Podcast Episode #8 – What to learn from Pebble's story: two times most funded Kickstarter campaign ever to its eventual end, with your host, Balint Horvath, Switzerland

RAW TRANSCRIPT OF INTERVIEW

Balint: Köszöntelek, that is welcome in Hungarian to the latest episode. I'm Balint Horvath, originally from Hungary and I'm your host. In this episode, you'll hear a short, dense analysis on the rise and demise of a well-known company, Pebble, which produced the first smartwatch. I chose to talk about this topic as the latest news from them was a shock. The goal with telling you their story, their shocking ending, as always, is that you get to learn from others, in this case from a company's story that had its highs and in December its low moment. So hopefully, you'll get some actionable insights.

I'm back in this episode, for an extended time, after the first episode where I got to talk a lot, when I introduced myself. I'll have many guests in this episode, but in a way that I believe you'd not expect. Before I jump into the details about my guests, this is a kind of new format for this episode that I'm experimenting with. I'll analyse a certain topic, in this case Pebble's smartwatch business, based various sources, blog posts, articles and at the same time I'll add my view, my take on the subject.

The overarching question in this episode is: how can a company that broke records two times on Kickstarter for getting 10 million and later 20 million of backing end up being sold for only somewhere around 34 to 40 million USD and having to stop producing?

As published in the blog post by Steven Levy, Editor of Backchannel, whose article you'll see referenced on the website for this podcast, Pebble started out as the brainchild of Eric Migicovsky, when he was 21, studying at that time in the Netherlands. With his idea, he got into the famous Y Combinator startup program as a lonely hardware startup, then reached huge successes on Kickstarter in 2012, built up of a community around his idea, and sold in total over two million smartwatches.

In contrast to these glorious beginnings, on 6 December there was an announcement that its assets, such as intellectual property, about 40 percent of his workforce, made up mainly of engineers will be transferred over to Fitbit.

What went wrong that the story got sour and turned into this crazy reality?

It boils down to this: Pebble's products could not resonate with a wider audience. That's it, that's all you have to know. As mentioned, they managed to build up a community, that is they could address the needs of the innovators and early adopters, but they could not cross the gap, the gap that exists between the early adopters and the early majority. So they could not access the rest of the crowd, who would buy their products, which are the early majority, late majority and the laggards. These make up theoretically 84% of the population when it comes to the adoption of a technology, as described by the bell-shaped curve of the so-called diffusion of innovation. As for me, I definitely don't count myself to the innovators and early majority when it comes to adopting smartwatch technology. I've thought about getting a smartwatch for purposes other than for health tracking, for fitness, and almost said yes to buying a smartwatch, falling prey to the social proof concept that if ppl around me start to have such a product, it must be awesome to have it and I wanna have but I always said no to such a desire. One of the biggest reason for me, for saying no, is that it would interrupt my daily flow when I'd look at the messages on my watch, so my productivity would suffer.

Going back to Pebble's story, in essence, Pebble realized it too late that fitness is the killer application field for smartwatches, so they could no longer change the strategy, that is to pivot. Fitbit on the other hand saw it at the beginning of the competition, when the two started to compete that this is the right application, fitness applications. It took Pebble too long to come to this realization and not even the 2015 Kickstarter campaign which resulted in 20 million USD of backing could help anymore. They wanted to rescue the company by trying to raise money, Eric Migicovsky flying around the world in Sept 2016, talking to various investors, that is private equity companies and family-based investors but to no avail.

You might ask, and I asked myself, what were the reasons for the company's eventual insolvency beyond the fact that they did not resonate with the wider audience? There's a very good analysis on this topic in a blog post offered by Ben Einstein, Founder + partner at @BoltVC, a Venture Capital firm investing in the seed-stage, at the intersection of hardware and software. Again, I'll reference this source on my website. It's hard to know why exactly Pebble failed, but according to him, there are some contributing factors which are worthwhile mentioning so we can all learn from it.

I liked his statement, now I quote him: "many consumer hardware startups think being first to market with breakthrough technology will make them successful." Pebble was first but with a low-cost, below $200 retails price for a consumer electronics product, huge orders are absolutely necessary for a long-term survival. Because with their smartwatch they could not resonate well with the main part of the population, which I referred to, they could not sell on a massive scale. On top of this they further had to cut the price when the gorilla came into the room, which was Apple residing in the premium category and thus Pebble cut prices in September, 2014. Eric Migicovsky, famously remarked at some point that Apple's watch is the "Rolex" of smartwatches and Pebble is the "Swatch." Unfortunately, this meant that they were positioning themselves in the low-cost segment, which is not good as I mentioned, also because on top of that there is just more competition in that segment.

Ben Einstein offers 2 ways out of this problem of margin vs scale:

- First, you can make it a high-margin product by increasing the price or lowering the cost of producing. High-margin means usually over 50 points gross which as an example for a 200 dollar produc would mean that 100 dollar would be the cost of producing it. This often allows you to find debt financing and/or self-financing the inventory by using the revenue from selling your product.
- Second strategy could be aiming for a high annual growth rate of more than 100% to attract Venture Capital or private investors and this way you would bet on a big future revenue growth. This is the most common paths for startups. As Ben points out, the problem is, the smartwatch market is actually shrinking which makes this second strategy, the high growth rate difficult.

The other solution I can see, which was not in Pebble's business model, as I could see it also in a Prezi presentation I found on the business model, is creating a business-model based on a recurring-fee would be interesting for hardware, similarly to software businesses, for ex. for Software As a Service or SaaS. This means you have e.g. monthly revenue, and not only from a one-time sale of a hardware-product. In hardware, actually Fitibit, the company buying Pebble, is using this kind of model as they have a premium software platform where users can pay yearly for additional features.

Another aspect that Ben's article touched on is the importance of building up a strong brand which is vital for a consumer product. Since Pebble was the first one on the market in the smartwatch category, their marketing focused on educating customers on what benefits they can derive from it. He calls this "feature marketing", emphasizing the product's features. He points out that after launch both Fitbit and Pebble showed resemblances, they looked similar and he shows in the article a picture of Pebble mentioning the E-paper aspect whereas Fitbit was talking about tracking fitness and sleep. So back then some small difference on what they stressed was already discernible. In later campaigns however, Fitbit more and more concentrated on doing brand-marketing, moving away from feature-marketing, by triggering emotions in consumers, feelings they want to feel, similarly to huge brands, e.g. Coca Cola which says "Taste the feeling". Ben says: "Brand value is built by accessing emotions that consumers aspire to feel." Pebble started to slowly move away from feature-marketing but their efforts came too late. Fitbit on the other hand shows in their campaigns how consumers can use their product, what emotions they show while using the device.

Lastly, there's one more point to consider. I believe Pebble did not think in terms of "system of progress" which is based on the concept of Job To Be Done. This would entail, similarly to what Apple or Tesla does, that when the customer goes through his or her development, getting better at something, his various pain points are solved with different product offerings. What I mean is that if somebody buys a Tesla car, which solves the one problem of sustainable transportation, the next problem comes up: how do you get renewable energy? This is where then Solarcity comes handy, its solution of giving you the option of generation your own electricity at home - this also the reason why Tesla bought Solarcity. In a similar way, when you buy a MacBook or an iPhone, additional problems come up based on this solution: you need a case, you need a wireless keyboard, etc. In my eyes, Pebble failed to take advantage of the power of this Job To Be Done (JTBD) concept. For an overview of JTBD, I encourage you to read the new book by Alan Klement, which I'll put into the reference on my website.

Well, to summarize, there are different lessons we can learn from the Pebble story. It's not enough to be the first on the market with a product. You have to think about how you'll reach the wider customer segments at a later stage, setting the right price point, the business model of not having to resort to a one-time sale of your product, branding. Lastly, you need to start thinking in terms of system of progress, how you can address other pain points a customer will have once they start using your initial product so you can keep them in your ecosystem, which could have been the Pebble ecosystem. To end with a positive tone, Pebble did an amazing job bringing smartwatches to the world, with their Kickstarter campaigns blowing themselves into our mind. It's easy for me or for us to look backwards and analyze their business with the information we have, whereas they were the ones connecting the dots looking forward. I'm positive Eric Migicovsky will connect some other dots in the future as with each undertaking one learns something new so the next time things can be improved, things can turn out differently.