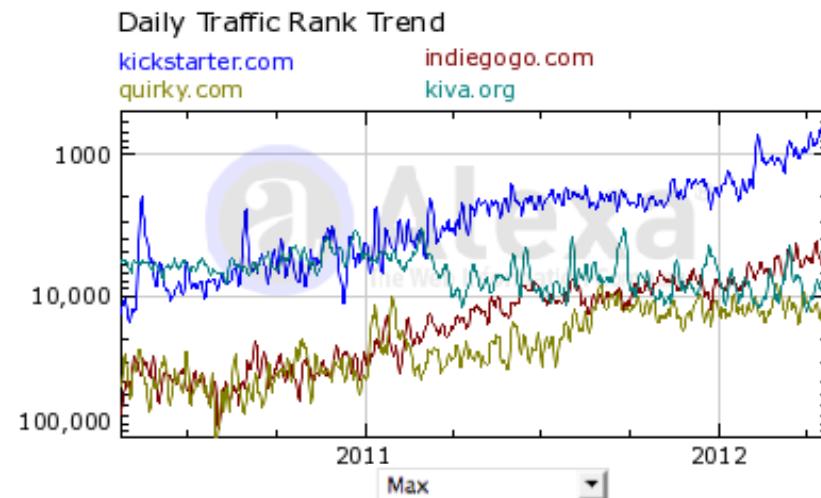


Source: Alexa the Web Information Company. 12 Jan. 2012. Web. 25 Apr. 2012. <<http://www.alexa.com>>.

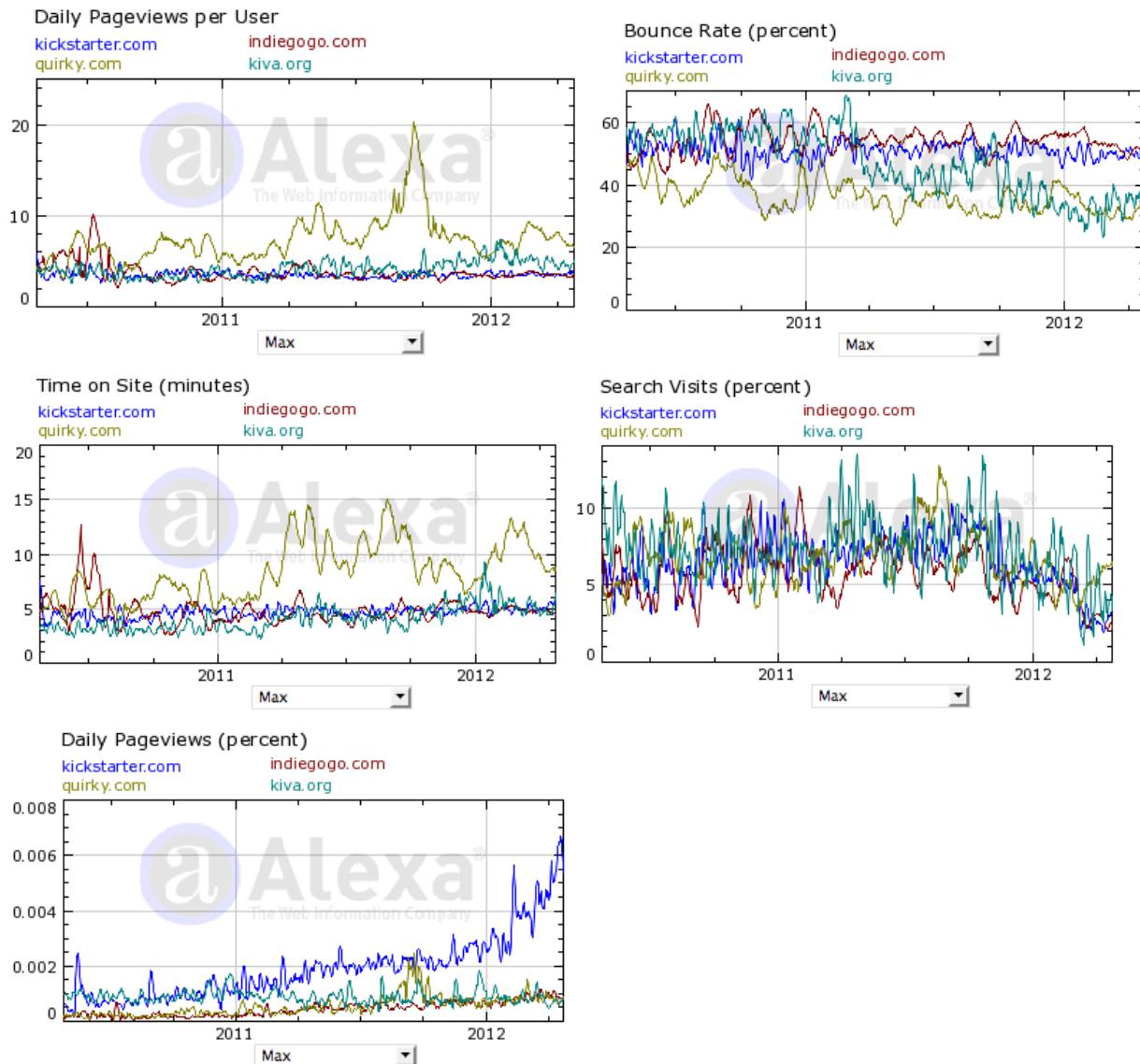
### Exhibit XIV: Comparison Statistics Across All Four Platforms

	Kickstarter	IndieGogo	Quirky	Kiva
Global Rank	983	5,733	11,204	8,301
U.S. Rank	345	2,144	4,142	5,077
Linked Websites	47,976	15,598	3,273	17,162
Third Party	Amazon Payments	PayPal	Retailers	Retailers
Limited to Projects	Yes	No	Yes	No
Staff-Approved	Yes	No	No	Yes
Provision Point Mechanism	Yes	No	N/A	N/A
Funding	Yes	Yes	No	Yes
Retain Equity	Yes	Yes	No	N/A
Tax Deductible	No	Yes	N/A	No

Source: Alexa the Web Information Company. 12 Jan. 2012. Web. 25 Apr. 2012. <<http://www.alexaweb.org>>.



Source: Alexa the Web Information Company. 12 Jan. 2012. Web. 25 Apr. 2012. <<http://www.alexaweb.org>>.



Source: Alexa the Web Information Company. 12 Jan. 2012. Web. 25 Apr. 2012. <<http://www.alexa.com>>.

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