



Crowdfunding Economics 101

Doing the math and playing your cards right



CONTENTS

| | |
|----------------------------------|-----------|
| FOREWORD | 3 |
| KICKSTARTER AS A PLATFORM | 4 |
| BACKERS | 5 |
| GAINING SUPPORT | 6 |
| CREATORS | 8 |
| COSTS | 9 |
| COST BREAKDOWN | 10 |
| PRICING | 12 |
| BUDGETING | 14 |
| SUMMARY | 15 |
| JELLOP | 16 |

FOREWORD

A few words of caution should be taken into account when using the figures included in this guide: campaigns vary greatly given their different value propositions. The product appeal, price points, and conversion all have an impact on campaign performance.

Also, Kickstarter has a snowball effect that depends on social proof in which your campaign can bring in more support if success is already high.



MAKE SURE TO REVIEW THE DETAILS ENCLOSED WITH A GRAIN OF SALT. GIVE OR TAKE 20% AS THE CROWDFUNDING LANDSCAPE IS BOUND TO SHIFT.

Before the inception of crowdfunding, bringing your product to life would be hard: finding a fund or an angel (with or without wings) that was willing to sponsor your first batch of production was a necessary first step in getting your idea off the ground.

Reward-based crowdfunding, and Kickstarter in particular, allows creators to present their ideas to the world before encountering such barriers of entry. You can gain feedback on your design, increase brand awareness before your first product hits the market, and most importantly, secure enough pre-orders to fund initial production.

UTILIZING CROWDFUNDING IS A WAY TO RAISE THE CAPITAL YOU NEED WITHOUT GIVING AWAY SHARES OF AND CONTROL OVER YOUR COMPANY NOR OWING MONEY TO A THIRD-PARTY LENDER, WHILE ENJOYING THE FAVORABLE CASH FLOW OF PRE-ORDERS.

Finally, hundreds or even thousands of people lining up for your product can increase your valuation, or at least strengthen your bargaining power when talking to investors, resellers, vendors, etc.

In the years following Kickstarter's founding in 2009, other platforms adopted a similar crowdfunding-focused approach. While there are more options today, Kickstarter maintains the largest and most dedicated community after years of building trust with returning backers.

Today over \$7.04 billion dollars have been raised on Kickstarter, with \$2.84 billion funded for products focused on technology and design. With over 232K successfully funded campaigns hosted on the platform, the overall average between each project roughly equates to \$27K.

BACKERS

Since the creation of Kickstarter, over 21 million backers have supported campaigns across the platform. That being said, only 7.4 million are repeat backers, and they account for almost 80% of funds brought in to an average campaign.

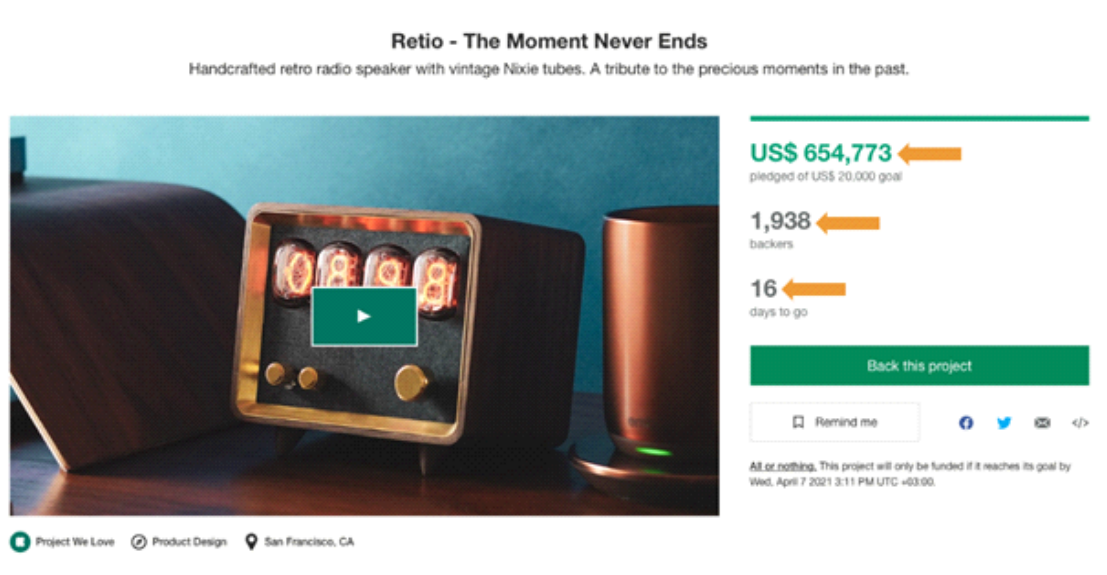
As for the demographics of Kickstarter backers, over half of them come from the United States, with the remaining half divided throughout the rest of the world. Countries that tend to have a larger presence on the site include English speaking countries - most notably Canada, The UK, and Australia – as well as Western Europe countries and the Four Asian Tigers (South Korea, Taiwan, Singapore, Hong Kong). Also, around two thirds of backers are male, leaving the minority third to female audiences.

AS THE MAJORITY OF SUPPORT WILL BE COMING SPECIFICALLY FROM REPEAT BACKERS WITH DISTINCTIVE DEMOGRAPHICS, AVOIDING THE “NICHE WITHIN A NICHE” TRAP IS IMPERATIVE.

Crowdfunding itself is a niche group: intersecting another small niche with the platform can heavily limit your potential. After all, Kickstarter is not for everyone. Backers make a tiny fraction of the population - in the US, where Kickstarter is strongest - only 1% of the population have backed more than a single campaign. If your product is super niche, you would want to explore other funding routes because reward-based crowdfunding usually does not favor them. If it's not niche, then you would want to broaden the appeal of your product (age, gender, use cases, etc.) and marketing to align with a standard backer's persona.

When potential backers arrive at a campaign page, the first aspect that they notice is the campaign statistics.

Before even pressing play on the video to learn more about your product, almost all potential backers review the campaign's performance first. The statistics include the total funds raised at the time of viewing the page, the total backers that have chosen to support the campaign, and the days remaining in the funding period:



The first two figures are the main source of a campaign's [social proof](#)¹, while the latter plays on a [sense of urgency](#). As your campaign continues, both social proof and sense of urgency grow, increasing the probability of catching the attention of those visiting the page.

The effect of social proof and sense of urgency does not end when people hit on the green button to play your video. After watching the video, visitors are more likely to jump on the bandwagon and pledge if they see that many others have already done so and that they don't have much time left to do so.

¹ *Social proof: A psychological and social phenomenon where people copy the actions of others to undertake behavior in a given situation. A high amount of funds raised and backer support encourages a new viewer to join in on the excitement, persuading them to watch a campaign's video. If performance is undesirable, the odds of gaining support can decrease.*

Support

Pledge without a reward

| | |
|----|----|
| \$ | 10 |
|----|----|

Back it because you believe in it.

Support the project for no reward, just because it speaks to you.

Pledge US\$ 299 or more

Retio - Early Bird

One Retio - retro radio, speaker and clock.
SAVE \$100 (Retail \$399).
Handcrafted in California.
Shipping as the 2nd batch.

ESTIMATED DELIVERY: Aug 2021 SHIPS TO: Anywhere in the world

1,372 backers

Limited (4 left of 1376)

Pledge \$349 or more

Retio - Kickstarter Exclusive

- Another psychological effect that can play in your favor is scarcity effect, embodied in limited early bird rewards. This is typically the first available reward tier that allows backers to receive your product with not only the discount available due to your crowdfunding campaign, but at an even greater discount compared to the other available rewards.

- Creating a scarecrow reward tier can help in this process. This tier is the same as your limited reward, but comes at a higher price. Having a finite amount of low-cost rewards creates scarcity, encouraging potential backers to take action and quick pledge at this tier before the price increases.

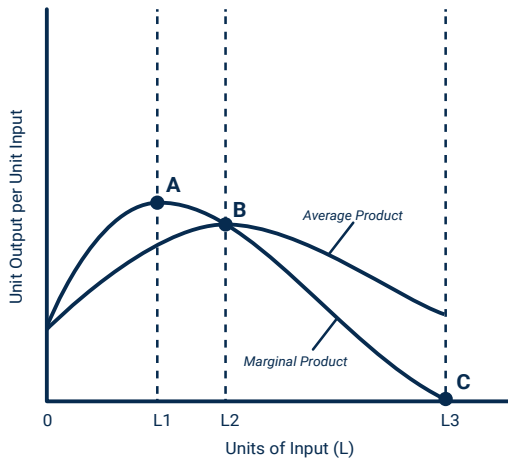
CREATORS

When you consider starting a crowdfunding campaign, it's important to keep in mind that they are not a method of getting rich. Margins tend to be tight as backers expect a discount in return to paying upfront for something that is not out there yet, and creators will need to keep the costs of running a campaign in mind.

The benefits of crowdfunding are not just monetary: if your campaign is a success and gains a large following ready to support your product, not only your brand's recognition and future support are bolstered, but this can only contribute to your valuation and bargaining power with all stakeholders.

COSTS

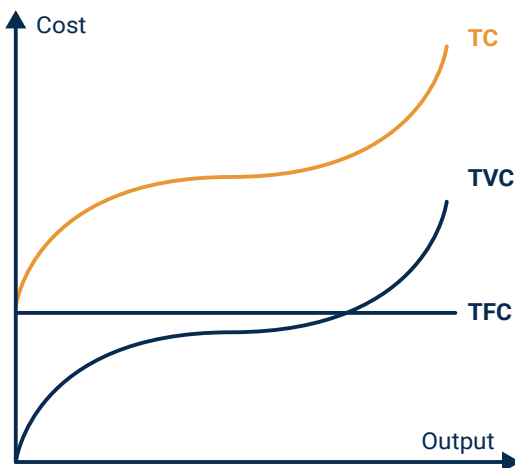
When running a performance ad campaign, a crucial aspect to keep in mind is the inverse correlation between volumes and margins: the more you spend, the less efficient your incremental dollar will be spent. Economists call this [The law of diminishing returns](#): decrease in incremental output (revenues) as the amount of a single input (ad spend) is incrementally increased. In crowdfunding, this law is as strong as Physics, and a crucial aspect to consider.



The law of diminishing returns: decrease in incremental output, as the amount of a single input (ad spend), is incrementally increased.

If your advertising budget is only \$10, you can spend it very selectively on “sure bets” (prospects who are most likely to convert into backers) and maintain high ROAS (return on ad spend), calculated as the revenues from ads divided by ad spend) and margins. But if you want to spend \$10,000, you’ll need to cast a wider net and broaden your reach to include prospects that do not necessarily fall into the low-hanging-fruit bracket. And this will result in lower ROAS and margins.

Another thing to keep in mind is the distinction between fixed costs and marginal costs. Fixed costs (AKA overheads, sunk costs) are never impacted regardless of the number of units you produce. These costs remain the same whether you create 10 or 10,000 units. Your variable costs (AKA incremental costs, marginal costs) are tied to your amount of production and will vary depending on external factors (materials for additional units, percentage costs of ad spend and ad management).



An example chart of total variable cost (TVC), total fixed cost (TFC), and Total cost (TC)

When calculating your acquisition costs, fixed costs should be kept out of the equation. As their name suggests, they remain constant regardless of the number of units sold. Thus, incrementally they are not added to the incremental costs associated with the acquisition of another backer.

COST BREAKDOWN

With higher ad spend inevitably resulting in lower returns, the best option would be bringing in backers through advertising for as long as it is profitable. The “sweet spot” is the break-even point in which ads are bringing backers that pledge the same amount as costs to “buy” them.

Many creators argue: “I’m here to make a profit, why should I go for break-even?” First thing, you want to remember is that this is only for paid ads. The pledges you’ll get from organic traffic and other non-paid channels will carry higher margins, as there are no acquisition costs (ad spend and ad management fees) for them.

Also, you want to keep in mind the favorable externalities that come with the backers you “buy” with ads: during your Kickstarter campaign, they will help you spike the Kickstarter algorithms and get more (free) organic visitors, and to strengthen the social proof effect, resulting in improved conversion rates; when your campaign ends, you will benefit from the lifetime customer value (that is always higher than the initial amount pledged) and from your company valuation and bargaining power. In that sense, the breaking even point on Kickstarter is actually profitable.

Finally, the breakeven point should be your minimum requested ROAS - not your average ROAS. At the beginning of the campaign, returns are usually higher, and you’ll be benefiting from the higher margins throughout the campaign. As we grow the budgets, ROAS goes down, until it gets around the minimum requested minimum ROAS. If returns go below the minimum requested ROAS in a certain day, we will cut the budgets to get returns back up again.

When breaking down the costs related to a single backer, their pledged funds go toward:

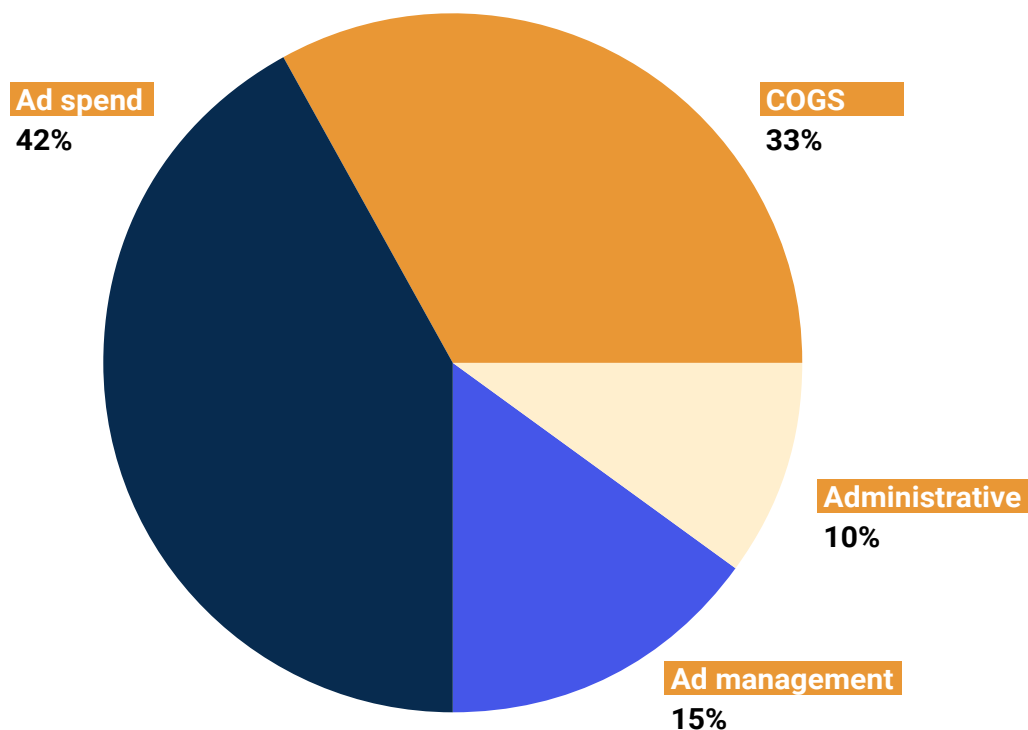
33% - Cost of goods sold (COGS)

15% - Ad management

42% - Ad spend

10% - Fees relating to the campaign itself

(Kickstarter, payment processing, and pledge management)



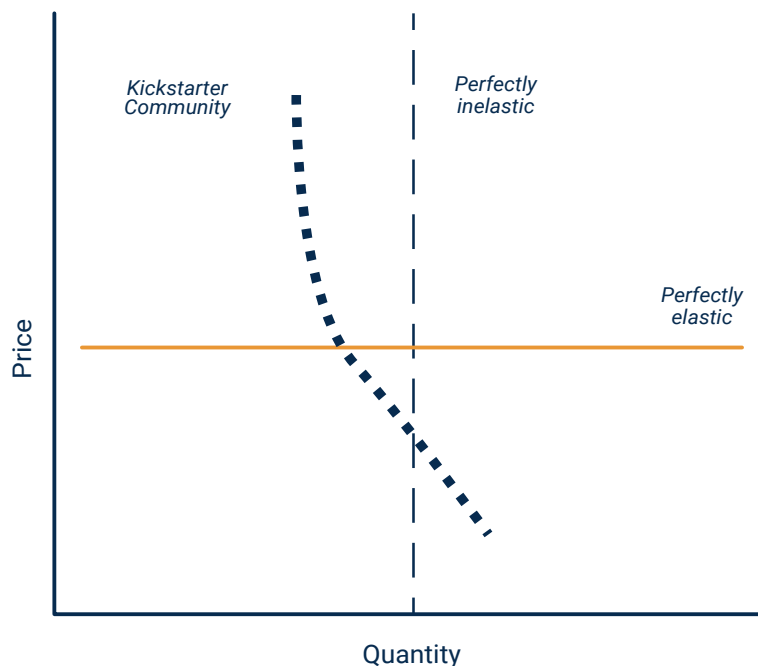
This leaves you 42% ($=100\%-33\%-15\%-10\%$) to spend on ads before your break-even on the incremental customer acquired through ads. When measuring ad spend, each \$1 put into ads should yield at least \$2.38 ($=100\%/42\%$). After adding a 5% margin of error, this results in \$2.50, otherwise known as a Return On Ad Spend (ROAS) of 2.5x.

PRICING

So to allow a ROAS of 2.5x to be viable, your product should be priced at least three times higher than your incremental production cost. When it comes to providing your product as a reward in crowdfunding, the price should be $\pm 20\%$ less than MSRP (Manufacturing Suggested Retail Price, or simply put: future retail price) due to backers expecting such a discount as gratitude for their support at such an early stage.

IT IS BEST TO DISPLAY BOTH FUNDS RAISED AND REWARD PRICES IN USD, ALONG WITH ENDING YOUR REWARD COST WITH A 9 (\$9.99, \$49.99, \$99.99...). IF YOU ARE UNABLE TO USE USD, THE BEST OPTION IS TO ENSURE YOUR REWARDS END WITH A 9 WHEN CONVERTED TO USD BY KICKSTARTER.

When setting your product's price, it is important to take into account the price insensitivity (or inelastic demand¹) of Kickstarter backers. Most backers are well-off: typically middle to upper-middle class, with the most common persona being an urban white-collar male between the ages of 35-54 living in a large city on the east or west coast of the United States. This demographic is not as price sensitive as a normal consumer. Most repeat backers support multiple projects knowing that their passion is an expensive one.



¹ A product's [price elasticity of demand](#) is a measure of how sensitive the quantity demanded is to its price. When the price rises, quantity demanded falls for almost any product, but most return backers are not phased by increases as long as your product's quality reflects the cost. This goes for products within a variety of price ranges, with products above \$100 or even \$1000. Whenever in doubt, raising the price is a reasonable course of action.

If you are looking for the “ideal price” of a Kickstarter reward, you should seek to keep its real value in mind but also remember that the higher the average order value (AOV) is, the bigger your campaign will get. The AOV of five-figure campaigns (that raise anywhere between \$10,000 and \$100,000) is \$183. The AOV of six-figure campaigns (raising \$100,000-\$1M) is \$272, whereas that of seven-figure campaigns (raising over \$1M) is \$435.

One of the most frequently asked questions is what would the costs associated with running a Kickstarter campaign total. Some fixed costs can fluctuate depending on the services used, but some overall estimations include:

\$5K-\$25K for Asset Build (video, imagery, copy)

\$5K-\$25K for Prelaunch (building at least a few thousand leads before going live)











\$0 to \$15K for Earned Media (PR)

10% of total raise for ad spend

5% of total raise for ad management

The final two points are the marginal marketing costs where you can expect to pay within the ranges listed.

THESE 10 MAIN TAKEAWAYS CAN HELP YOUR CROWDFUNDING EFFORTS PROVE MORE SUCCESSFUL THAN GOING IN BLIND:

-  Research best practices through analyzing previous campaigns within your product's category.
-  Broaden product appeal to avoid falling into the niche-within-a-niche trap.
-  Understand your costs and price accordingly to cover them.
-  Secure a strong start: an early backer is worth more than a late backer, and big projects grow bigger.
-  Utilize scarcity to improve backer support.
-  Raise reward costs to reflect price insensitivity.
-  Price your product at least 3 times as it would cost you to manufacture an incremental unit.
-  Aim for ROAS of 2.5x.
-  Plan to spend \$10K to \$50K upfront.
-  Prepare to spend 15% of the total raise on acquisition as you go.

JELLOP

We take a quantitative approach to advertising: we love numbers, we speak numbers, and we're always on the numbers.

Jellop has been on Kickstarter since 2015, with over **8 years** of experience in the industry. We have helped over **3,000** creators raise a combined **1 billion USD** since our founding, and continue to play a pivotal role in promoting the best of the best on Kickstarter. The ROAS we tend to bring in ranges between **2.5x** to **5x**, accounting for anywhere between **20%** to **60%** of a project's total raise.

Our advertising efforts are split 80/20 between Meta and Google platforms. This includes Facebook, Instagram, Google, and YouTube (which accounts for 50% of Google ad spend).

Along with digital advertising, our newsletter features an extensive reach coupled with smart segmentation that helps us maximize the potential backers visiting a campaign's crowdfunding page.

