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Pascal Press: Crowdfunding A New Coffee Revolution

Holly Earith wrote this case under the supervision of Professor Colin McDougall solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In October 2015, while pursuing his master’s degree in thermal fluids engineering at Western University in London, Ontario, Alan Kalbfleisch dragged himself out of bed in a desperate search for fresh coffee. He had a continuous, fatigue-laden cycle: study very late, get a few hours of sleep, go to classes, and repeat. Needless to say, Kalbfleisch developed something akin to a coffee obsession as a university student—due in part not only to his area of study but also to his focus on achieving academic excellence.

Kalbfleisch often faced long lines waiting for coffee at school, but he felt the habit was necessary if he was going to keep doing late-night study sessions. He wondered if there was a better way to get the quality coffee he craved without having to endure the typical wait-times at a premium coffee shop. Making premium coffee at home did not work for him as he liked to drink his coffee while he worked, which was rarely at his residence, and travel mugs negatively affected the flavour of his cherished brew.

“There’s no doubt I’m a coffee snob,” said Kalbfleisch. “It’s a passion of mine and many others, but I simply can’t find the combination of portability and premium quality coffee available anywhere in the crowded coffee products marketplace.” As Kalbfleisch began to design the travel coffee press that would meet his needs, he realized he had a worthwhile business idea but needed funding to make the business a reality. In 2015, he wondered what form of funding was available to him. Would crowdfunding be a realistic way of raising the money he needed for this venture?

Home Is Where The (Good) Coffee Isn’t

Several methods were available for making coffee at home. The first, traditional drip coffee, was invented by Melitta Bentz in 1908.[[1]](#footnote-1) The process of making drip coffee involved drawing hot water from a reservoir and letting it seep through a waiting pocket of ground coffee, drawing out the flavour of the beans through a paper or mesh filter and into the pot below. This method was popular largely because of its efficiency, not because of the quality of the finished product. The maker could brew an entire pot of coffee in minutes with little effort, but the taste of this coffee was poor to those who valued quality coffee.

In the 1990s, John Sylvan created a new type of coffee brewing similar to the drip coffee maker; this type of brewing became known as Keurig. Sylvan worked as a low-level marketing manager before inventing Keurig. Among his unofficial responsibilities was collecting money from his co-workers to pay the coffee vendor. He admitted it was like his full-time job most days. Not only did the chip-in system create headaches, the coffee itself was lacklustre. On the rare occasion a co-worker got the coffee-to-water ratio right, the half-full carafe would sit on the burner for hours, getting stale and bitter. Sylvan envisioned a single-serve coffee system that would eliminate his trivial day-to-day coffee money shakedown, and so the Keurig was born.

In his quest to create a new brewing method, Sylvan actually gave himself caffeine poisoning by taste- testing 30–40 cups a day.[[2]](#footnote-2) Unlike the drip models already on the market, Sylvan’s machine was designed to brew single cups using sealed capsules of ground coffee. The Keurig process involved plastic capsules, or pods, of coffee grounds that, when punctured, released shots of nitrogen that kept the coffee from oxidizing. When a plastic capsule was closed into the Keurig brewer, needles pierced its foil top and plastic bottom. The brewer then pumped in hot water, turning the capsule into a miniaturized version of the filter basket found in a traditional coffee maker. This accelerated process took just 45 seconds to produce a steaming cup of coffee. Aside from being extremely time efficient, a Keurig also saved users clean-up time. All they had to do was insert another pod into the machine and wait 45 seconds for another hot cup of coffee.[[3]](#footnote-3)

For those who valued the flavour of their coffee above all else, the French press was the method deemed to generate the purest flavour possible. Making coffee using a French press involved boiling water to precisely 205 degrees Fahrenheit (96 degrees Celsius). Whole coffee beans were measured and coarsely ground, and the newly ground beans were placed into the press and gently shaken to settle them into place. Finally, half the required amount of perfect-temperature water was poured evenly over the grounds. This step was called the bloom. Hot water forced the ground coffee to release trapped gases, leading the coffee to expand and release wonderful aromas for coffee purists to enjoy. During the bloom, a thick crust of coffee grounds also formed.[[4]](#footnote-4) After 30 seconds, the grounds were stirred gently for five seconds, and the remaining half of the water was poured into the press. The lid was placed on the French press with the plunger pulled all the way up, and the coffee was left to steep for four minutes. When the time was up, the plunger was pressed all the way down to filter the grounds from the coffee, which was poured immediately to avoid bitterness.

The aroma the French press created and the view of the coffee oils floating on top were cherished by those who took pride in their coffee. When drinking a pressed coffee, it was typical to actually taste the tiny bean particles. The reason the French press reached a higher flavour threshold was the absence of a paper filter, which absorbed much of the oil in the grounds. Instead of soaking this up, the press added tiny bits of coffee grounds to the coffee, which actually percolated flavour. Steeping as opposed to filtering also increased the rich flavour.[[5]](#footnote-5)

Ultimately, the Keurig machine was far more efficient at coffee production, but it undoubtedly lacked the high-value flavour that a French press was capable of producing.

More Money, More Problems

After founding Keurig in 1992, Sylvan and his partner, Peter Dragone, hashed together prototype after prototype, working in small offices and doing most of the taste testing themselves. For the first few years, they drew no salaries, and they were turned down for funding by scores of venture capitalists.[[6]](#footnote-6) For years, their meetings with potential investors ended in various lectures as to why their invention would never catch on. Often, they would be kicked out of the offices in which they met. After years of continuous rejection, they found a Minneapolis-based investor called Food Fund, which agreed to contribute US$50,000. Subsequently, MDT Advisers raised US$1 million for the company.[[7]](#footnote-7) An increasing number of investors yielded an increasing number of opinions. Sylvan disagreed with the majority of the investors’ strategies, and he did not take well to receiving direction from those outside the day-to-day operations of the business he was so passionate about. In 1994, after three years and a lot of energy, passion, and commitment, Sylvan was forced out and demanded the company buy his stake, which totalled US$50,000. In fiscal 2017, Keurig was expected to make US$2.5 billion in revenues.[[8]](#footnote-8)

Some Disassembly Required

Kalbfleisch sought high-quality coffee on the go. He tried travel French presses but found that the freshness suffered as the grounds remained in the bottom of the coffee, spoiling the taste by the time he had taken it to school. Discovering no product on the market to suit his exacting requirements, he began applying his knowledge of thermal fluids engineering to design his own all-in-one travel coffee press.

As a child, Kalbfleisch had been curious about how everyday objects worked. He would often take his toys apart to learn about the mechanisms that made them run. He was also a big fan of Lego, like most future engineers, and he often opted to build his own creations rather than follow the instructions. In high school, Kalbfleisch learned how to use 3D modelling software through a technical designing course, which helped to foster his interest in product design and eventually led him to become an engineer.

During his undergraduate education, Kalbfleisch took a year off to complete an internship at Ehvert Mission Critical, an engineering consulting firm that specialized in the design of data centres. The small firm was owned and operated by a mechanical engineer, who took an interest in developing Kalbfleisch’s talents. This positive experience showed Kalbfleisch that an engineer with no formal business training could own a business. While working in data centres, Kalbfleisch was amazed at the inefficiencies in the heating and cooling equipment of otherwise high-tech buildings. This led him to pursue a master’s degree in thermal fluids engineering, where his goal was to learn to develop more efficient solutions for heating and cooling. The curriculum in the master’s program was heavily experiment-based; students built and tested many prototypes while making improvements along the way.

When Kalbfleisch began his first foray into designing his coffee product, his goal was to press fresh coffee within the travel mug itself. The unique design feature of separating the coffee beans from the liquid such that the maximum amount of flavour would be extracted while the beans were kept separate from the coffee itself seemed to Kalbfleisch a worthy way to differentiate his product from those that were currently available in the market. Accomplishing this design goal would insure a great-tasting brew with a consistent taste to the last sip.

Kalbfleisch’s product concept, now called the Pascal Press, would be the only product on the market with this separation feature. Combining his tireless pursuit of coffee perfection with the university’s capacity to develop physical prototypes contributed greatly to Kalbfleisch’s ability to design the world’s best travel coffee press.

Once Kalbfleisch had a rough draft of his design, it was time to build a prototype. The experienced he had gained through his education made the process relatively quick, and a prototype was made and perfected by September 2015. Constructed out of CA$20[[9]](#footnote-9) worth of plumbing material, the prototype visually showcased the plunge feature of his design so that anyone could easily see the unique process Kalbfleisch had created.

Kalbfleisch met with a professor at Western University’s Ivey Business School and discussed the potential of Pascal Press. At the time, Kalbfleisch had no intention of starting a business, but the meeting exposed him to the possibilities and rewards of becoming an entrepreneur and selling his product. The professor suggested Kalbfleisch join the Propel Entrepreneurship Centre (Propel), a student-focused support group at Western University, to develop his business. He joined Propel in mid-October 2016.

In early December, Kalbfleisch began designing and manufacturing his second major prototype using the machine shop provided through his school program. This resulted in an upgraded version of his product concept late in January 2017. By then, Kalbfleisch had received a $2,000 grant from Propel for a patent search and other forms of development support that enabled him to continue refining his vision.

In spite of these various streams of financial support, Kalbfleisch recognized that he had further work to do before he would have a product that could be manufactured and sold to consumers. Traditional sources of capital funding were difficult to obtain because the business to this point had achieved no sales. Kalbfleisch had the uncomfortable sense that his venture had effectively stalled. He needed money to further develop a product he believed strongly would be popular, but he was unable to generate any sales without having a finished product. The idea that all his hard work and passion might go unrealized left Kalbfleisch desperately looking for new financing alternatives.

Two’s Company, Three Thousand’s A Crowd

At that time, some of the support staff at Propel suggested Kalbfleisch should consider crowdfunding his venture. He had heard of this relatively new entrepreneurship phenomenon, where new business product concepts could effectively be pre-sold to those visiting a site as a means of effectively bridging the product–finance gap that had previously prevented new products from reaching the marketplace. Anyone with a product concept could pitch it on a crowdfunding platform, and if enough pre-sales were achieved, the funds were released to the entrepreneur, who could then use them to finish and deliver the product to those who had purchased it.[[10]](#footnote-10)

Several popular crowdfunding platforms had emerged—including Kickstarter PBC, Indiegogo Inc., and GoFundMe—all of which were designed to address the product–market gap Kalbfleisch was experiencing with Pascal Press. Kalbfleisch set about learning how they all worked so he could determine which platform was the best fit.

The concept of crowdfunding initially began in 1997, when the British rock band Marillion funded a previously cancelled tour of the United States by pre-selling tickets online to a group of hard-core fans. The success of this innovative method of financing tours and then record productions inspired the creation of the first online crowdfunding platform, ArtistShare, in 2000. Shortly thereafter, more platforms began to emerge, and the crowdfunding industry grew consistently each year.[[11]](#footnote-11)

Crowdfunding made use of the vast networks and accessibility of social media to bring entrepreneurs and their ideas for new products together with the prospective buyers of those products. Traditionally, capital funding sources for new products were limited by the orientations and preferences of small groups of investors, who decided themselves whether a new product would be successful or not. Among the key virtues of crowdfunding was that it dramatically reduced investment risk by demonstrating through presales whether there was sufficient market demand for a new product. It also greatly expanded the pool of buyers from whom funds could be raised, resulting in a greater volume of valuable products in the marketplace. In addition, it was important to note that people who pledged money to crowdfunding campaigns would not actually pay for the products unless these had secured enough pre-orders to make production feasible. Perhaps most importantly, crowdfunding greatly reduced the barriers involved in becoming an entrepreneur.

By 2009, crowdfunding had emerged as a popular option for entrepreneurs to gain exposure, funding, and secure validation for their ideas. Revenue in the crowdfunding industry tripled, from US$530 million in 2009 to US$1.5 billion by 2011. The explosion of crowdfunding cushioned the blow dealt by the decreasing availability of other funds, such as small business association loans.

According to the Ewing Marion Kauffman Foundation’s 2016 index of start-up activity data, the number of new entrepreneurs rose in 2014.[[12]](#footnote-12) It increased again in 2015, boasting roughly 550,000 new ventures every month. The number of women starting businesses hit its highest level in almost 20 years (40 per cent), while minorities and immigrants represented a significant portion of new entrepreneurs (28 per cent).[[13]](#footnote-13)

Crowdfunding platforms like Kickstarter generated revenues by taking a percentage of the funds raised, usually 5 per cent of the funding total, as well as payment processing fees of 3–5 per cent. Fees were taken only if the funding venture was successful. If the target was not reached, no fee was taken and pledgers were not charged.[[14]](#footnote-14)

To encourage investors to pledge their money, many crowdfunding projects were reward-based. Pre‑buyers participated in the launch of a new product, and some received additional purchase benefits or pricing discounts.

(Re)Search And Ye Shall Find

Kalbfleisch’s approach to crowdfunding as a means of advancing his venture was typical for him. He broke down and analyzed everything he could about the subject such that he knew exactly what he would have to do to maximize his chances of success. One of many insights he gained from this research was that developing a pre-launch marketing campaign would be crucial to success. Kalbfleisch learned that he needed to create excitement and anticipation for his product prior to launching it in order to secure crowdfunding support. He knew most forms of marketing would cost money—which he did not have—so instead, Kalbfleisch posted images of his constructed prototype on free online forums such as Reddit and began to slowly build up a following.

Kalbfleisch’s pre-launch goal was to identify and locate his target market based on reactions to his posts. He quickly learned that tea lovers had no interest in his product concept, whereas the majority of coffee fans showed instant enthusiasm for it. His posts soon became among the top-ranked on the forum, and Kalbfleisch took this as validation of his idea. He sought feedback on these posts and continuously modified and reposted his design to seek additional ideas from forum users. For example, one user suggested a spill-proof lid, which Kalbfleisch incorporated into his final design. He also began collecting email addresses in preparation for his Kickstarter launch.

Kalbfleisch used the recognition he had cultivated on various online forums and directly contacted relevant blog sites to solicit their support in spreading awareness of his upcoming Kickstarter campaign.[[15]](#footnote-15) By the month before his campaign launch, Kalbfleisch had gathered over 1,100 email addresses, which he intended to use as the base of the communications efforts for his Kickstarter campaign. After consulting with his selected production partners in China, Kalbfleisch estimated that he needed approximately $80,000 in capital to cover the tooling required to manufacture the Pascal Press. Kalbfleisch set the Kickstarter campaign’s goal at $40,000, to be raised within a 30-day period. He believed that a lower goal would encourage more pledges from buyers and prove to traditional sources of capital that his idea had sufficient traction with the masses, making them comfortable with providing the $40,000 difference.

Kalbfleisch had reviewed many successful Kickstarter campaigns, but even after doing so, he was not fully confident about which incentive structure would work best for Pascal Press’s Kickstarter campaign. “I had an immense amount of feedback and input from my online discussion groups as well as my own research, and it wasn’t clear at all what would work in terms of getting someone to cross the threshold of interested supporter to actual customer,” he said. He set up a proposed incentive structure: the first 200 pledgers would receive 20 per cent off their press as an “early bird special,” and remaining buyers would receive 10 per cent off their purchase.

Another vital detail to determine was the right price for a Pascal Press. The initial proposed production run of 2,000 units would result in a cost of $12.50 per unit. Kalbfleisch would also have to pay for the tooling costs, which were estimated at $55,000–$60,000. Kalbfleisch’s instinct was to simply use his costs as the basis for an acceptable price for Pascal Press: “As long as there’s a reasonable profit per unit, I’m comfortable with it, though I am curious as to other possible pricing approaches,” he said.

Ultimately, Kalbfleisch intended to utilize a wholesale distribution system, where coffee houses and other retailers would purchase his product with an eye to marking it up and selling it to their customers. Kalbfleisch wondered whether he should offer a deal to his Kickstarter buyers, selling the initial production run for what would effectively become the wholesale price. He also wondered what his overall distribution approach should be. He had more or less assumed that the traditional manufacture-wholesale-retail approach was best for Pascal Press, but he wondered if selling on Kickstarter was proof that a direct-to-consumer approach might be more valuable. He also had to consider whether he should try to sell through wholesale and online—and what the implications of those approaches might be.

The Kickstarter campaign launch was only a few days away, and it was becoming clearer to Kalbfleisch that some important decisions that would greatly influence the success of Pascal Press still needed to be made.

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6. McGinn, op. cit. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. Ibid. [↑](#footnote-ref-8)
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14. “Fees for Canada,” Kickstarter, accessed September 2, 2017, https://www.kickstarter.com/help/fees?ref=faq-basics\_fees. [↑](#footnote-ref-14)
15. Kalbfleisch opted to launch his product on Kickstarter as it was more popular for product design than other crowdfunding platforms. It also had a larger audience than Indiegogo. [↑](#footnote-ref-15)