Introduction of Dissertation

The goal of this dissertation is to give a deep understanding and analysis of a focal innovation done in parallel with concepts of “Introduction to Innovation” class. The context will cover the definition and the sources of the innovation, its lockouts, dominances, entry timing, Business Model Innovation and IP. Focal innovation is chosen as Kickstarter. My interest for this company evolved because mainly Kickstarter has the ability to connect two different worlds into one platform; project owners and funders. I believe Kickstarter has a competent model with innovative view, which is considered as a must for today's world in order to gain competitive advantage. Being educated in one of the most innovative university in Turkey¹ triggered my understanding on how important innovation is, not just in manufacturing processes but in business overall helped me to choose Kickstarter as a focal innovation.

Introduction and Historical Background of Kickstarter

Kickstarter, one of the first movers in crowdfunding platform located in Brooklyn - United States founded in 2009 by three internet entrepreneurs Perry Chen, Yancey Strickler and Charles Adler² with a main mission of bringing creative projects alive within fifteen diverse categories including art, games, technology, design and etc. One billion dollars ($1,000,000,000) was pledged by 5.7 million people all around the world to the projects from 224 different countries³. Every donor; called “backer” in Kickstarter terms; are granted different kind of tangible offers as well as experiences in regard to the amount pledged⁴. As stated by Perry Chen in a talk at the Aspen Ideas

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¹ Sabanci University, SU is the most entrepreneurial university in Turkey, 2014, http://iro.sabanciuniv.edu/news_detail/46895
Festival, the model of Kickstarter was inspired from Mozart, Lady Liberty and Alexander Pope and with the extensive use of internet, these crowdsourcing activities; especially crowdfunding websites such as Kickstarter; started to spread all around the world. It is also appropriate to say that Kickstarter is basically “an innovation in degree rather than kind”\(^5\). Also, the word “Kickstart” is more and more used in the world and becoming a generic name\(^6\) which shows the widespread of the service itself.

**Innovation Definition**

Crowdfunding concept is in in our lives much longer than we think it is. It is a practice of funding project owners with the help of the crowd which divides the investment costs into large number of people to eliminate the burden of high investment costs faced by single investors. In early world, project owners tried to fund their projects by facing the crowd by themselves with limited reach, however with the emergence of the industry moderating platforms emerged which facilitated the process. Kickstarter’s success as being a moderator platform is based on the process innovation\(^7\) of crowdfunding services, with significantly improved methods of delivering the crowdfunding services by conversion of the knowledge of internet technology with crowdfunding services. When crowdfunding process is regarded as a financial instrument for entrepreneurs, Kickstarter offers a radical way of funding process with the elimination of the traditional crowdfunding platforms which reduces the waste of time of the project owner itself by just uploading the presentation of the project once on the platform which lasts until the end of the project. Each parties cost has been reduced by eliminating the organizational part of the crowdfunding event which ensures the

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\(^7\) OECD, Defining Innovation, Nov 23rd 2014, p.53 [www.oecd.org/site/innovationstrategy/defininginnovation.htm](http://www.oecd.org/site/innovationstrategy/defininginnovation.htm)
affordability of the platform. Productivity and efficiency is also increased by the ability of collecting funds continuously until the end of the project as well as the increased performance on funding activities. The introduction of technology (internet) in crowdfunding ensures the simplicity and convenience of the crowdfunding process. The idea pitching and backing process became easier with basic simple steps and the service itself became more convenient to use. The use of internet increased the accessibility of the ideas throughout the internet community ensuring a high possible target audience. The traditional funding process is innovated according to today's technological setting which helps company to reach people beyond the capabilities of substantial methods regardless of origin, location, age and background and also an innovative service offering a matchup between funders and project owners. When all these factors are taken into consideration, compared with the traditional platforms Kickstarter’s online crowdfunding platform became a disruptive innovation. The new disruptive innovation elevated both the performance demanded by low-end and high end customers which resulted as a force majeure on an increase in overall performance of the industry. In the meantime, as characteristics of the traditional crowdfunding service is significantly improved with their online platform with the elimination of time consuming funding process and with significantly more backer audiences it is appropriate to say that Kickstarter offers a service innovation by exceeding the boundaries of the existing one. When we look to other online crowdfunding services; after five successful years and being one of the first movers in the market with Indiegogo; Kickstarter was able to survive from the fluid stage of the innovation life cycle and moved towards the transitional phase on online crowdfunding industry. Knowing that today there is almost 35 other crowdfunding companies exists within the industry of online crowdfunding with three different funding models such as All or Nothing, Keep it All and Bounty, Kickstarter is using All or Nothing funding model in which all the collected funds are

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delivered to the entrepreneur just if the project reaches to its goals. Among the 35 companies in
competition, Kickstarter’s funding model is used by 20 other companies out of 35. Kickstarter, with
their All or Nothing funding model takes a step on being the dominant design on among all the
other funding models and copycats/late movers started to evolve\(^{10}\) on the market trying to
implement Kickstarter’s design with incremental service variations. It is appropriate to say that
Kickstarter continuously rises their volume and pursues their stable dominant design which puts
serious entry barriers into the industry and makes it harder to defeat the existing oligopoly which
will provide the sustainability of their model within the industry protecting them from other
incremental service variations. Most of the late movers who adopts Kickstarter’s design and
business model are unfortunately failing to generate the required volume through their platforms
as the revenue streams are based on project commissions of successfully funded projects
(Appendix 1 – Revenue Streams). All in all this radical process innovation helps Kickstarter to
exploit the market opportunity and secure their future revenues by creating and capturing an
entirely new audience by displacing basically the existing technology of internet. Kickstarter
successfully achieved high switching costs with the benefits from the high reputation as well as the
scale benefits.

On the supply side, the **degree of improvement** in performance can be considered as high when
long lasting funding processes is taken into consideration. Higher speed and reach of Kickstarter’s
platform triggers the performance leading to a change in the whole industry. Constructed on the
existing technology of internet where in today’s world more than 2.8B users have the access,
Kickstarter’s platform is considered as highly **compatible** with all surrounding factors. In terms of
complexity of the service, there is two way transaction with **no complexity.** Backers pledge their
chosen amount to the project owners and the money is directly transferred to the project if the

\(^{10}\) Kim R., A GigaOM guide to Kickstarter Wannabes, Nov 28th 2014,
https://gigaom.com/2012/11/28/kickstarter-copycats/
goals are met. Kickstarter’s revenue stream is based on commissions on a percentage basis and no other complex structure exists. Also on the supply side, Kickstarter’s **relationship management** tools includes FAQ section, Kickstarter Blog, Creator Handbook to support project owners as well as with a Ticket Submission page to support users about further information. All those various options leads customers to get the required information easily and get support for their questions. On the demand side, market awareness was on its lowest levels\(^\text{11}\) at the creation date as company had no funds and experts to increase the awareness. Only so called marketing activity was the notification of their near abroad. However keeping in mind that the idea came from a market pull, **market awareness** was successfully created even with small effort by the company itself which also rises as a **network effect** and raised more than $1.4B coming from more than 7.4M backers in just 4.5 years. Keeping in mind all this concepts from supply side as well as demand side, it is appropriate to say that **pace of diffusion** is fast in Kickstarter’s point of view.

![Diffusion S-Curve](image)

When regarded to the **diffusion S-Curve** and the pace of diffusion of the technology, Kickstarter shifted upon the existing curve to a great extend with a wider audience reach and an innovative business model. It is obvious that Kickstarter survived from the slow adoption process with their high paced increasing returns and incrementally increased target audience (Appendix 2). The

\(^{11}\) How was the first year of Kickstarter?, Mar 2nd 2014, [http://www.forbes.com/sites/quora/2014/02/03/how-was-the-first-year-of-kickstarter/2/](http://www.forbes.com/sites/quora/2014/02/03/how-was-the-first-year-of-kickstarter/2/)
tipping point exploded with the help of networking effect which took off the demand for Kickstarter’s platform.

Performance S-Curve

Sources of Innovation

Find factual data

Now imagine a women from Mumbai/India having an idea which would change hundreds of girls’ lives by creating a community lending library in the largest slum in Asia\(^{12}\). Now lets imagine an idea of redesigning the existing cooler emerged from a men living in Portland with limited network but willing to spread his idea throughout the world\(^{13}\). Having the idea will not be enough unless you would find funds to realize it. These examples can be widened however the point here is that both projects were funded and each of them exceeded their goals (Coolest Cooler project actually funded more than $13M rather than the goal of $50K). The demand for idea pitching and fund generation were high and crowdfunding was not regarded as a practical solution before the emergence of online solutions such as Kickstarter. It is appropriate to say that the source of innovation for Kickstarter is demand pull where the existing market needs were satisfied. The inefficiency of the existing techniques created a necessity to innovate leading to a creative way to meet two different actors of crowdfunding process by using an online platform. The observations of the market as well as the historical figures such as Mozart and Alexander Pope enabled Kickstarter to cater to the demand in an innovative way. As it is a web based platform and there is no tangible product available, lead users could not used in the early creation phase. Keeping in mind that Kickstarter is

\(^{12}\) A Community Library and Literacy Project in Dharavi, Kickstarter, 

\(^{13}\) Greep R, Coolest Cooler, Kickstarter, 
a service company with short background and limited audience on its emergence combining the existing technology with an innovative way, open innovation was not the necessity to be taken into consideration, no import or export of knowledge is permitted to enhance the existing innovation. Online crowdfunding market is adopting the key factors of competitive rivalry such as tight competition with high level of imitation on business models and platform which also limits the open innovation approach for the company. Having limited resources, marketing strategy and audience, company faced a great chance of failure on the time of launch.

Standards Battles & Technological Dominance

In today's world of crowdfunding, usage of an online platform became a standard where each competitor adapts its own business model accordingly. Companies' are fighting with each other on the basis of funding models. Each model, having different qualities and drawbacks compete in the industry to form the dominant design. Kickstarter is using All or Nothing model based on commonly embraced standard of internet, company does not face with any technology lockout.

Timing of Entry

Kickstarter, entering to online crowdfunding with a new approach just after Indiegogo with a reliable and innovative funding method led Kickstarter to be actually the fast second mover in the market benefiting from all existing first mover advantages. Employing a fast second strategy, Kickstarter faced with all the existing problems of being a first mover such as uncertainty in adoption of the idea by the target audience, uncertainty of dominant product design, network building and being challenged by late movers. Even the source of innovation was market pull, specifying target customers was a challenge for the company. Network effect played a major role to surpass the network building problem and boost awareness. Kickstarter's
reputation is secured\textsuperscript{14} thanks to the lack of competition and good network effect they have throughout this process. Kickstarter was able to increase the switching costs as within time they were able to provide high standard of services in a fast and efficient way. High scale benefits were achieved as the company has nearly 10% of market share across 308 different players in the industry with total turnover of $480M out of $5.1B in the world\textsuperscript{15}. Effects of free-riding is being eliminated as company has high scale, high switching costs and a high reputation.

Business Model for Kickstarter & Business Model Innovation

Business Model Canvas

\footnotesize\textsuperscript{14} Hern A., Kickstarter: a platform for investment, philanthropy or shopping?, June 23rd 2014, \url{http://www.theguardian.com/technology/2014/jun/23/kickstarter-crowdfunding-start-ups-pebble}

\footnotesize\textsuperscript{15} Rakowski K., The $5.1B Future of Crowdfunding, Apr 19th 2013, \url{http://www.theguardian.com/technology/2014/jun/23/kickstarter-crowdfunding-start-ups-pebble}
Customer Value Propositions

Kickstarter offers a sum of highly innovative value propositions to their two different customer segments. For project owners, the most important value proposition is the ease of accessibility for the crowdfunding services for everyone by their online platform and its extended reach of target audience. More convenient platform, low cost, clear and fair funding process is also seen as a value proposition of the company for project owners as well as project backers which adds value to customers by facilitating crowdfunding process on online platform and shows a clear exposure on the revenue model (5% profit for each successful project funding). Kickstarter’s platform also facilitates the crowdfunding process for each party so that backers can fund the project with just one click while sitting on their homes.

External Value Chain
When Kickstarter’s external value chain is analyzed, being a web platform Kickstarter’s major suppliers are technology based companies. Amazon Payments\textsuperscript{16} is chosen to handle transactions on the website as a financial supplier. Social media platforms provided by external companies are being used (Appendix 4) to ensure the network effect, perform marketing activities and extend the customer reach. Also Facebook platform (Appendix 5) is used as a supplier to integrate, regulate and facilitate the membership process. Domain and hosting providers (Appendix 6) also play a crucial point for Kickstarter’s success for an uninterrupted deliverance of the services. For IT support side, I could not find any tangible information however a web platform company such as Kickstarter has a large extend of IT support services from the suppliers’ side and needs additional backing in addition to their existing internal IT department. Two existing complementors have been identified. First, educational institutes who provide innovation and entrepreneurship courses instruct participants with an extended understanding of such services and prepare a substructure for actual projects. Social media; besides being a supplier; has a complementary effect on Kickstarter’s services too which is not conducted by Kickstarter itself but by the stakeholders (customers, bloggers etc.). As stated on Business Model Canvas, two customer segments are Backers and Project Owners.

**Existing Business Model**

Kickstarter brings together two distinct but interdependent group of customers\textsuperscript{17}, backers and project owners within their platform. Multi-Sided Platforms is the core pattern of Kickstarter’s business model. Kickstarter; being an intermediary; facilitates the interaction among two customer groups and ensures the network effect while growing. Company subsidizes backers and provide free service to make them participate on the platform at a lower cost to attract more and more


\textsuperscript{17} Osterwalder A. & Pigneur Y., Business Model Generation, p.77, 2010
project owners into the game. Different value propositions for different customer segments are offered. Main incurring costs are related to the development and maintenance of the platform. Major Key resource is the online platform and surrounding resources.

**Business Model Innovation & Management**

In Kickstarter’s case business model innovation has two different aspects. First aspect is value proposition innovation through broader target segments and new service offerings without changing the existing revenue model. Kickstarter does not add any new customer segment in their business model, however they broaden their existing segments to a wider reach than any crowdfunding activity ever reached. A new easy to use and cost efficient service offering through internet channel is being used to satisfy customers’ needs. Revenue models stayed the same with fixed percentage deduction on the total funded project. Second aspect is the operating model innovation in which value chain and cost model have been innovated. The core business; online crowdfunding platform; is done in-house however other activities such as financing and membership has been fully or partly outsourced to ensure the focus on the core business. With redefinition of the crowdfunding services by the integration of web platform on the service, Kickstarter also built a new cost model by outsourcing non value adding activities (such as payments, etc.) and automation of processes (such as project presentations, payments and their tracking, etc.). With the combination of all these factors, Kickstarter have successfully developed a high-impact Business Model Innovation within the industry. With a blue ocean strategy, their new value propositions and offerings such as the extended audience reach and accessibility, Kickstarter reduces their costs as well as increases value to customers to capture the new demand on digital

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era. With all the innovative aspects, Kickstarter employed a unique business model by updating the existing model to the new digital era\(^\text{19}\).

**Intellectual Property**

Kickstarter protects their IP’s via copyrights, trademarks, service marks, patents, trade secrets and other laws and rights\(^\text{20}\). With the usage of Kickstarter's services customers are granting rights of usage and reproduction of contents to Kickstarter and also company supports each person’s IP rights by assisting them on their website. When Kickstarter's case is analyzed it is appropriate to divide intellectual property into two;

**Kickstarter’s own IP’s & customers IP’s**

**Patents**

Kickstarter’s own IP is protected by various patents issued by the co-founder Perry Chen on three different aspects. A “Method and system for making a conditional event binding on purchasers and vendors\(^\text{21}\)”, on “Systems and methods for making conditional sales of investments\(^\text{22}\)” and lastly “Systems and methods for making conditional purchase requests\(^\text{23}\)”. Patents are filed respectively on 2004, 2006 and 2006 showing that the company has the right to exclude any other competitor from using their systems for 20 years. All the systems and methods of Kickstarter’s online crowdfunding platforms tried to be protected from any other copycat platforms however its extent is limited to US.

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\(^{21}\) Method and system for making a conditional event binding on purchasers and vendors, US 20050273405 A1, [https://www.google.com/patents/US20050273405](https://www.google.com/patents/US20050273405)


Industrial Design

Kickstarter's logo and website are company's major industrial designs with its individual character and green color patterns combined with a good and simplistic look and feel of the website.

Trademark (Service Mark)

Kickstarter is granted with 9 different highly distinctive registered trademarks on 7 different Nice Classes for their Kickstarter symbol and the word “Kickstarter” itself to represent the company and the platform itself. On project owner’s side based on US laws, project owners has the right to secure their rights from the actual use on the platform with respect to the filing of intent of use of trademark itself.

Copyrights

A general policy has been adopted for copyright infringements in accordance with the Digital Millennium Copyright Act of 1998 by Kickstarter. Company provides protection to each person’s copyrights. Required actions such as account terminations, disabling access to projects are taken by Kickstarter in such cases. Also Kickstarter itself has its own copyrights on the usage and the distribution of their intellectual property.

Trade Secret

Kickstarter’s crowdfunding methods, techniques and processes on their platforms are company's trade secrets which derives an economic value to the company which adds a competitive advantage compared to their competitors.

26 Copyright and DMCA Policy, Kickstarter, https://www.kickstarter.com/help/copyright
Domain Names

Kickstarter possesses [www.kickstarter.com](http://www.kickstarter.com) domain name registered on Kickstarter Inc. until 2018 (Appendix 6).

Appendices

1) Canvanizer, [www.canvanizer.com](http://www.canvanizer.com), Kickstarter Business Model Canvas

2) Dollars Pledged Through Kickstarter
3) Kickstarter Funding - Years

4) Social Media Accounts
5) Facebook Platform

6) Domain and Hosting Providers, [www.whois.com](http://www.whois.com)
7) Kickstarter Trademarks

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