Generated: 28 January, 2015, 22:15

#### Backer versus customer purchases -- thoughts?

Posted by Law - 2013/11/07 16:18

This may be too intrusive for DF folks to give us the inside scoop, but I'm wondering if members of the community have thoughts on this topic.

Kickstarter is, technically, a fundraising site for small businesses. It is NOT supposed to be treated like a virtual store. Money paid to a KS is not a "purchase" but an investment in a business borne out of goodwill, philanthropy, and with just a hint of enlightened self-interest when the backer rewards are enticing enough.

Because of this, there's always a chance that a KS will fail, and that money given to back a project will simply be lost. You "invested" in a business that failed. Sorry.

Now, a lot of KS do what DF has done -- they provide such AMAZING backer rewards that people kinda DO treat the transaction as a purchase in a virtual store. There is some validity to this approach - regardless of whether my money was a donation or a purchase, I was promised that in return I would receive X. I have every right to expect X, then, and that it will be delivered more or less as promised. Sure, I might be willing to accommodate small delays or variations from original design, but if a company were to completely breach its promise and refuse to ship my rewards, I'd have a valid complaint. Business "investment" with a reward incentive or purchase from a store, either way, I gave money with an assurance of receiving a product.

So maybe the distinction is academic. I've read op-eds that have fretted over it, though, and I wonder to what extent people at DF or fans of DF have thoughts about it.

It also leads to a more practical question - how much of its sales of Game Tiles does DF expect to see from regular "customers" as opposed to backers? So many of us were so eager to scoop up what we could, is there anyone LEFT who is interested in the product and hasn't picked up what they wanted? Does DF have a plan for this? Will there be a lot of left over inventory, so that people who didn't support the KS can now buy what they want? Or is DF figuring that anyone who wanted GT will have paid up into the KS and they don't need much leftover inventory for regular old customers?

This matters a lot to the company, of course, who has to plan on how much to order, and how much they can store in inventory. And it also matters to customers. I'm delighted with my GT, but there may be future KS projects from DF that don't seem like "must own" products. (Granted, this is extremely unlikely, as since 2001 I think I've passed on exactly one DF set). Maybe I'll want an accessory pack or a few add-ons or something, but I don't necessarily want to be "all in" on 5 sets plus stretch goals plus add-ons. Well how much do I risk be electing NOT to become a backer? Can I count on getting what I want as a customer? After all, again, the point of the KS was to raise money to get the product MADE. It's a fundraiser. And in the past, DF has had to raise its funds to get its products to the shelves in other ways -- and there they were, on the shelves. As a customer, I didn't care how they raised the money. I was more than happy to contribute to their profit margin, though! ;) But I wasn't making any capital calls.

Of course, once DF went to the web-only, pre-payment method, the line got blurry. A lot of the fundraising for a set WAS in the form of pre-paid pre-orders. Maybe not ALL of the funds -- there are conceivably operating costs not covered by pre-orders that still have to be paid, and those funds come from elsewhere. But regardless, theoretically a customer doesnt' care how a company is capitalized and funded, all that money is spent to get the product to the shelf, and customers only come in at the tail

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end.

But now I wonder if that model is being totally up-ended for DF? Maybe now, if I want to be a customer, I should accept that I will also be a backer? And I better help fund any project that interests me in the least, partly to ensure that it gets made (though the success of the GT KS makes me doubt that a DF KS is going to fail in the near future). Or, mostly, maybe I should just plan on backing it to be sure I get MY toys, because who knows what will be left in inventory once everything goes out to the backers?

Very interesting to me, and I haven't seen it addressed. Maybe it was and I just missed it.

# Re:Backer versus customer purchases -- thoughts? Posted by maximillian - 2013/11/07 16:39

My understanding of the DF Kickstarter was that it allowed DF to afford the moulds for the new tiles that otherwise DF would never have been able to afford from their existing business cash flows.

KS is not about "investing in a business" as you are not purchasing shares. KS is instead about funding products or services that otherwise would never see the light of day without that funding.

The only time a KS can be viewed as fraudulent is in those cases where the KS starters have no intention of delivering or where a company that can afford to fund its own product instead chooses to crowd-source it.

In most cases backing a KS is pre-ordering a product but often you get exclusive content, better deals, or a say in the product's development.

A good case of the latter is the CQG coins KS I backed where the backers and the artist produced far better designs in tandem than otherwise would have occurred.

People need to research any KS they are interested in backing. People get burnt because they forget the 101 of any pre-purchase and fail to look at the people and companies behind a KS.

For me backing DF was a no brainer as they had a track-record of delivering a high quality product. Add the stretch rewards and I was able to get 404 pieces at roughly \$1.89 AUD each including postage. That is an amazing deal so I am in no way being exploited by DF selling the sets to non-backers - I got exactly what I paid for.

### Re:Backer versus customer purchases -- thoughts?

Posted by Law - 2013/11/07 17:46

Oh, to be clear, I didn't mean to imply there was anything suspect about DF! And yes, I realize you aren't actually purchasing shares, which is why I put "invest" in quotes. Really, KS is more philanthropy than it is investment. You're just helping a business get started.

Generated: 28 January, 2015, 22:15

But there are still some concerns that the model raises, one for DF and one for its fans:

1. For DF, the worry is that if for some reason a project fails, people who don't understand KS are going to badmouth the company and the rumor mill is going to taint the good DF name. If for some reason a project fails, people who misunderstand the KS approach will think "Hey, I ordered two fully painted sets and three add-ons and they stiffed me!" And if I were DF, I would worry about treating KS as essentially a virtual shop, where people who contribute are also buying the entirety of the product they want.

And that leaves the larger concern unaddressed - how much to make? You put out a KS and enough people contribute that you now have automatic "orders" for 100,000 pieces. Fine. What about the people who didn't back it? How many units do you expect to move? Do you produce 200,000 units, and hope to sell the remaining units to customers who weren't backers? Or do you produce 110,000 units and figure 10,000 is a good estimate of what you can sell outside the KS itself?

And all of this is presumably built into the pricing model. If you figure most of your sales are going to be in the actual KS, then you presuambly price things so that your profit margin is part of that. You raise \$1M, say, but you only spend \$300,000 on getting the product made and out the door, leaving you with a tidy sum that you can distribute in salary and R&D and hey, maybe some actual income for yourself. But if you use the KS just to fund the production, as the original idea for KS was designed for, then you maybe raise \$1M and then it costs you \$900,000 to make everything and ship what you've already promised -- you were able to get the project off the ground but now you need to actually MAKE SALES, because you aren't really profitable yet, and you have practically nothing left over for reinvestment in the company, R&D, or any income for yourself.

So all of these are business decisions that interest me. How does DF view this? Is the KS model their primary sales model, and most profits are already determined? Or was it actually just a fundraiser to get GT off the ground, but actual profits on the line are yet to be determined and will be a matter of how much the product sells once it is available on the website? And what did they learn from the GT KS that they can now use going forward?

2. For customers, the concern is whether to decide not to back a project but hope that the product will still be available to customers who didn't back it. Maybe you want to buy \$50 instead of \$500 worth of a line, or maybe you want some add-ons but not others, etc.

## Re:Backer versus customer purchases -- thoughts? Posted by maximillian - 2013/11/07 18:24

I would hardly expect DF to divulge business secrets given the risk of competitors moving in.

The funding level of a KS is the amount estimated to be required to achieve the base goals of the KS. If that level isn't reached the money is returned.

The trick is getting your estimates right - can you cover R&D, production, shipping, customer support and maybe make a profit at the listed \$\$\$ levels. That is where existing companies like DF have an advantage as they have experience in handling the supply chain and hence are far less likely to be caught out by unexpected costs.

Backing of a KS is an act of faith - the risks are always listed at the base of each KS. Going forward I

#### **Dwarven Forge - Dwarven Forge**

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suspect that DF sees the KS system as a way of funding projects that otherwise would never see the light of day.

The question is can they support both the Resin and Dwarvenite lines at the same time? Stock costs money and stock sitting unsold is money that could have been spent elsewhere. A pre-order system for the Resin lines may make sense.

However I suspect that most of the "RPG Gaming" KS are started by people doing it as much for the love of gaming as any desire to get rich.

# Re:Backer versus customer purchases -- thoughts? Posted by granpappy77 - 2013/11/07 20:43

How companies handle Kickstarters and what exactly their responsibility is to their investor/customer is a pretty deep topic wih a lot more questions than answers.

To hit on a copuple of the points brought up earlier, using KS as a pre-order system probably isn't that great of a plan since they take a chunk of the gross income, and then you still have to pay manufacturers, shippers, taxes and yourself. For DF, I would think they would use KS to, well, kick start funding for new Dwarvenite molds, but once the molds are made, they would sell like them directly through their site like they always have with their resin products.

As for KS failures, being able to recoup your "investment" in the event of a failure or suspected fraud is far from certain. There have been a few high-profile failures, with varying degrees of response from the responsible parties. The legal implications are murky at best and KS themselves mostly take a hands-off approach. Do a search for the issues surrounding the boardgame "The Doom that Came to Atlantic City" to see a real KS mess...which looks like it may have a happy ending thanks to the folks at Cryptozoic games.

### Re:Backer versus customer purchases -- thoughts?

Posted by brvheart - 2013/11/07 21:14

Count me as one of the customers. I have never gone in on any of the pre-orders as I could never afford to do so and don't anticipate doing so in the future. I am more likely to buy from stock on hand even if it means paying a little more. Same goes for kickstarters. I can't afford to keep backing them if that is the model of the future.

## Re:Backer versus customer purchases -- thoughts? Posted by kitenerd - 2013/11/08 07:28

In another thread i raised the concern about over saturating the market... that would be the largest concern. On the other hand, this community is a rabid one and many of us are guilty of buying far more books than we could ever read, more minis than we could paint and more modules than we could ever hope to run. At a certain point it becomes a collecting hobby (how many sets of dice do you own?, how many sets do you genuinely need?) and that is a fun aspect of it as well. It would be interesting to find out how Reaper's day to day sales have been affected by the massive quantity of minis that their first Kickstarter brought into the world... i think they would be the most insightful case study.

The flipside of the glut of new DF sets is the exposure. The huge number of sets that just entered the world will give legions of uninitiated folks their first experience with DF products and cannot help but generate new interest and new customers. I for one can't wait to bust this stuff out at the FLGS for a PFS game and watch the looks on peoples faces.

More importantly though, the KS helps fund mold production and facilitate the creation of new product lines. Hopefully the cash flow and steady stream of containers will translate to better and more regular restocking of both resin and dwarvenite. The potential for new sets is limitless (forget new settings like caverns, sewers, catacombs or palaces - even within the dungeon line we have corridors, traps, specific rooms etc.) and i think most of us will continue to build on our collections.

I wish i was in a better position financially to plunge deeper into things, but so do we all. I am already squirreling a little away for Caverns and will definitely back the KS... For how much? who knows? With the first KS i was just going to get two, then decided to pledge three and then kicked it up to five when the stretch goals got so good it became a better deal to get more sets than add ons. I can only hope that Caverns tempts me to overspend in the same way;)

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