The Post-Kickstarter Conundrum: Delivering Companies DOA?

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Picture this: two guys in a garage coding The Next Big Thing. It's an iconic and familiar image. Now imagine their ubiquitous computer keyboards being overtaken by a colony of 3-D foam models or CAD drawings. Now your mind's eye sees these same guys (or gals) hacking away at something entirely different.

This shift in creative attention is being labeled a **"renaissance" by folks like Y-combinator's Paul Graham**. Chris Anderson boldly declares, **"Hardware is the new software."** Whatever you choose to label it, the happy result is an overflow of terrific new consumer products.

(And, for the record, no one who really creates consumer products for a living would call them "hardware!")

Why are innovative products multiplying like rabbits? It's not complicated: people naturally gravitate to creating physical things. It's simply human nature. This is not a fringe "techie" or coastal phenomenon: nationally, 2011 was a record year for patent filings, up 10 percent from 2010. Further, as the economy is pushing more people to take matters into their own hands, people are seeing if they can go it alone. In fact, **51 percent of millennials** want to start a business in the next five years, according to the Kauffman Foundation. Add available resources such as online access to manufacturing options—and crowdfunding platforms like **Kickstarter** or **Indiegogo**—and any ordinary person can potentially get an idea funded. This is huge. But it's only a tiny part of the road to success.

Tech and design projects on Kickstarter had a total of over **$79 million dollars pledged in 2012, with nearly 5,000 projects launched**. That's a lot of demand for cool products. But, the untold story is that these numbers represent a boatload of entrepreneurs being set up for financial loss and heartbreak. Why? Because crowdfunding platforms are really just the kindergarten stage of getting a product scaled and sustainable. People are getting romanced by "massive success" on Kickstarter without realizing that the 5,000 unit volumes of even the very largest Kickstarter products (think Pebble watch) are just chicken scratch in real-world consumer product terms.

The Post-Crowdfunding Stage

There's a lot more work to be done getting these products to market. The **JOBS act** has inspired the expansion of crowdfunding, but that will only cloud matters more. So these products get even more funding. So what?

Kickstarter is just that, a "kick-start." It's a way to get an initial production run funded. But this narrow echo-chamber proof of demand is not prescriptive of true mainstream adoption. A project on Kickstarter has a long way to go to succeed. Building (and funding) a better mousetrap is hard. But those activities pale in comparison to the heavy lifting of getting it scaled and in national or international distribution.

For instance, if you want to get your product into Target or Williams-Sonoma, those retailers need to know that you ... NEXT PAGE »

have meaningful market traction and your company itself is truly ready to scale. A hard-boiled retail buyer is not going to wipe a successful existing vendor off the shelf for a new young company that might leave those same shelves empty due to supply chain or capital issues. For the buyers who control those shelves, human nature also intervenes when it comes to annual bonuses! And Pinterest, Kickstarter, Etsy, etc. are not efficient or able to de-risk these products for scale or to meet the expectations of large retailers.

The bottom line: Kickstarter can yield a product, but it still needs to become a **business** to survive. IDEO's Joe Rizk (formerly of Lerer Ventures) put it very well **in a recent blog post** titled "Staying capital efficient within hardware." Joe states, "I also see a significant and largely under-discussed category of businesses that is being formed around hardware. These are mostly software businesses: marketplaces, tools/services, curated commerce, infrastructure—that are all flourishing to support this maker movement. This pocket of opportunity is unique in that it satisfies capital efficiency requirements of most investors under the traditional software paradigm, but also provides a meaningful way to participate in the growing hardware revival."

Examples of these new "hardware revival" businesses are **Shapeways** for 3-D prototyping and initial production, **Shipwire** for outsourced shipping, and **Grand St.**, an e-commerce site for crowdfunded products. In that same vein, **Daily Grommet** has been operating as a launch platform for undiscovered products, so we tap this new supply of projects too. Recently launched Grommets like **SushiQuik** and the **COOKOO** watch surpassed their funding goals on Kickstarter. We recognized markers of success in their product concepts and funding campaigns. It's powerful to curate those shining stars using our four years of pattern recognition and then provide them with a ready-made consumer audience who wants to learn their story from a trusted source. Grommet purchases across several thousand launches have proven over and over to predict mainstream success. In fact, within hours of our noon EST daily release we definitively know which products have "legs." And that data is worth its weight in gold to the emerging company and especially to larger retail and media players.

There's no longer a need for big companies to exclusively fund and build new products. It can even be a detriment to release a truly innovative product under a known (and contained) brand name; journalist Bruce Nussbaum asserts that **indie capitalism** is the next major sea change within our economy. It's not just a fad: "**Citizen Commerce**," as we like to call it, is here to stay. Whether these crowdfunded "projects" have the resources and operating skill to survive and grow into companies is the critical question. Sometimes these projects are actually getting seriously over-funded on Kickstarter, before they have proven their operating mettle or go-to-market chops.

Time is death to these young companies, and businesses like Grommet are forming to separate the wheat from the chaff and then accelerate their path to scale. Otherwise Kickstarter will be producing a lot of products that are just heartbreakingly DOA.