



CROWDFUNDING: A TALE OF TWO CAMPAIGNS

Annie and Marla Feldman knew they wanted to work together. Maybe they were so close because they are identical twins. They not only looked alike, but also shared a lot of the same interests. When Marla, a yoga enthusiast, developed a post-workout snack that all the people in her regular yoga class loved, the sisters thought they might have found a product that would give them the opportunity to build their business, Enerchi Bites. After running several test events where they distributed their energy food to rave reviews, the women decided that it was time to do a bigger test and raise some sorely needed funds at the same time.

Now meet Hanson Grant, who undecided on how to ask a girl out to the prom, leveraged his design skills to create a truly unique solution—a “white-board” t-shirt. Although that particular business did not thrive, the experience led him to something bigger. Using the leftover material from the many t-shirts that he had already produced, he constructed an enormous “white-board” canvas for brainstorming. Hanson soon realized that he had created a new product, the Think Board. He quickly managed to sell some Think Boards to his classmates at Babson College, but remained uncertain about its appeal to a broader market.

Although different businesses, both sets of entrepreneurs felt the next best step was to launch a crowdfunding campaign. As they looked back on their crowdfunding experience, both were wondering if the campaigns had been successful. Sure, both groups met their fundraising goal, but was this the best way to raise capital? What other benefits besides raising money had the campaigns provided? Should they consider another campaign to take their businesses to the next level?

This case was prepared by Andrew Zacharakis, John H. Muller Chair in Entrepreneurship at Babson College, Gabriel Quintana and Tommy Ripke, Babson MBA 2016, and with support from the John H. Muller, Jr., Endowed Chair in Entrepreneurship at Babson College. It was developed as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. It is not intended to serve as an endorsement, source of primary data or illustration of effective or ineffective management.

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Crowdfunding

As an activity, crowdfunding dates back to 1713 when Alexander Pope united subscribers to fund the translation of Homer's *Iliad* into English. He promised to include the 750 donors' names in the book in exchange for two gold guineas.¹ The internet has modernized crowdfunding by connecting people in search of funds with the general public.

Crowdfunding is generally defined as the collective "crowd pooling funds" to support a specific project or organization.² In April 2012, President Barack Obama signed the Jumpstart Our Business Startups Act (JOBS Act), "to increase American job creation and economic growth by improving access to the public capital markets for emerging growth companies."³ The JOBS Act was specifically designed to facilitate equity crowdfunding, but as of mid-2015, the SEC had yet to release rules around the JOBS Act. Thus, equity crowdfunding is not yet legal unless the investors are accredited. However, other crowdfunding types are legal. The rewards-based model is most popular, with donors receiving some kind of reward in exchange for the capital, often a promise of the product that their capital helps fund. Donation and lending are the remaining types of crowdfunding platforms.

Crowdfunding serves as an alternative source of capital to support a wide range of ideas and ventures. An entity or individual raising funds through crowdfunding typically seeks small individual contributions from a large number of people.⁴ A crowdfunding campaign generally has a specified target amount to be raised, or goal, and an identified use of those funds. Individuals interested in the crowdfunding campaign—members of the "crowd"—may share information about the project, cause, idea, or business with each other and use the information to decide whether or not to fund the campaign based on the collective "wisdom of the crowd."⁵

Crowdfunding has been used to fund a variety of projects, including artistic endeavors, technology startups, comic writers, dance shows, film production, photography, and food businesses, among others. In 2012, entrepreneurs raised over \$2.7 billion and successfully funded more than 1 million crowdfunding campaigns.⁶

It is common for entrepreneurs in rewards crowdfunding to offer their donors non-monetary goods in return for their donation. For example, a donor's name in the film's credits or tickets for the launch of the supported movie production. Some other entrepreneurs raise donations for social causes where the reward is personal satisfaction for the donors. In lending and equity, subscribers receive an interest on their loan or a percentage of ownership of the company.⁷

The most popular platforms are Kickstarter and Indiegogo. From the time of its launch in 2009 through the end of 2014, Kickstarter has hosted and facilitated the launch of over 196,000 entrepreneurial projects. Of these projects, just under 40% reached their fundraising goal. In total, \$1.26 billion has been pledged by backers to fund successful Kickstarter projects.⁸ Crowdfunding platforms are popular among entrepreneurs as they learn about the market by receiving direct feedback from the masses without spending a lot of money. These platforms

¹ <https://www.kickstarter.com/blog/kickstarter-before-kickstarter>. Accessed July 2015.

² S. Dresner, *Bloomberg Financial : Crowdfunding—A Guide to Raising Capital on the Internet* (Somerset, NJ: John Wiley & Sons, Inc., 2014.)

³ <http://www.gpo.gov/fdsys/pkg/BILLS-112hr3606enr/pdf/BILLS-112hr3606enr.pdf>. Accessed July 2015.

⁴ S. Dresner, *Crowdfunding*.

⁵ Ibid.

⁶ <http://research.crowdsourcing.org/2013cf-crowdfunding-industry-report>. Accessed July 2015.

⁷ Ibid.

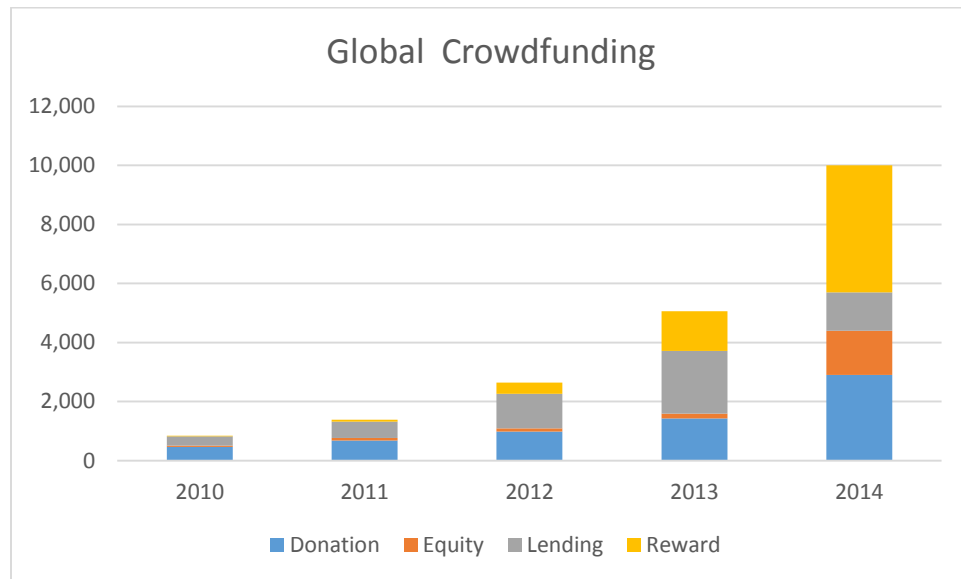
⁸ <https://www.kickstarter.com/help/stats>. Accessed 12.29.2014.

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directly connect creators to consumers and possible investors while promoting and advertising their products.

Among the most successful and unique crowdfunding campaigns have been “*Oculus Rift: Step into the Game*”⁹ and “*The Coolest Cooler*”¹⁰ via Kickstarter, along with “*Jibo, the World’s First Family Robot*”¹¹ and “*Stone Groundbreaking Collaborations*”¹² via Indiegogo.



Source: Massoultion reported on Crowdfunder.org (2010–2013); multiple sources reported on <http://whatsthebigdata.com/2015/04/01/an-overview-of-crowdfunding-infographic/> (2014). Accessed July 2015.

Enerchi Bites

Two years ago and after months of experimentation, Annie and Marla came up with a healthy bite-size alternative snack: Enerchi Bites. They came up with the name by combining “energy” with “chia,” as in the chia seeds that are one of the main ingredients: “Chia seeds are the new super food and we wanted to differentiate ourselves with an organic and natural ingredient, although we have since seen that more companies in the food industry are also adopting the seeds.”

From home they started working on the recipe and focused on creating a less sweetened product than regular energy bars, using only natural ingredients. They experimented with 10–12 different flavors but soon realized that simpler was better. So, they narrowed it down to just three: Coconut Oatmeal Raisin, Apple Cinnamon, and Cocoa-date.

⁹ <https://www.kickstarter.com/projects/1523379957/oculus-rift-step-into-the-game/description>. Accessed July 2015.

¹⁰ <https://www.kickstarter.com/projects/ryangrepper/coolest-cooler-21st-century-cooler-thats-actually/description>. Accessed July 2015.

¹¹ <https://www.indiegogo.com/projects/jibo-the-world-s-first-social-robot-for-the-home#/story>. Accessed July 2015.

¹² <https://www.indiegogo.com/projects/stone-groundbreaking-collaborations--2#/story>. Accessed July 2015.

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Initial Enerchi Bites flavors. Photo provided by Enerchi Bites. Used with permission.

Making the treats at home, they came up with the first production line and shared it with friends who shared their fit and healthy lifestyle. As it became popular, more people began to ask where they could buy Enerchi Bites. The twin sisters, using their savings, conducted several grassroots tests and placed their product at events such as yoga conventions and gave out samplers at gyms and yoga centers.

Initial feedback was generally positive. Says Annie: “People liked the ‘cookie dough-like’ texture and also liked the re-sealable packaging.” This feedback helped them come up with the tag line “Eat what you like, share or save the rest.”

Annie and Marla made their way into retail by using their contacts at organic stores, yoga studios, small natural groceries stores, and cafes. Today, consumers can find Enerchi Bites in 15 retail locations.

By February 2013, Annie and Marla began selling Enerchi Bites—all-natural, bite-sized snacks that provided, “enough to hold them over for the bike ride home, but not enough to ruin their dinner.”¹³ Their new business was a collaborative effort born out of their unique but complementary entrepreneurial desires. It also aligned nicely with their personal healthy goals and habits. Marla wanted to create healthy snacks that would appeal to a broader range of health and fitness enthusiasts beyond yogis and that would provide a healthy boost of energy. Annie’s desire was to channel her entrepreneurial spirit into an endeavor that afforded her the creative freedom to launch, manage, and grow her own business. A yoga and fitness enthusiast herself, Annie felt that linking with her sister to take Enerchi Bites into the marketplace was the right move at the right time.

Growing Production

Because Enerchi Bites was well received, the sisters wanted to grow the business. The first step was to increase production and in order to do so they had to move out of their home kitchen. Finding a decent industrial kitchen was not easy. They first sublet space in a bakery located 30

¹³ See the Enerchi Bites website: <http://www.enerchibites.com/our-story/>, 12.31.2014.



minutes outside Boson, but things did not work out. They lost a couple of months and ultimately went to a Kitchen Inc., a shared industry kitchen in nearby Somerville.

They were drawn to Kitchen Inc. because they were welcomed into the community of like-minded food entrepreneurs. The downside was the expensive hourly rate and the fact that they were not using much of the kitchen's most expensive equipment as they required only an outlet, a counter, and a sink.

In five months they grew production from 200 to over 600 pounds and the workload involved increased accordingly. Says Marla: "We had to pack each Enerchi Bite into a four-bites bag, so it took us around four hours to have a single production run ready for retail." Given that their production runs were still around 260 pounds per month, their distribution was somewhat simple. They became keenly aware that as their production volume grew, scaling distribution would present a far more complex challenge. For example, to enter bigger organic and natural stores like Whole Foods, they would have to obtain kosher and gluten-free certifications, which were costly and would require higher sales volumes to justify the investment. In order to grow their production and therefore their reach, they decided to run a crowdfunding campaign on Kickstarter.

The Kickstarter Campaign

In summer 2014, Annie and Marla launched their Kickstarter campaign. Marla thought it was a good opportunity to raise awareness and, at the same time, obtain funds to make some changes in their operation. Marla noted: "I have mixed feelings about Kickstarter. I think we could have done a better job and although experienced people warned us about some potential problems, we did nothing to prevent them."

According to their Kickstarter page,¹⁴ they set a fundraising goal of \$10,000 and wanted to use the funding to accomplish four objectives: "transition to a new kitchen facility, research and develop new and improved packaging . . . and our newest flavor, [and to] apply for specific food certifications, including Gluten Free, Kosher [and] Non-GMO." By the end of the campaign, they had successfully raised \$10,184.

Annie and Marla each had their own ideas about the value of Kickstarter. Marla relished the challenge of creating buzz about their product and viewed a Kickstarter campaign as a public-relations and marketing vehicle to showcase their product to an extended network of people. But Annie was not as enthusiastic as her sister. She figured that they could more easily raise the money that they needed by going directly to friends and family. Among Annie's other concerns was that she felt, with so many other popular projects on Kickstarter, that their campaign might not reach a wide audience.

One of their friends who worked in video production offered to help with the video. Annie notes that the video is the most important piece of the campaign, as it is the only vehicle to engage with the audience:

We created a very straightforward video using Kickstarter guidelines, but I think that now you can be more creative and work around these guidelines. The video is the only tool you have to engage with the audience. Therefore, you have to pay

¹⁴ See the Enerchi Bites Kickstarter page: <https://www.kickstarter.com/projects/418282318/watch-enerchi-bites-grow-all-naturalnut-freegluten/description>. Accessed 12.31.2014.



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attention to every detail. You have to be very structured on how you tell your story and spend more time than you can imagine editing it.

They had a list of rewards according to the donation amount, from special shout-outs on their website to a chef-plated dinner with Enerchi Bites founders. Marla added a buffer to cover fulfillment costs, but delivery fees ate most of their proceeds. She noted, “I decided to personally deliver some of the rewards in the Boston area. It was not only about the money, but also I thought it would be a good experience.”

Annie and Marla offered their supporters an assortment of rewards based on each supporter’s level of contribution. For example, a \$5 pledge was rewarded with a thank you note on a print by Aura Lewis, who helped the sisters design the Enerchi Bites logo. More generous supporters were rewarded with everything from t-shirts and bags of Enerchi Bites to the opportunity to spend the day behind the scenes with Annie and Marla at Kitchen Inc. The complexity of managing rewards and providing timely fulfillment was a costly challenge.

They went live on August 4, 2014, with a goal to raise \$10,000 USD in 45 days. Soon they were inundated with requests from social media companies who were looking to help the Enerchi Bites twins increase their reach outside their friends and family and to exceed their pledge goal. Believing they could use some extra help getting their message out, they selected one of these companies and hoped for the best. However, the experience they had with the social media agency that they hired was not pleasing:

Since day one, we were trolled by several companies that offered their services to make our Kickstarter campaign successful. We hired a social media agency because we thought that through them we could reach more people and attract them to support our campaign. It did not work out. We didn’t get any more people through the agency’s efforts and it cost us a lot of money and time.

With just one week remaining, Annie and Marla were still 20% short of their goal. The sisters had foreseen this situation and developed a backup plan in case they didn’t make their target. For a Kickstarter campaign to be successful, it has to raise 100% of the pledged funds. Before launching the campaign, they had an emergency plan ready: they reserved some money from their friends and family and themselves to make sure they would be successful.

The campaign reached its funding goal on October 4, 2014, and for Annie the results were not that surprising. Once the campaign was over, they analyzed the data and found that 85% of the total dollars came from friends and family. So, they did not get the external level of validation they were expecting. Considering the costs to create the campaign, fulfill the rewards, and pay Kickstarter its commission, Enerchi Bites netted only 45% of the money raised (see table below).



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Enerchi Bites

Amount Raised	\$10,183.00
less amount Marla and Annie contributed	\$500.00
Net Raised	\$9,683.00

Expenses

Kickstarter commission	\$509.15
Amazon Pay (commission for processing contributions)	\$407.32
Video Production (donated)	\$0.00
Social Marketing Company	\$500.00
Rewards	\$2,500.00
Fulfillment	\$1,200.00
Total Expenses	\$5,116.47

Net Proceeds	\$4,566.53
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Source: © Andrew Zacharakis. Used with permission.

Was the campaign worth it? They could have aimed for a more ambitious amount, but the sisters felt that \$10,000 USD was realistic for the food industry, noting, “There are some industries, like videogames, where entrepreneurs target much more money, but I think \$10,000 is average for the food industry.”

Results

For Annie and Marla, the Kickstarter campaign did not generate enough funds to really scale their business. However, they did learn quite a bit. With their learning from the campaign as well as from their experiences running the business to date, Annie and Marla now find themselves at the point where they must make a critical decision: go or no-go? While their campaign did, in fact, reach its stated financial goal, they still wonder if they can scale up production, meet their research and development needs, and complete a redesign of Enerchi Bites packaging. They need more money. Should they launch another campaign or are there other sources they should consider?

Think Board

In January 2013, Hanson Grant joined Babson College, and after the first-year class Foundations of Management and Entrepreneurship Hanson decided it was time to start his own venture. He needed a place to write his ideas and he decided to paste the thin transparent layers leftover from his white board t-shirt production on the walls of his dorm. He wrote all over the walls trying to land a good idea, but he never quite reached the “Eureka” moment.

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A Think Board on a student's desk. Picture provided by Think Board. Used with permission.

When his friends came to his room and saw what he was doing, he realized that the answer was right in front of his eyes. People loved the concept and asked whether he would sell some boards to them, so they could also turn the walls of their dorm room into a brainstorming canvas of their own. This is when Think Board came to life.

The product has two attributes that differentiate Think Board from its competitors. Hanson focused on design and customization: "Think Board has a clear aspect that blends in every space so that it doesn't stand out like an ugly whiteboard hanging on the wall. We also feature different sizes and we can print whatever you want on it to customize your Think Board."

With the help of his family, Hanson began production back home in upstate New York. The first orders came from his friends at Babson, but he was not sure whether there was a broader market for his product. He did some research on crowdfunding and thought it might be a good vehicle to validate the opportunity, noting, "If I get funded in Kickstarter, I will continue with the project; if not, I will drop it."



The Kickstarter Campaign¹⁵

Before creating the campaign, Hanson talked to people who had run campaigns on crowdfunding platforms before. In doing so, he got some good insights about their experiences. For example, he learned that campaigns seeking \$10,000 usually get funded and that the product video is the most important marketing tool.

Hanson set a deadline for the launch. He aimed to start the campaign on July 1st to make sure that it aired for 30 days in the same month, saying, “If the campaign runs exactly in one month people will remember when the campaign ends.” In order to reach his deadline, he started preparing for the campaign in April 2014. He began with a website, and then with the help of a friend began shooting the video.

For Hanson it was all or nothing. He decided to use Kickstarter because it had more hype than other crowdfunding platforms and he knew that in case he did not receive enough donations to clear the \$10,000 hurdle, he would not get the raised funds. He used the campaign to validate the opportunity; therefore, he created a strategy to extend his reach beyond his network of classmates. Instead of asking his friends and family for donations, Hanson posted on the walls of his friends on Facebook and asked them to share his post so that more people knew about his Kickstarter campaign. Everything was in place; the campaign was about to start, yet he still had some doubts about the performance of Think Board.

The campaign launched on July 1st according to plan. After the first day, he had raised \$1,000 and became more excited about the project. By the end of the first week, he had secured \$3,500 and started receiving supporting emails and messages from people he did not know. The next couple of weeks the campaign went cold and was not progressing. So, he made a second round of posts and was excited when he realized that backers wanted the campaign to be successful as they kept sharing his posts on several social media networks. The campaign ended on July 30 and had raised \$10,101 with 199 backers.

After reviewing the results of the campaign, Hanson found out that most of the support came from people beyond his network. As much as 20% of the funds came from friends and family and 80% from people who found out about the campaign through Facebook or Twitter. He had more than 700 shares, with the link of both his website and the Kickstarter campaign translating into 28% of the people seeing the link donating funds.

The Kickstarter campaign successfully proved Hanson’s concept, and he was now convinced there was a market for Think Board. One downside of the campaign, he thought, was that fulfillment consumed as much as 75% of the funds he had raised (see table below). But the primary objective of the campaign was to validate his product with people outside of his current network. By that measure, his execution of the Kickstarter campaign had been near perfect.

¹⁵ See the Think Board Kickstarter page: Accessed 12.31.2014.
<https://www.kickstarter.com/projects/960330975/think-board-a-creative-space-for-endless-ideas/description>.



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Think Board

Amount Raised	\$10,101.00
less amount Hanson contributed	\$0.00
Net Raised	\$10,101.00

Expenses

Cost of Goods Sold	\$3,780.00
Shipping	\$2,660.00
Labor	\$101.91
Inventory	\$2,000.00
Total Expenses	\$8,542.00

Net Proceeds	\$1,559.00
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Source: © Andrew Zacharakis. Used with permission.

Domino Effect

Once the campaign was over and orders were fulfilled, he received a call from *Chronicle*, a primetime news segment on ABC's Boston affiliate, WCVB.¹⁶ They wanted to interview the young entrepreneur to learn more about Think Board. This brief, but effective, interview got the attention of schoolteachers, who then contacted Hanson to run a pilot at Watertown Middle School. He installed Think Boards on 52 desks. Today, he continues to strengthen his relationships with schoolteachers, since a key component to his strategy is to reach deeply into the education market.

By the end of the year, *USA Today*¹⁷ had written an article about Think Board. The piece had over 2,400 Facebook shares, which further ignited interest. Again, WCVB contacted him to do an interview with *Chronicle*. This appearance got the attention of Christmas shoppers, and orders skyrocketed during the gift-giving season.

¹⁶ <http://www.wcvb.com/chronicle/longlasting-pizza-invisible-whiteboards/28020708>. Accessed July 2015.

¹⁷ <http://college.usatoday.com/2014/12/10/student-creation-turns-surfaces-into-dry-erase-boards/>. Accessed July 2015.



Results

For Hanson, the Kickstarter campaign proved exactly what he had hoped it would—that his venture was worth pursuing. Although the costs of fulfillment were far greater than expected, he realized that there would be a market for Think Board. As Think Board continues to grow, Hanson has a lot to consider. How will he scale? Will he need to raise more capital? Are there sources other than crowdfunding that might be better?

Advice from the Entrepreneurs

Annie, Marla, and Hanson learned a lot from their experience and wish to share some thoughts with entrepreneurs considering a crowdfunding campaign:

- *Define the objective of your campaign:* whether it be market validation or raising funds to grow; this will help you create both your video and content.
- *Consider the costs associated:* fulfillment can represent a huge percentage of your raised funds.
- *Tell the story before launching the campaign:* take some time to make sure that a lot of people know about your product and your campaign. Two or three months before you launch, talk to the press and tell them your story. This might create awareness outside of your own network.
- *Create a lot of content:* every video, image, infographic, illustration, and even the story of the product are shareable items.
- *Have everything in place before pledging funds:* we have found some entrepreneurs who have a great idea, but don't have a clue how to produce their products. They receive the funds and constantly postpone delivery dates.
- *Talk to people with experience:* there are a lot of stories behind every crowdfunding campaign; take some time to talk to experienced people and learn from their mistakes and good practices.
- *Split work with your partner(s):* when you launch the campaign, be very structured when dividing work so that each partner advocates for specific tasks.
- *Use your network wisely:* ask your friends and family to share the materials created for the campaign.



Conclusion

Crowdfunding platforms have gained popularity in the past years. Statistics of the most popular platforms indicate that every year more projects are created. The fact that there have been several campaigns that raised at least six figures attracts the attention of other entrepreneurs. Nevertheless, according to Kickstarter stats, the share of these supersized campaigns is less than 2.5%.¹⁸

In the case of Annie and Marla, the Kickstarter campaign did not move the business forward as much as hoped. For Hanson, however, the campaign was not only successful raising funds, but also helped him to better understand the market and opportunity.

Case Questions

1. What could the twin sisters have done differently?
2. Should Hanson have targeted more than \$10,000?
3. In both cases, were the financial results worth the effort?
4. What would you do differently if you were to run a crowdfunding campaign?

¹⁸ <https://www.kickstarter.com/help/stats?ref=2014datayir>, 04.28.2015.