Manufacturing Is Getting A 'Kickstart'

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Maybe you've heard of Kickstarter [1] before. Maybe not. Either way, it's a relatively simple service in theory: It helps inventors, artists or designers (and other professionals) get funding to transform their designs into real products when they don't have the up-front cash. The web service has definitively taken off in the last year or two, with many projects gobbling up millions of dollars in "investment."

To get that windfall of cash, creators put their idea up on Kickstarter, along with a funding target — how much money they need to get the job done. Customers are able to donate as much as they want to the project, but bigger commitments equal better rewards once the project is completed. A $1 donation might get you a thank-you card from the creator, while a $100 donation would get you the item itself.

If — and that's a *big* if — the project meets its funding goals, Kickstarter charges all the donors' credit cards, takes a 5 percent cut, and transfers a nice amount of cash into the creator's bank account. From there, the creator can get to work mass-producing their gadget, piece of artwork or musical endeavor. Essentially, Kickstarter acts as an easier, "crowd funded" method of gathering venture capital.

And while the scope of Kickstarter's projects has been exceptionally wide, the rise — and subsequent success — of consumer electronics and gadgets on the site has me wondering if this funding model could become a real part of manufacturing's future.

The amount of money needed to build a physical product today — from design to establishing a supply chain to manufacturing — is enormous, and almost always beyond the means of an ordinary inventor. Under the traditional business plan, an inventor would either try to sell their technology to an established company, hawk themselves to venture capitalists or pitch their idea to a bank in hopes of a sizeable loan. But we all know that lending isn't what it used to be — not to people with little-to-no business experience, and especially not for things like iPhone docks.

But on Kickstarter, that same dock can start a firestorm of attention. The Elevation Dock [2] was one of the site's early successes, with $1.4 million pledged at a minimum $59 donation to receive one of the finished products. More than 12,000 people paid up to receive one of the final CNC-machined docks, which were designed with a heavy dose of Apple inspiration. The dock's creators run a product design and development company, and have found success making products for others, but when it came to developing their own gadget, a traditional business plan might not have worked.

And not all of the projects have been made by industry professionals. The gTar [3], a kind of guitar/iPhone/*Guitar Hero* controller mash-up, was developed by five friends who liked hacking electronics together. When they realized that their rough

prototype devices had some real potential out in the world, they put together a Kickstarter project. The gTar is — and no offense intended toward its creators — a very niche device, so there's probably not going to be much commercial interest for it, which means selling the technology to an established company would be difficult, if not impossible. But on Kickstarter, the creators could target only those who would be particularly interested in the final product, which equated to about 950 people. With $300,000 to their names, the gTar's creators could then turn around and work with a contract manufacturer to get the device made.

There's no question that the biggest Kickstarter success has been the Pebble [4] e-paper watch, which synchronizes with a user's iPhone or Android smartphone to provide easy access to text messages, emails and more. The creators hoped to ship 1,000 watches once their funding goal of $100,000 was reached. But the device went "viral," and ended up receiving 80,000 backers, who plunked down nearly $10.3 million. Getting the project done — finishing up the design, fixing software bugs, dealing with the manufacturing team and more — got considerably more complicated when the creators needed to ship an order 80 times larger than they had intended, but that's the kind of "complexity" every inventor dreams of.

When Kickstarter began operations a few years ago, a lot of the projects were distinctly lacking in quality. But with big dollars on the line, things have started to get really exciting. A company has developed an Android-based video game console called OUYA [5], which collected up more than $8 million on Kickstarter funding. It has the potential to be real competition against the established players from Sony, Microsoft and Nintendo, and that's pretty exciting, just for the sake of disruption.

It would be nearly impossible for some relative unknowns to create something like the Pebble or the OUYA without the help of a platform on which they can show off their product and get cash up-front to establish a manufacturing line. And from where I stand, there are an increasing amount of people who are interested in making and selling these niche products that can't necessarily get support from banks or venture capitalists.

And with the Kickstarter model, inventors don't have to hand over large swaths of their company to "angel" investors, as so many do in the technology start-up world today. Those who pledge to the project become the investors, and all they want is whatever reward their donation qualifies for. There's no fight over equity or shareholder value. Because the creator is a separate entity without other financial ties, they maintain all their value and all their intellectual property.

I wonder how dramatically the financial situation in consumer manufacturing will change toward funding models like Kickstarter. By going straight to the consumer, earning their trust and getting them to punch in their credit card, would-be manufacturers can start with little more than a design and a homemade prototype. As long as they have a good pitch, it's possible that they could establish a real company in this way, making a profit off their first product and funding further ones with an already-established coffer.

I'd encourage more designers and engineers to check out Kickstarter and see what

kinds of products are seeking out funding. While it might not be via Kickstarter itself, the concept of "crowd funding" products is here to stay, I think. Gaining venture capital hasn't ever been this user-friendly for either the innovators or the "investors." Somewhere down the line, it just might change the way that burgeoning manufacturers do business.

And if you ask me, that's exciting. There's nothing like disrupting the old way of doing business to see some really interesting products take a shot at the" big show." While I might not have the excess cash to justify investing in an amazing and futuristic product like the Oculus Rift [6], 7,000 others have, to the tune of $1.7 million. I can only hope that sometime in the future, the virtual reality headset will eventually make its way to retail store shelves on the donations from those 7,000 initial investors. And there, among all the other products made in traditional ways, will anyone really be able to tell which one was made on a business model that didn't exist even five years ago?

What do you think? Does "crowd funding" have a place in niche manufacturing's future? Comment below or send me an e-mail at joel.hans@advantagemedia.com *[7].*

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