Podcast Episode #15 – How to benefit for your hardware project from the first major crowdfunding platform, with Sandy Diao of Indiegogo, USA

RAW TRANSCRIPT OF INTERVIEW

Balint: In today's interview we have Indiegogo on the line, one of the top two crowdfunding platforms, next to Kickstarter. I'm thrilled to talk to Sandy Diao. Welcome, Sandy, to the show.

Sandy: Hi there, everyone, and thanks for having me today. I'm really excited to be here.

Balint: I attended one of your talks recently, Sandy, which you gave last year at the Maker Faire in Shenzhen, China, and your talk, so to say, caught my eyes and ears because you've brought up some new initiatives by Indiegogo which are really exciting. Before we jump into that topic, however, let me ask you this. Can you please give a short intro into Indiegogo, even to the roots, for those who are not so familiar with the company?

Sandy: Yes, absolutely. I think the founding story of Indiegogo is very relevant to where Indiegogo is today. So for those of you who are unfamiliar with crowdfunding, and Indiegogo in general, Indiegogo is a platform where entrepreneurs can come and make their ideas and dreams come to life by accessing customers through our platform. And so, Indiegogo was actually founded back in 2008, so at a time when you might not even have known that crowdfunding existed. And it was founded by a team out of UC Berkeley. They actually created the entire industry and the terminology around crowdfunding. And at that time, their goal around the platform was to enable more independent artists and people who might traditionally not have access to capital, for example, like an artist or someone putting out a CD. Now, if they want to go pitch themselves to venture capitalists or what we call traditional money, they might not necessarily have the right avenues and paths to get there. So instead they turn to their customers, and those customers are able to directly give their support in the form of monetary donations toward the creation of their new albums.

Balint: Okay. And what was the creation of Indiegogo? When was it with regard to Kickstarter?

Sandy: Kickstarter was founded, and that was really the time when we saw in crowdfunding the creation of more tangible products. Because we realized that access to capital is really compelling and powerful when somebody is trying to make a piece of hardware, for example, come to life because you need to manufacture it, and you need capital to fund the cost of that manufacturing. So with crowdfunding, Kickstarter

and Indiegogo became a really great place for creative project creators to be able to put their projects online and get the support of their customers directly.

Balint: It's good to know because this way it's really like this, as you explained it, that Indiegogo was the first one on the market with this idea and they created the terminology, just as you said it, and they are still pretty strong with regard to Kickstarter, which came onto the market second.

Sandy: That's correct. That's correct.

Balint: What's your role at the company?

Sandy: Yeah, I have a very fun role here. So my job literally is to work with entrepreneurs at all stages in their lifecycle whether they've just got an idea or if they've got a prototype. Even companies with shipping units and companies who are looking to launch new products, and I work with all of them and I help them figure out just exactly who it is that they are trying to target, help them figure out and realize their go-to-market strategies, and then, after their crowdfunding campaigns help them determine whether or not they need resources, or manufacturing, or retail.

Balint: What was your motivation actually for joining the company?

Sandy: Yeah, it's really funny because I actually ran my own Indiegogo campaign prior to joining the company so I helped a team back in Beijing, called the One Smart Piano. And at that time, we had a really great product that was selling very well in China. But when we looked toward overseas markets, such as the United States or Europe, we realized that we didn't have the right product given the cultural differences and how different users responded to the products. So, with that, we used crowdfunding as a vehicle to fund and capitalize a new project, which was a condensed version of our traditional piano that suited more Western customers. And so, we raised about half a million through Indiegogo, and we really used that early success to break into the market. We were selling within retail channels within six months post Indiegogo. And, for me, I thought, "Wow, what an expedited timeline for a company that, you know, half a year ago really it had no market presence." And I think that story was exciting enough for me to say, "I want to do this over and over again with other entrepreneurs, and help them launch their products into market."

Balint: How do you differentiate, or how does Indiegogo differentiate itself from Kickstarter?

Sandy: Yes, this is a really great question and one that I'm hoping that we can inform more audiences over time. So I actually fundamentally believe that Indiegogo and Kickstarter are different in three primary ways. The first one, that everyone should be aware of, is just the business model is different. So Indiegogo is… We are a business, we are for-profit, whereas Kickstarter is a nonprofit. And one of the reasons that, I think, that's compelling to entrepreneurs is that the way that Indiegogo monetizes is as a percent of the success of the entrepreneurs. So if you're looking at

aligned incentives, everything we could possibly do is aimed at helping this company raise more, raise more money, and help them raise as much money as possible. So if your goal really is to launch a very big campaign, you can trust that our team would put forth the support, the resources and the effort to help you do that.

Whereas Kickstarter focuses on being more of an agnostic platform and everyone should have access to this, and they wouldn't necessarily come out with a different level of service to help you with the success of your project. So that kind of drives into point two around, I think, service. Our service levels are very different. So, for us, entrepreneurs actually interact with our team, interface directly with us. We get phone calls around strategy, pricing and even around just "Is crowdfunding a good fit for me?", and we go very deep in our consultation there. Whereas if you really kind of try to reach out to Kickstarter's team and that's not the case.

And I would say that the last piece is really about audience. Over time Indiegogo's product offerings, which I think we'll talk about a little bit later, is really more focused on having the backers on our platform… We're more used to having products that ship. We are more like a pre e-commerce, or the right term might be a pre-order platform. So our backers are very accustomed to hardware technology, consumer electronics, whereas Kickstarter's audience is very large but at the same time it's also very varied. So they have very large categories around like board games and video games. And, for us, we are a lot more focused on hardware and tangible products.

Balint: This is why we have you on the show.

Sandy: Good.

Balint: Another related question that is, I think, interesting for the listeners is that at which stage of product development do you think a company should turn to Indiegogo? Because you mentioned actually that you work with the early stage startups, and one kind of category of people say that one should go to a platform for launching the product for market launch. Others say that you should go onto a platform for market validation even before you have everything lined up your production, your design finalized, and so on. And because the fear is that if you promise to ship by a certain date and there are production hiccups that happen, and you can upset the supporters, and then you can get into trouble.

Sandy: That's right. There is definitely a fear in the crowdfunding industry whenever you see a project and it's on some Kickstarter or Indiegogo, if it's covered by the press, there's always that disclaimer that, "Hey, you know, you bet and risk with your own dollars if you're backing a crowdfunding campaign." And I think the right answer here is…So Indiegogo engages with entrepreneurs at all stages, even if it's just an idea, and I think engaging as early as possible is very important. Because if it's your first time creating hardware, I think it's challenging to figure out by yourself exactly what resources you need to get to prototyping stage and then post prototyping stage. How do I scale manufacturing? How do I ship those units to a customer store? We're already talking about four to five different service providers by planning that piece

alone. And I think our company is very good at matching those very early on in the the ballgame.

That said, I think the right stage for crowdfunding is really when you have at least a few units of a working prototype. And I mean to say this not to say that we wouldn't trust anyone to actually go and make a product a reality later on, if they're not at that stage, but I think it's important to your customers, to stakeholders in the space. For example, if I'm going to be running a crowdfunding campaign and marketing and talking about it, and I don't have working prototypes to ship to press and show them that this is actually a working thing, it's going to be really hard for me to really blow it out of the water and get a lot of press coverage. Conversely, with crowdfunding backers, they probably have never met you or seen your product in real life so their only level of trust for you is how you can demonstrate the product works through the video and through all the assets you show on the page. So without a working prototype these are very hard to realize.

Balint: You recommend to people who want to come onto the platform that they start at least interacting with you. And then, when they are, let's say, more well-developed in their development, they can launch it when they have a few units of prototypes.

Sandy: That's correct.

Balint: Another interesting point to consider is that the success of the crowdfunded projects, have there been exits of some kind for certain campaigns that you know they got some investment later on from VC, venture capital company, and then they grew up the startups to become established enterprises and they had some kind of exit?

Sandy: Yes, absolutely. I think this is one track record that Indiegogo just really blows all of our competitors out of the water. Just actually last month we had two companies that had raised over half a million dollars, get 10 million plus in follow on funding. One of them was called Eight, and they were a mattress product. And, actually, within the past few years as well one more notorious exit was actually Misfit. A Misfit was a stylish wearable product with functions such as time-tracking and also fitness tracking, and they were acquired by Fossil and brought into their suite of products, so for them it was really a great example to pull. They raised about $800000 on the platform but were able to exit for over $260 million.

Balint: Wow.

Sandy: Yeah, huge, huge multiple. And I think a lot of that value did come from the fact that Fossil was able to see that Misfit had all of these customers interacting and talking about the product, like the value of having all those what you would call like an army of influencers, just like talking about it on the Internet on your behalf, is just really something super powerful that even a company like Fossil would have to go out and create a community around. So that's really exciting.

And actually we have another story that, I think, is not often told but I'm particularly interested in as it pertains to a more global stance is, there is a company called Ehang which is a drone company based out in Asia, in mainland China, and they actually used crowdfunding as they moved into the global markets. They ran Indiegogo campaign, sold over $800 000, and used that success to go back to China and tell everyone that, "Hey, you know, we're a global company and that urged investors to put in a new round of series B funding of over $40 million as well." So that was really exciting and I think a lot more companies are looking to use crowdfunding as part of this story toward their exit.

Balint: Did you help them out?

Sandy: Not myself personally but my teammates, yes.

Balint: You could have, even personally.

Sandy: Yeah, I could have if I were there.

Balint: Based on your background.

Sandy: Yes.

Balint: Is it only startups that turn to crowdfunding on Indiegogo or do you know also some SMEs, so Small Medium-Sized enterprises?

Sandy: Yes. And there are a lot, so I'll say that right now I'll just give you an idea of who I'm working with. I'm working with sole proprietors, people like literally one person with a great idea looking to ship a ton of products. I'm also working with teams 2 to 200 people. And I'm also working with thousand plus people teams as well. So it really is full spectrum.

Balint: Can you tell us about the major initiatives that have been started recently by Indiegogo? Because I've seen some articles on this topic and you also mentioned it in your talk that there are some really exciting things by Indiegogo, this is what I referred to at the beginning of the interview.

Sandy: Yes, absolutely. This is a really exciting time to be talking about crowdfunding right now. I think crowdfunding we're going to see in the next few years really take a shift around the way that this platform is structured and the services that are offered helping to weed out those companies that weren't necessarily ready to be selling their product, and taking customers' money in order to make their company a reality. We're going to be seeing more of that. And, at a high level, I think, we're going to see this industry overall pivot more toward an e-commerce friendly offering where the trust of the backers can improve over time because they will be receiving their products, and Indiegogo plans to tackle this from a few different ways. I think a very interesting one to bring up is last night, actually at our headquarters here, we brought in the Arrow Electronics team there. They're actually a huge company, they're Fortune

100 company here in the US, and they do a ton of business around electrical parts and component supplies.

And, for us, they've actually become our partners to help us certify hardware on our platform. So the process would be an entrepreneur gets on a phone with one of their engineers, they figure out what everything looks like from their BOM to their costs to how they actually plan to realize their production, and they give feedback around the design of the product as well. And after all that said and done, then they'll give them a stamp on their campaign that says, "Hey, this is Arrow certified." And I think that gives consumers a lot more trust around whether or not, hey, like a third party, he's good at vetting these things, saying that this is a project worth backing.

So that's on the manufacturing side. And then, on the retail side, crowdfunding can't just be a one-time event. It's got to be the springboard for the growth and sustainability of your business. So after you crowdfund, we've actually developed relationships directly with retailers, including like Amazon and Brookstone, Target and Newegg, and we're working on several more in which you can actually directly interface with these buyers when you're ready. And that just gives you the ability to get past that crazy retail cycle which we traditionally know to be a year or even longer than that. And really just push and propel your product forward.

Balint: Do you see a high engagement with these new product offerings by the startups who now communicate with you?

Sandy: Yes, we do, we do. Especially as it pertains to manufacturing, a lot of companies based out in the West don't necessarily have direct access to CMs based in China, which is really sometimes the only place that you can get a product of a specific category and caliber created. So if they try to go out there and venture that relationship on their own, they're going to run into a lot of issues around negotiation and figuring out quality, especially if you don't speak the language. And I think the relationships we put together with Arrow and Riverwood Solutions, and other manufacturing partners, is really going to help make this process a lot more seamless.

Balint: CM, which stands for contract manufacturers, just for some of our listeners, yes. Let me now move on to the last stage of this interview. So I will ask you four questions and it would be good to get some short replies to these. So the first question is if you could go back in time and meet your earlier self, what kind of notes would you give yourself?

Sandy: Wow, that's a great question. I would point at myself and say, "You're awkward." And more than that, I would say that I would go back and say to myself that when I'm picking careers, don't always look at the ones where I already have a nice skillset that fits into this group, just kind of always push yourself to doing the next thing that you can't necessarily do yet, so apply for a job don't know that you can do.

Balint: This is also what Marissa Meyer said from Yahoo who said something like this. I could send it to you the exact quote that she always did something that she was a little bit not ready yet to do. And this is how you grow.

Sandy: That resonates with me.

Balint: The second question, if you had to name one book or even two books which ones had the biggest impact on your entrepreneurial career?

Sandy: I'm going to have to say *The Black Swan* by Nicholas Taleb. And if you haven't read that, it's in a nutshell without giving away the essentials, it's that history cannot inform the future. So looking at historical data cannot inform the future, especially if we're talking about an event that could just be an outlier. And I think it holds true whether we're looking at the stock market, if we're looking at what the next industry that's going to be a pop, like looking in the past does not help me predict what that future is.

Balint: This is also the book recommendation by one of the guests that I had, Radu Diaconescu, from Swie.io, a Swiss company.

Sandy: Oh, really? Oh, that's great. I'm glad, it's a lovely book.

Balint: Yeah. The third question. I'm amazed by habits and I was wondering if you have some habits to make yourself more productive, morning or whatever habits?

Sandy: Yes. Yes. So my personality and my characteristic is that I'm a little bit of a workaholic. So if I'm in a productive spree, I will literally not stop working. What I find that induces, especially for people who are entrepreneurs, is really burn out. You get tired, you get frustrated if a little thing doesn't go well, you just like want to give up. So one thing I haven't stated that's working very well for me in the past few years is forced breaks, and I do this through several ways, but one of the great ones is that I have a screen dimmer on my computer where every hour I schedule it to dim the screen a little bit. I mean it's called f.lux and the idea behind that is whenever I see my screen dimmed it's a sign for me to kind of like look out beyond my computer and maybe like talk to my teammate who's next to me, or just do something else. And I find that that really keeps me in tip-top condition to just even working even longer hours in many cases. But just to make sure that I'm not burning out myself.

Balint: That's pretty cool. I'll have to check it out. That screen dimmer f.lux, as I also need such breaks. The last question. If you had to choose one or two critical cultural differences that one might encounter in a global environment, which one would you pick?

Sandy: Okay. I know which one I want to pick here and it's going to be timelines, especially when you're working with entrepreneurs out of China versus US. With Chinese entrepreneurs, you really put a focus on launching as quickly as possible and, for them, they think that speed to market is super critical. And that makes a lot of sense there because in that market speed to market is important to capture market size, just because all of the channels are so centralized. You have a few e-commerce players, you have few brick-and-mortar players, and once you get a share of the pie

it's hard for anyone else to come in. I think in the US you find that companies really like to take their time in figuring out their positioning, talking with users and figuring out that lining things up prior to that launch. And I think one reason we have the entrepreneurs here have the luxury of doing that is because the channels are so desegregated and you can find the channel for your audience regardless of how many other players there are. So I think with timelines it's challenging to work with someone… with the entrepreneurs who might think that, "I have to launch tomorrow."

Balint: That's very interesting regarding the difference in strategies. I kind of noticed this but you clearly formulated this now. I would like to now close off but before completely closing off this interview, what is the best way for the listeners to reach you?

Sandy: Yes, I love to talk to anybody about crowdfunding or topics in general, and you can reach me by e-mail. That's sandy@indiegogo.com.

Balint: I will put it into the show notes so the listeners can contact you. I really appreciate this interview that we could have on Indiegogo and I wish you even more fun and success with working with startups and SMEs.

Sandy: Thank you so much for having me. And this has been a fantastic conversation.

Balint: Thank you.