



Could Crowdfunding Disrupt the Fashion Industry?

Emergence of new business models due to crowdfunding, and their implications

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Master Thesis within the main profile of Strategy and Management

NORWEGIAN SCHOOL OF ECONOMICS

This thesis was written as part of the Master of Science in Economics and Business Administration at NHH. The institution, the supervisor, or the examiner are not – through the approval of this thesis – responsible for the theories and methods used, or results and conclusions drawn in this work.

ABSTRACT

Crowdfunding is a rapidly growing phenomenon, and it has emerged as an alternative source of external funding. It has given opportunities for common people (i.e., the crowd) to fund a variety of different causes, such as projects in arts and science, charities and start-ups, while getting some kind of value in return. While it has enabled new possibilities in many industries, the research on crowdfunding is limited, and virtually no studies have looked at the new business models that have emerged as a result of crowdfunding. We found this curious, and wish to help start-ups by showing the new opportunities that crowdfunding enables, specifically in the fashion industry. In this master thesis, we have therefore studied the phenomenon in the context of the fashion industry.

By conducting semi-structured interviews with managers in European and American fashion companies, we have been able to identify not only one, but three new business models that have emerged in the fashion industry as a result of crowdfunding: The Gustin model, the Pre-sale model, and the Equity model. These business models change the way business is done in the fashion industry. They require few resources and have low risks, which makes it easier for start-ups to enter the market. Crowdfunding is used to generate different sources of revenues (“revenue boost”), which can either enable the launch a product, a collection, or a start-up, or to grow an established company. Further, all of the respective models facilitate a strong customer engagement, and give customers the opportunity to directly influence the industry. This creates an added value for the customers, especially early-adopters, and has symbiotic advantages for both customers and the companies. In addition to this, the business models offer a cost-efficient, sustainable, and ethical way of doing business. The new business models are not only applicable for start-ups, but also have significant value for incumbent firms. All together, the models identified challenge the traditional business models in the industry, and have the ability to change the industry in the years to come. This master thesis lays the foundation for future research, and facilitates that companies can exploit the opportunity that comes with crowdfunding in the fashion industry.

Keywords: crowdfunding, business model, business model innovation, fashion, start-ups, customer engagement, revenue boost, cost-efficiency, sustainable production, ethical production.

ACKNOWLEDGEMENTS

We would first and foremost like to thank our supervisor, Tina Saebi. She has been a great support in this process, by not only helping us improve the thesis, but also by being someone we could talk to about non-academic topics as well. She has inspired us with her knowledge and great personality, and we are forever thankful that she took us under her wings.

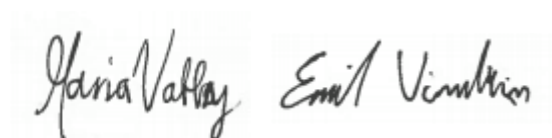
We want to thank our informants for, despite of hectic schedules, taking their time to answer our many questions. This thesis would not have been feasible without you. We have learned a lot from you, and hope that our thesis enables to spread this knowledge. We would also like to thank our designer friends in Istanbul, Milano, and Paris, for helping us get a better understanding of up-and-coming designers' view on crowdfunding.

Further, we would like to show our gratitude to Glenn K. Widenhofer, who has increased the quality of the thesis by giving external input in terms of professional feedback, and by always being available for questions. His terribly dry sense of humor has also contributed to making the process. His terribly dry sense of humor has led to a number of moments filled with laughter.

Emil, as well as Maria, would like to give a special thanks to Haraldsplass Deaconess Hospital for their great service. Their fast diagnosis and effective treatment enabled us to finish the thesis on time, without increasing the size of the obstacle.

Lastly, our better halves, Carl and Simay deserves a thanks for helping us, listening to us talk about the thesis day and night, for putting up with us when we got frustrated, and expressing their love through the entire process.

Bergen, December 16th 2016

The image shows two handwritten signatures in black ink. The first signature on the left is 'Maria Vattøy' and the second signature on the right is 'Emil Vindheim'. Both are written in a cursive, flowing style.

Maria Vattøy & Emil Vindheim

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1. INTRODUCTION

Crowdfunding is a disruptive technology that enables external funding for everything from crazy art projects to serious projects in medicine, charities, and start-ups. There has been a rapid growth in crowdfunding, and total funding volumes increased steadily from 0,8 billion dollars in 2010, to 6,1 in 2013, and then to an impressive 16,2 billion dollars in 2014 (Belleflamme et al., 2015). TEDx- talker Anna Guenther has audaciously stated, “crowdfunding is going to change the world” (TED Ed, 2016). The European Commission (2016) underlines the importance of crowdfunding by claiming that it is «an important source of non-bank financing in support of job creation, economic growth and competitiveness» (Lerro, 2016).

We define crowdfunding as “the process of one party financing a project by requesting and receiving contributions from many parties in exchange for a form of value to those parties”. Crowdfunding has often been linked to the act of entrepreneurship as it provides individuals with alternative sources of fundings. Say one has an idea for a fashion collection and wants to realize this. Traditionally, one would first have to design the collection, and then produce it, before eventually attempting to sell it. This process requires access to capital, which can be acquired through venture capitalists investing in the brand, or by selling the collection to an already established brand. However, these two options can be challenging, and the first one also requires giving up equity in the brand. This is where crowdfunding comes in and provides an alternative solution. Crowdfunding gives fashion designers an opportunity to go to a certain website and ask normal people (i.e. the crowd) to back their products, thus funding the collection. This is what crowdfunding is all about.

However, the concept of crowdfunding is not only relevant to start-ups in that it allows the creation of new business through external funding. It also raises questions on how the emergence of crowdfunded businesses impacts incumbent firms. One area that is increasingly engaging with crowdfunding is the fashion industry (Kansara, 2013). As crowdfunding has made it easier for up-and-coming designers to launch their own brand or collection, it has enabled brands in niche markets to get started despite smaller market segments. Hereby, crowdfunding is also challenging the traditional way of doing business in a retail store. Crowdfunding has created new opportunities in the way businesses create, deliver, and capture value. This has, among other things, opened up for more creative, ethical and environmentally friendly ways of doing business.

While crowdfunding keeps growing in popularity (Barnett, 2015) and can be expected to become a bigger part of the economy in the years to come, little is known about the business models it brings forward. In fact, there is little academic research conducted on the subject of crowdfunding compared to other topics in business and management. A keyword search in the EBSCO database reveals 227 articles for "crowdfunding", while other popular terms such as "business models" (3212 articles) and "dynamic capabilities" (1071 articles) yield significantly more hits in title, abstract or keywords of scholarly, peer-reviewed articles. Within this relatively small yet emerging literature field of crowdfunding, research appears quite fragmented: As our literature review shows, existing research on crowdfunding is mainly concerned with what makes a crowdfunding campaign successful (Burtch, Ghose, Wattal, 2013; Wheat, Wang, Byrnes, 2013; Zheng, Li, Wu, 2014; Ahlers, Cumming, Guenther, 2015), what different kinds of crowdfunding models there are (Belleflamme, Lambert and Schwienbacher, 2014), the dynamics of crowdfunding (Mollick, 2014), how crowdfunding impacts what gets produced (Sorensen, 2012, Jian, Usher, 2014), how crowdfunding is used to engage customers (Li, Pryer, 2014), motivations behind crowdfunding (Allison, Davis, Short, 2015; Gerber, Hui, 2013; Jian, Shin, 2015), and crowdfunding and regulations related to it (Sigar, 2012; Ancev, 2015; Stemler, 2013). While Belleflamme et al. (2015) studied business models for crowdfunding platforms, virtually no studies exist on the new business models that have emerged as a result of the companies that actually use crowdfunding. This is curious, given that crowdfunding is changing the way business is done in many industries, and might become an increasingly important part of the economy in the future.

Referring to our earlier example, we take the fashion industry as our research context to explore the different forms of business models that crowdfunding has brought forward. This leads us to the following research question:

Which new business models have emerged in the fashion industry as a result of crowdfunding, and what are the main characteristics of these?

The new business models are likely to have implications for start-ups as well as for incumbent firms and the industry as a whole. This leads us to an additional research question:

Which implications do these new business models have for start-ups and the industry as a whole?

By addressing these research questions, we aim to discover the possibilities crowdfunding provides for start-ups in the fashion industry. In the very beginning of our research, we talked to multiple designers in order to get an idea of their knowledge regarding crowdfunding. They were sceptical to crowdfunding, and considered it more of a charity-case than an actual business opportunity. Advancing the understanding on this topic could therefore have great implications for aspiring designers. In this master thesis, we have therefore studied 9 different cases consisting of companies that have implemented crowdfunding as a central part of their business model. Semi-structured interviews have been conducted with managers in the respective companies, and along with secondary data, this has led to the findings of three new main business models in the fashion industry: The Gustin model, the Pre-sale model, and the Equity model.

We found that crowdfunding can be used to pre-sell products in order to get the funding needed to start a company. Although we aimed at improving knowledge and creating awareness of the opportunities for start-ups in the industry, we also found opportunities in crowdfunding that have implications for incumbent firms in the industry. Crowdfunding can be an integrated part of a company's business model through the launch of collections on crowdfunding campaigns. It can also be used by incumbent firms to acquire more equity, or companies can set up their own platforms where they exclusively sell products that have reached a certain threshold in number of pre-sales. The new business models facilitate a high degree of customer engagement, and are cost-efficient and sustainable ways of doing business. The models identified challenge the existing business models, and have the ability to change the fashion industry in the years to come. By filling the gap in research, we hope to lay the foundation for future research, and also facilitate that start-ups as well as incumbent firms can exploit the opportunities that come with crowdfunding in the fashion industry.

Boundaries of the thesis:

In this thesis, the term "fashion industry" includes companies that provide clothes and accessories to consumers. The biggest crowdfunding platforms today are European and American (Western), and this sets another boundary for our thesis, as we used these respective platforms to find our cases. We also found companies through our literature review, thus mainly literature written in English and the Scandinavian languages. Consequently, our cases are Western companies that offer clothes and accessories to consumers, while having crowdfunding as an integrated part of their business model.

Outline of the thesis

We will start this thesis with a literature review that serves as a basis for our research, where we look at both the existing theory on crowdfunding (chapter 2), and business models (chapter 3). In chapter 4, we will explain the methodology used in order to identify the three main business models. These business models will then be presented in the results chapter (chapter 5), before the characteristics, as well as the implications of the business models are discussed in chapter 6.

Chapter 2	Crowdfunding; A Literature Review
Chapter 3	Business Models
Chapter 4	Methodology
Chapter 5	Results
Chapter 6	Discussion and Conclusion

Table 1: Outline of the thesis

2. CROWDFUNDING: A LITERATURE REVIEW

First, we will start this chapter by providing different definitions of crowdfunding, and explain how we adapted one of them for our purposes. Second, we will describe crowdfunding more detailed by looking at the different types of crowdfunding that exist on crowdfunding platforms. Third, we will present an overview of the scope of crowdfunding, which will provide a context in which our findings are more understandable. Fourth, regulations in different countries have implications for which of our models that can be applied in different countries. Crowdfunding regulations will therefore be addressed in chapter 2.4. Finally, we will take a look at the prior research on crowdfunding, as this will show the gap in existing literature and emphasize the importance of our contribution.

2.1 Crowdfunding

The first online crowdfunding platform, ArtistShare, was introduced by a musician and computer programmer named Brian Camelio in 2003. ArtistShare was initially a website that helped musicians seek donations from their fans in order to produce music. The first project on this site was a jazz album by Maria Schneider, and it offered a tiered system of rewards. Depending on the size of the contribution, one could either be amongst the first people to download the finished album, or this in addition to being mentioned as someone who “helped make this recording possible”. The campaign was a great success, raising \$130 000, and enabling Schneider to both compose, produce, and market the album. It received a Grammy Award for best large jazz ensemble album in 2005 (Freedman & Nutting, 2015). This campaign, amongst many other successful campaigns at ArtistShare, led to the launch of several other crowdfunding sites (Freedman & Nutting, 2015). In 2009, crowdfunding had emerged as a major funding source (Fenzi, 2013). Two of the largest crowdfunding sites today are Kickstarter and Indiegogo. These sites are platforms for a variety of different causes, such as arts, social causes, entrepreneurship and small businesses. There are also platforms aimed at specific niches (Freedman & Nutting, 2015), such as science and tech, film, music, startups, charitable causes, and social activists (Fenzi, 2013).

Crowdfunding is a relatively new term, being used for the first time in 2006 by Michael Sullivan (wikipedia.org). In fact, crowdfunding has been argued to be a subset of *crowdsourcing*, which Rubinton (2011) defines as: “*the process of one party progressing towards a goal by requesting and receiving small contributions from many parties in exchange for a form of value to those parties.*”. This contribution can range from the effort of

writing a Wikipedia page, to contributing with manual labor or materials. In the case of *crowdfunding*, this contribution is specifically of a financial nature. As illustrated in Table 2, there are multiple definitions of crowdfunding:

Definition	Author(s)
“Crowdfunding refers to circumstances whereby many people give typically small amounts of money to projects and ideas via online platforms”	Oxford dictionary
“An open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes.”	Schwienbacher and Larralde, 2010
“Crowdfunding is the process of one party financing a project by requesting and receiving small contributions from many parties in exchange for a form of value to those parties.”	Rubinton, 2011
”Crowdfunding is a form of microfinance in which a large ”crowd” of small investors pools together funds in order to provide the necessary capital for the development of a startup company or the expansion of a small business.”	Sumners, P. C., 2012
“An overview of the different definitions of crowdfunding that can be found in the literature. The following features are essential: (i) a business idea/project that requires funding; (ii) many investors, or backers, willing to contribute to the realization of that business. Backers should be mainly, or in some cases exclusively, non-professional investors; and (iii) the online platform should connect backers and entrepreneurs.”	Valanciene and Jegeleviciute, 2013
“An open call through the internet for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes”	Belleflamme, Lambert and Schwienbacher, 2014
“Crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries.”	Mollick, 2014
“Crowdfunding refers to circumstances whereby many people give typically small amounts of money to projects and ideas via online platforms”	Borello, G., Crescenzo, V., Pichler, F., 2015

Table 2: Definitions of crowdfunding, source: Authors.

Although the definitions are different, a common denominator is that crowdfunding is considered an activity where people provide capital to a specific project or firm. As opposed to the more traditional form of funding where one gets large amounts from few sources, crowdfunding typically denotes receiving smaller amounts from many people (a “crowd”). Some controversies exist within these definitions, and we have not yet found one that we think captures all aspects of crowdfunding. Oxford dictionary, Schwienbacher et al.,

Belleflamme et al., Mollick, and Borello et al.'s definitions require that crowdfunding is exclusively facilitated over the Internet. Although crowdfunding mostly takes place on internet-based crowdfunding platforms (Belleflamme et al., 2015), we did not want to exclude any other possibilities that crowdfunding has enabled in the fashion industry. Further, Summers (2012) exclude the possibility of having few big investors as they state that the contribution has to come from a large crowd. Valenciene et. Al's definition entails that the investors mainly, and in some cases exclusively, are non-professional; thus eliminating professional investors who are backing a project.

This argumentation leaves us with Rubinton's definition of the concept, not explicitly stating that crowdfunding has to be an online activity exclusively or that it has to come from a large crowd of contributors, but rather stating that the contributors are "many". Further, Rubinton's definition takes into consideration that the contributors get some sort of value in return.

Although stated more precisely (the contribution can also be a donation) by Belleflamme et al. (2015), the term "value" is vague, thus not excluding the value contributors can feel when they donate a contribution, such as the satisfying feeling of helping others, or contributing to a campaign that they are passionate about. Rubinton (2011) states that the contributions are "small", which they mostly are, as this also is the idea behind crowdfunding. However, it does not necessarily have to be the case. We have therefore decided to adapt Rubinton's definition as follows: *"Crowdfunding is the process of one party financing a project by requesting and receiving contributions of different sizes from many parties in exchange for a form of value to those parties."* There are many different ways that investors can get some form of value in return, which will be discussed in the following section.

2.2 Types of Crowdfunding

Our research aims at exploring the different business models that have emerged in the fashion industry as a result of crowdfunding, which is a topic that virtually no studies have addressed. However, we found that Belleflamme et al. (2015) have studied business models of crowdfunding platforms. They have categorized the platforms in terms of what type of funding option the platform offers for funders and founders. While Belleflamme et al. have presented the different business models of crowdfunding platforms; we are looking at which business models have emerged in the industry as a result of these crowdfunding platforms. We do not look into the crowdfunding platform itself, but how the types of crowdfunding are integrated in companies' business models, thus disrupting the fashion industry. These types of platforms

are the cornerstones of crowdfunding, and it is therefore essential to know the different platform models, and how they create value for funders and founders. We have used the different types of crowdfunding when identifying the new business models that have emerged as a result of crowdfunding, and they will therefore be explained in the following paragraphs:

There are four different types of funding options that are generally referred to in crowdfunding. Crowdfunding platforms can decide to use one of the types, or incorporate multiple on the same platform. The contributions can range from donation-based crowdfunding, reward-based crowdfunding, lending-based crowdfunding, and equity-based crowdfunding (Viotto, 2015; Belleflamme et al., 2015)

In *donation-based* crowdfunding, funders donate money to a project without getting anything tangible in return. Such a model is often used for private donations to public goods. In *reward-based* crowdfunding on the other hand, the contributors get compensations in exchange for their financial contributions. Compensations can range from copies of the product in advance, discounted prices, or a simple token of appreciation (Viotto, 2015). *Lending-based* crowdfunding can be divided into two different categories: for-profit and pro-social platforms. On the for-profit platform lenders expect to be reimbursed with interest after a given period. On the pro-social platforms investors support businesses in developing countries and only receive the amount they lent back (Belleflamme et al., 2015). *Equity-based* crowdfunding is when the investors become stakeholders and receive dividends depending on the company's performance (Belleflamme et al., 2015). The different types of crowdfunding, and examples of crowdfunding platforms that facilitates them, are explained in Table 3.

Type	Explanation	Example of crowdfunding platform
<i>Donation-based crowdfunding</i>	The funders donate money without getting anything in return, thus this type of crowdfunding is based on altruism. Such a model is often used for private donations to public goods, or humanitarian and artistic projects (Belleflamme et al., 2015).	goFundme is a platform for donation-based crowdfunding, where typical projects are grassroots movements, NGOs, and charities.
<i>Reward-based crowdfunding</i>	The funders get tangible compensations in exchange for their financial contributions. Compensations are essentially pre-purchase of products, but can range from copies of the product in advance, to discounted prices, or a simple token of appreciation. (Uncertainty for funders – if they will like the product/satisfy their needs.)	Kickstarter is a platform that for instance lets start-ups pre-sell their products.
<i>Lending-based crowdfunding</i>	The funders act as lenders, and decide for themselves whether a project should be funded or not. Lending-based crowdfunding can be divided into two different categories: for-profit and pro-social platforms. - On for-profit platforms lenders expect to be reimbursed with interest after a given period. They are offered a specific interest rate “on successful projects if the project pays out”. - On pro-social platforms investors support businesses in developing countries and only receive the amount they lent back.	Prosper.com is an example of a for-profit platform. The platform serves as a credit-rating agency for the borrowers (project owners), as each campaign is assigned a credit grade, depending on the characteristics of the borrower and the performance of successful campaigns. The lenders then decide which projects they want to invest in.
<i>Equity-based crowdfunding</i>	Funders act as investors and become stakeholders. They can receive dividends depending on the company's performance and the amount they invested. This type of crowdfunding is a substitute for more traditional types of funding through other channels.	AngelList facilitates the interaction between investors and start-ups, and lets investors invest in equity.

Table 3: The four different types of crowdfunding platforms. Source: Adapted from Belleflamme and Viotto.

The platforms may be diversified through yet another aspect of the funding model. They can choose to either have a “fixed funding” model (“all-or-nothing”) or a “flexible funding” model (Viotto, 2015). In the fixed model the founders only get access to the capital raised if they reach the financing threshold within the campaign duration. In the flexible model, on the other hand, the founders get financed even if they do not reach the financing goal.

The main goal for founders of a crowdfunding project is usually to get sufficient finance to make the project come to life, but some also use the crowdfunding platform as a way to market their product and build their brand (Belleflamme et al., 2015), as well as test the market for their product by checking if customers are willing to pay for it. They also use the platform in order to get advice, governance and prestige (Mollick, 2015).

While the funders' types of payoffs are given for the different platforms, the campaign usually works quite similarly regardless of the type of crowdfunding "offered" through the platform. The different founders have to choose a site where they describe their projects and the possible outcomes and payoffs. They are each responsible for setting up a duration and a financial goal for the campaign, both which cannot be changed after the project is public. However, additional funding can be added if the campaign goal is exceeded, until the deadline is reached (Belleflamme et al., 2015). The project is then verified by the platform. The strictness of this verification depends on the crowdfunding type; while donation-and reward-based projects have low entry barriers, the two other types of crowdfunding projects require a due diligence in order to mitigate risks and ensure that regulations are followed (Viotto, 2015). This will be discussed in more detail later in this chapter.

2.3 The Prevalence of Crowdfunding

In the following, we will present an overview of the scope of crowdfunding, which will provide a context in which our findings are more understandable. A study conducted by the University of Cambridge and the consultancy firm EY shows that companies and private persons in Europe funded three billion euros in 2014, which is more than the double of the previous year (1,21 billion euros) (Sandnes, 2015; Prosser, 2015). The UK alone stands for three quarters of this amount, much due to its first-mover status (Prosser, 2015), and bespoke regulations for crowdfunding (Viotto, 2015). France is the runner up, and is a country where the industry is growing quickly as it went from 2 to 70 platforms in the last six years. Germany also has an established crowdfunding market, with lending based crowdfunding accounting for the majority of the amounts raised (Prosser, 2015).

Towards the end of 2015, Kickstarter had 93 546 projects successfully financed since their start in 2009 (Sherman, 2015), but only 3 163 of these were fashion related. In other words, only 3.4% of the successfully funded projects were in the clothing industry. At the same time, fashion-related projects have a 24% success rate, while other industries, like the technology-

related projects have a 20% success rate. However, while technology-related projects have raised \$297 million, fashion-related projects have only raised \$59 million. These numbers could indicate that there is growth potential for fashion-related projects.

Crowdfunding is a growing trend, but is still not very widespread in many countries. It is a new way of reaching out to customers, and can be considered as an innovation (defined as idea, products, and practices perceived as new by an individual (Rogers, 1995, p.137)). The rate in which an innovation is diffused throughout a community or a group of customers differs. Rogers (1995) has developed the widely used framework “the Adoption Curve”, which divides customers into five different groups according to how fast they adopt or accept a new product: innovators, early adopters, early majority, late majority, and laggards. Innovators and early adopters are the ones who have the highest degree of opinion leadership, and attracting this group is important for the innovation to spread to the other groups (Rogers, 1995, p. 263-265). This shows that in order for crowdfunding to be adopted, a certain group of customers has to accept the innovation before it can eventually spread to other groups. In other words, one should not focus on convincing the masses first, but rather the innovators and the early adopters.

In Norway, crowdfunding is generally not very widespread yet, and the Norwegian crowdfunding market only accounted for 0.8 per mille of the total amount raised in Europe. Norwegian crowdfunding platforms such as Minaksjon, Bidra.no, and New Jelly have a quite limited, although increasing, amount of projects. In total, 1 million euros was collected from these platforms, placing Norway in the bottom range in Europe (Sandnes, 2015). While lending-based crowdfunding is one of the forms that generate the most money in Europe, this type of crowdfunding is problematic in Norway. Due to regulations, both the lending-based and equity-based crowdfunding are difficult to apply in a legal manner. With the exception of sites that have a banking licence, Norwegian platforms are not allowed to facilitate campaigns where people or companies ask for loans from the crowd (Sandnes, 2015). The reason behind these regulations is that there is an information asymmetry between the project owner and the investors, and the investors often lack experience in the field. Thus, the strict regulations are meant to support the investors, and also to prevent market failure. On the other hand, policymakers have to balance this concern and the fact that they should enable the new market to grow, which requires more flexible regulations (Viotto, 2015).

2.4 Regulations

Regulations related to crowdfunding have emerged the last couple of years, which indicates that crowdfunding is considered as an increasingly important part of the economy. In this section, we will provide a short description of the regulations in the other countries that our cases come from besides Norway: the UK, the US, and Finland. Regulations in a country affect which business models a company can use, and it is therefore important to address these. We will refer back to this in chapter 6.

The UK was a first-mover in crowdfunding. They had bespoke regulations for crowdfunding, while other countries approached crowdfunding by simply waiting (Lerro, 2016). However, in the last couple of years, other countries are trying to adjust to the new market by creating specific crowdfunding regulations (Viotto, 2015). Regulations are a problem for the use of equity-based crowdfunding in many countries, as it restricts people from investing in different companies.

In the US, regulations previously stated that an investor had to be accredited and have net worth of \$1 million, as well as earn over \$200 000 annually for two straight years (Sherman, 2015). In 2012, a law meant to encourage funding of small companies in the United States, called the JOBS (Jumpstart Our Business Startups) Act, was signed into law by President Obama. The Securities and Exchange Commission (SEC) then implemented the Title IV of the JOBS Act, which gave non-accredited individuals the right to invest in the early stages of companies. On October 30th, 2015, the SEC adopted final rules for equity crowdfunding, stated in Title III, Crowdfunding (Sherman, 2015). The Finnish Crowdfunding Act came into force on September 1st, 2016, and has similarities to the JOBS Act in the US. Now, companies that want to enter the crowdfunding industry are not required to have a license from the Finnish Financial Supervisory Authority; they just have to apply for registration. This is still done at the Finnish Financial Supervisory Authority, and the company has to meet a set of criterias, but the process is much cheaper for companies than getting a license. Both the registered crowdfunding platform and the fundraising company have disclosure obligations whose purpose is to provide investors with sufficient information about the investment opportunity and the risks involved with it (Alois, 2016). This may open up the market for equity-based crowdfunding, and will hence make it easier for start-up fashion companies to get financed. The Act only covers investment crowdfunding as donation-based, reward-based and lending-based crowdfunding are regulated by other laws (Gajda, 2016).

Donation-based and reward-based crowdfunding are usually not restricted by regulations, while there are more regulations on lending-based crowdfunding. However, none of the companies in our sample have used this type of crowdfunding, and we will therefore not elaborate further on this.

2.5 Prior Research on Crowdfunding

As mentioned in the introduction, the research on crowdfunding is fragmented. The next section is dedicated to showing the gaps in existing literature, thus emphasizing the importance of our contribution.

Successful crowdfunding campaigns. Scholars have identified factors increase that increase the possibility of a successful crowdfunding campaign. They found that a successful campaign depends on personal networks and the underlying project quality (Mollick, 2014, Zheng, 2014) as well as obligations to other entrepreneurs, and the shared meaning of the project between the entrepreneurs and the funders (Zheng, 2014). They also found a correlation between the duration of funding and the degree of exposure that the campaign receives (Burtch et al., 2013). Further, several researchers have found that the success of a campaign depends on the outreach of the campaign (Wheat et al., 2012, Zheng, 2014, Mollick, 2014). Social media outlets, such as Facebook, Instagram and Twitter, provide a platform to appeal to potential funders. Ahler et al. (2015) found that maintaining equity and providing detailed information about the risks associated with the project can be interpreted as effective signals that increase the probability of a successful funding campaign.

Impact of crowdfunding. Crowdfunding has had an impact on what gets and does not get produced (Sorensen, 2012, Jian and Usher, 2014). By looking at the documentary-film industry in the UK, Sorensen (2012) found that there is a polarization of documentary budgets, and as a result it has impacted what kinds of documentaries that are made, the topics they explore and the ways in which they are produced. Jian and Usher (2014) found that consumers are more likely to fund journalists that produce stories that provide practical guidance for daily living, as opposed to stories from which they gain a general awareness of the world, such as cultural diversity, or government and politics. In this way, consumers push the contents of articles that get published towards their interests.

Motivations to fund projects. When it comes to motivations for funding a project, studies show that funders respond positively to narratives that highlight the project as an

opportunity to help others, and less positively to narratives that is framed as a business opportunity (Allison, Davis and Short, 2015, Gerber and Hui, 2013). Funders claim to be motivated by the desire to collect rewards, support causes, be a part of a community, and by altruism as well as their belief in freedom of content (Gerber and Hui, 2013, Jian and Shin, 2013). However, the motivations fun, family, and friends are the only positive predictors for actual funding level (Jian and Shin, 2013). On the other side, funders get deterred by the lack of trust in both the project and the people behind the project (Gerber and Hui, 2013).

Motivations to ask for funding. As to what motivates people looking for funding on a crowdfunding platform, one study found that the desire to raise funds, expand awareness of work, connect with others, gain approval, maintain control and learn are main drivers. These people are however deterred by the fear of failure (Gerber and Hui, 2013).

Benefits of crowdfunding. The benefits crowdfunding has given people behind different crowdfunding campaigns compared to other forms of financing, have been studied in the documentary film industry. Sorensen (2012) found benefits such as creative freedom by having a documentary financed through crowdfunding. Producers don't have editors "breathing down their neck", they don't have any timescales that they have to adhere to, and they don't have producer's guidelines or timeframes that needs to be taken consideration of.

Impact of other funders. Signs of a crowding-out effect has been found in crowdfunding campaigns that are donation-based, which often involve a public goods (Viotto, 2015; Jian and Shin, 2013). Jian and Shin (2013) found that journalism campaigns, which can be seen as a public good, suffer from a partial crowding-out effect, where contributors may experience a decrease in their marginal utility from making a contribution as it becomes less important to the recipient. This is the opposite for the other types of crowdfunding, as cumulative capital in these cases stimulate further support (Viotto, 2015). In other words, an important finding is that the cumulative capital in a crowdfunding campaign has an effect on the decisions of funders.

Fullfilment of obligations. The probability for a founder to fulfil his or her obligations has also been subject of study. The majority of the founders seem to fulfil their obligations to funders, but over 75 % deliver their products later than expected (Mollick, 2014).

The limited research that has been conducted on crowdfunding has in other words been concerned with factors that increase the probability for a crowdfunding campaign to succeed (Mollick, 2014; Zheng, 2014), the impact customers have on what gets produced (Sorensen, 2012; Jian and Usher, 2014), the motivations of both funders and founders (Allison, Davis and Short, 2015; Gerber and Hui, 2013), the impact funders have on each other (Viotto, 2015; Jian and Shin, 2013), and the fulfilment of the founders obligations (Mollick, 2014). These are all important aspects that need to be taken into consideration when either deciding to fund or found a crowdfunding campaign. As mentioned earlier, Belleflamme et al. (2015) have studied business models for crowdfunding platforms. A lot of companies have had success due to crowdfunding platforms, and as a result, new business models have appeared in the fashion industry. However, no research has yet been dedicated to exploring what these business models actually are.

3. BUSINESS MODELS

In the previous chapter, we explained the concept of crowdfunding. In order to find out how crowdfunding can be implemented in business models in the fashion industry, we need to have a clear understanding of what a business model actually is. Therefore, in the following we will start by explaining what a business model is, what the different parts of a business model are, as well as why it is important to apply a business-model perspective. Second, we will explain what business model innovation is, as well as why this is such an important aspect of what companies do. In Chapter 6 (Discussion and Conclusion), we will refer back to this in order to discuss how the business models identified are innovative, and whether they are a source of competitive advantage. Third, the traditional business models in the fashion industry will be explained, enabling us to discover what business models that are actually new in the industry. The last section of this chapter will be dedicated to existing literature on crowdfunding in the fashion industry today, which will provide an idea of the existing knowledge about crowdfunding in the fashion industry, as well as the scope of crowdfunding in the industry. This will serve as an important basis for our research.

3.1 A Business Model Perspective

Every company offers something to its customers, either a product or a service. This product or service is embedded in a system (Chesbrough and Rosenbloom, 2002). Business models are often described as stories that explain how this system works (Magretta, 2002; Chesbrough and Rosenbloom, 2002), and how the different pieces fit together. Designing a business model is therefore a key decision for a firm. Adopting a business-model perspective is crucial because it enables one to see the business as a whole, and whether the different pieces make sense as an entire system and are beneficial for the customers and the firm.

There are various definitions of business models that differ in focus or breadth (Spiess-Knafl, Mast and Jansen, 2015). Roles or characteristics of a business model can include describing the value proposition (e.g., Johnsons, Christensen, and Kagermann, 2008; Magretta, 2002; Teece, 2010) or identification of the customer segment (Chesbrough and Rosenbloom, 2002; Magretta, 2002). Business models can also be described through how revenues will be generated and the structure of the costs (Johnson et al., 2008, Teece, 2010), and they can be tied to competitive strategy and the boundaries of an organization; which often includes identification of key resources and processes (Johnson et al., 2008, Amit, Massa and Zott, 2011). Essentially, this all boils down to how a business arranges different interdependent

activities and relationships to create, deliver, and eventually capture value (Osterwalder and Pigneur, 2010; Amit et al., 2011; Teece, 2010, Chesbrough and Rosenbloom, 2002).

Osterwalder and Pigneur (2010) have created the widely used framework called *The Business Model Canvas*. We will use this framework later on (Chapter 5) to analyze the companies' different business models, and also to present the results. It gives a detailed overview over the processes that have to be taken into consideration when creating, delivering, and capturing value. As Illustration 1 shows, the model consists of nine building blocks (Customer Segments, Value Propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnerships, and Cost Structure) that together describe how the company is going to make money.

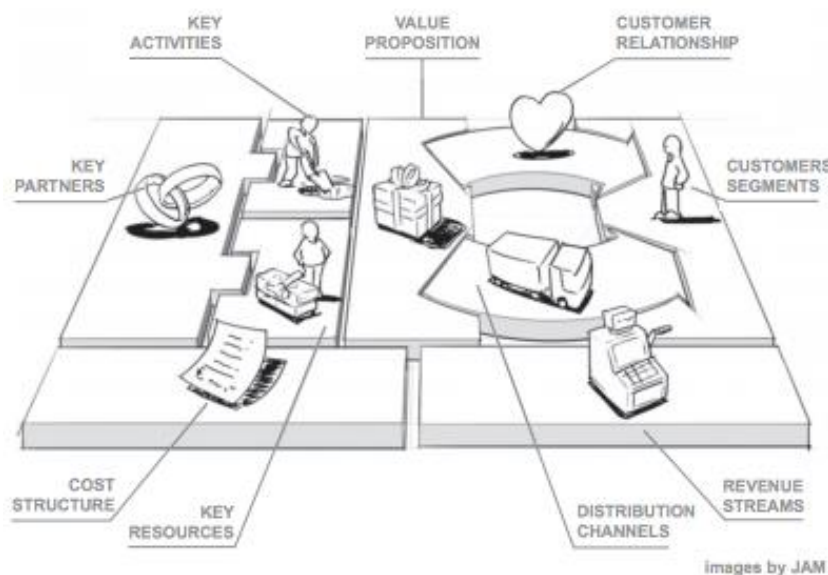


Illustration 1: Business Model Canvas. Source: Osterwalder and Pigneur, 2010

Customer Segments explain who the company creates value for, while Value Proposition is what products or services that creates value for these customers. Channels describe where a company interacts with its customers (deliver value), and the type of relationship a company is trying to establish with its customers is outlined in Customer Relationship. Revenue Streams makes clear how the company is capturing the value created. Key Resources refers to the infrastructure to create, deliver and capture value. Key Activities show what a company needs to do in order to perform, and Key Partners shows who can help the company leverage the business model, since it is not likely to own all Key Resources or perform all Key

Activities itself. Once a company understands its infrastructure it can also get a picture of its Cost Structure.

The term “business model” is closely related to the term “strategy”, and the two are often used interchangeably. However, they are not two words describing the exact same concept. A competitive strategy describes how a business is going to perform better than its rivals, which implies being unique in one way or another. While crowdfunding can be considered a strategy that a firm use, a business model shows how this strategy is implemented, by showing how the pieces of the business fit together as a unified system (Magretta, 2002). As we will show later, crowdfunding is not only implemented in one way, but in several different ways; resulting in the identification of three new different business models (see chapter 5 and 6). According to Magretta (2002), a business model can in itself be a *source of competitive advantage* if it changes the way things are done in an industry, and is hard to imitate. In the discussion chapter of this thesis, we will evaluate whether this is the case for the business models we have identified. We will also discuss the innovativeness of the business models identified, which leads us to the next section: Business model innovation.

3.2 Business Model Innovation

In this section, we will explain what business model innovation is, and why it is such an important aspect of what companies do. This enables us to see if the business models we are going to identified are innovative, and whether they can be considered as a source of competitive advantage (i.e, they are innovative as well as being hard to imitate). This will be discussed in chapter 6. Business model innovation not only plays an important part of staying competitive in today's markets, but also in the bigger context of disrupting and developing the industries themselves (Magretta, 2002).

Today's business environment is changing rapidly and the competition is fierce. This puts pressure on companies to constantly innovate in order to stay competitive. The supply-driven business logic that traditionally was the norm, has been replaced by increased customer centricity, thus changing the underlying logic of businesses (Teece, 2010). As a reaction to this, the business models themselves have been recognized as an important subject of innovation in recent years (Magretta, 2002; Spiess-Knafl, Mast, Jansen, 2015). A survey conducted by the Economist Intelligence Unit, shows that the majority of senior managers favor new business models as a source of future competitive advantage. The conclusion is

that «how companies do business will often be as, or more, important than what they do» (Amit and Zott and, 2012, p. 1). Global trends such as crowdfunding are bringing forward new business models, thus changing “how” companies do business.

Spiess-Knafl, Mast, and Jansen (2015) claim that business model innovation indicates a significant improvement of an implementation of product or service, or a novelty in characteristics or in the intended use in the specific industry. This is similar to Amit and Zott’s (2012) approach, claiming that an innovative business model is one that either creates a new market or enables a company to create and exploit new opportunities in existing markets. A business model should be changed continuously in reaction to changes in the environment, so that a business can stay competitive. This is an ongoing process, based on trial-and-error (Smith, Binns, & Tushman, 2010; Sosna et al., 2010). Even incremental changes in the business model can have a huge impact on the company's performance, and this emphasizes how crucial business model innovation is (Amit et al., 2011).

Since we are looking at the emergence of new business models, we will use Amit and Zott’s categories that show how one can innovate a business model design. They claim that business model innovation can happen in three distinct ways, and divide a business model into the components “content”, “structure”, and “governance”. Changing one or several of these components in the activity system will change the business model itself. The “content” of the activity system refers to the chosen activities that are performed. Innovation in this case, is related to adding novel activities, by for example integrating forwards or backwards in the value chain, or performing activities not typically done in the industry. These activities should create value for the customer. The activity systems’ “structure” relates to how the different activities are organized, and in what sequence they are arranged. Linking activities in novel ways is a source of innovation in this sense. Lastly, changing who actually performs these activities, as for example franchising, can change the “governance” of the activity system.

When companies innovate the business model by using crowdfunding, they can not change one part of the business model, without making sure that the business model as a system “makes sense”. One should always apply a structural approach, as the different components have interdependencies (Amit et al., 2011). For instance, it does not make sense to deliver a product that is priced low if the production or distribution has costs exceeding this price. In this case, some part of the business model needs revision in order for the equation to add up.

However, it doesn't matter if the whole activity system is well integrated, if the customer does not desire the product, or the competitor has a better offer. Thus, the business model should also be seen in a systemic view, where the whole ecosystem in which the company operates is taken into consideration (Amit and Zott, 2010). This is crucial for the success of the business model in the market, both when it comes to realizing opportunities, and in spotting threats such as competitors, entrants, or regulations. When applying a “systemic” business model approach, innovation in business models has the potential to improve company performance, and also to entirely replace the old way of doing business by becoming the new standard (Magretta, 2002). It is interesting to see whether this could be the case for crowdfunding in the fashion industry in the years to come.

3.3 The “Traditional” Business Model in the Fashion Industry

Even though the amount of different clothing brands that exist is large, there are still some dimensions of the traditional business models in the industry that are constant across the various brands. Traditionally the brands in the fashion industry have one of their designers design a collection, and after the creative director has approved the collection, they will start the production. This means that a lot of costs have incurred even before the clothes are in store. Whether this is done domestically or abroad depends on the company's business model. Once the clothes have been made, they are shipped to the retailer where they will be displayed to customers. The customer will see them, possibly try them on, and eventually buy them. While the Internet has changed some parts of this traditional model, it is still based on the same process, except now the clothes don't have to be sent to a retailer. With e-commerce the clothing can be shipped to a warehouse where it will be stored until a customer buys it online. This eliminates certain costs related to having a physical retail store, but also incurs costs since the clothes now have to be shipped to each individual customer (Bhatnagar and Syam, 2014).

Fashion companies create value by producing clothes that people want to wear. For thousands of years, mankind has been using clothes to symbolize identity and culture. This implies that brands that are able to make clothes that let someone show who they are, create a lot of value for that individual. In order to capture some of the value that they have created, companies tend to use a mark up price so that they cover the costs of making the product as well as getting a profit. Most companies also count for the products that they make but may not sell

when they set the price. This implies that they set a price sufficiently high enough to make a profit, even when not all of the products are sold. (Bates, 2014).

3.4 Crowdfunding in the Fashion Industry

Although there is little empirical research on crowdfunding in the fashion industry, and no research has been conducted on the new business models that have been enabled by crowdfunding, it has been a subject in various articles. These articles have little or no established guidelines or description on how the research or the interview was conducted, and are more an overview of what the different companies or projects are doing instead of an in-depth look at the underlying business models. Although still not found in empirical research, certain benefits have found to be associated with crowdfunding. We will compare our findings with these associated benefits in Chapter 6, and therefore present these associated benefits in this section.

Crowdfunding platforms are designed to gauge demand before investing significant resources into a project (Cook, 2015). Bronstein, the founder of Flint and Tinder, claims that by using Kickstarter they get to ask the customers if they desire the product he is imagining, and thereby use these sales to get production going (Kansara, 2013). This way they get an idea of how many copies of the item needs to be made. Bronstein also claims that if the project is not successfully funded, one can move on without spending too much time and resources on the specific project. Traditional market research could also be used to see if people are interested in the product or not, but people have a tendency to exaggerate their willingness to pay for a product when they do not actually commit to buying a product (Breidert, Hahsler and Reutterer, 2006).

There are many costs that arise before production can even be considered, and crowdfunding can enable a company to secure some of the costs ahead of production (Cook, 2015). Patterns, fit models, samples, fabric, and marketing are some of the costs that occur before a company can even start thinking about earning revenues. For start-ups, it can be challenging to find banks or other investors who are willing to invest, before they have a better view of the market and the risks involved. Being able to get funding from potential customers, or customers who pre-pay for the product, is therefore very beneficial. By letting potential funders use the all-or-nothing crowdfunding model as a way to invest, they can be certain that they will get their money back if the campaign is not successful (Viotto, 2015).

Another important benefit is related to how crowdfunding can affect customer's perceived value. Creating value for customers is an essential part of the business model, and one way companies create value is by creating an image in the mind of the customer. Creating a brand or a collection is about creating a story, and stories excite people (Cook, 2015). Cook (2015) writes that in order to create value, companies can integrate crowdfunding in a business model. If companies can engage customers at an earlier stage than usual and make them feel like they made the company or collection happen, they might feel more connected to the product and thus be more likely to buy it. One can also use the story of how the brand or collection was made through crowdfunding in the marketing of the brand, and thus further increase the value created (Cook, 2015).

An opportunity to capture this value created has also been recognized. Crowdfunding provides a possibility to get rid of the mark-up by cutting out the middleman in the supply chain (Kansara, 2013). A single product traditionally goes through multiple middlemen who all have to make a profit in order to stay in business. The way to obtain this profit is setting a price higher than their costs of producing the item, a so-called mark-up. This is illustrated in Illustration 2. When every middleman does this, the price that the consumers are charged for a product is much higher than it needs to be, and the demand and profits decrease (double marginalization problem). If one is able to cut out some middlemen, one will be able to offer the same quality product to a reduced price. Crowdfunding gives companies the opportunity to do this by making companies able to only produce what is needed (Kansara, 2013). Companies that sell products not necessarily targeting a "mass-market" will therefore be able to limit the use of outsourcing in their production, thus being one integrated company from top to bottom, and not having to mark up the prices.

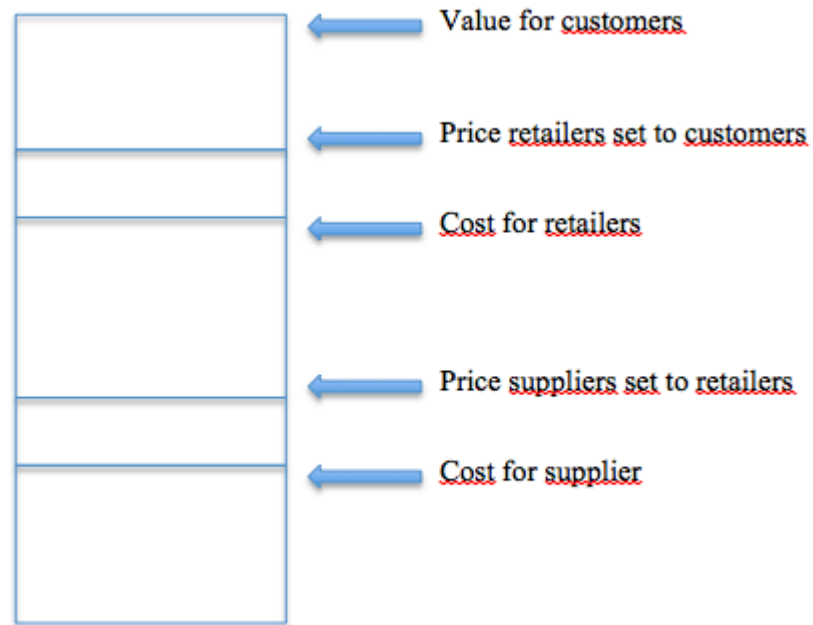


Illustration 2: “Double marginalization” Source: Authors

These benefits related to crowdfunding have, as mentioned earlier, not been found in empirical research. We will, in the next chapter, explain how we went forward in order to collect and analyse the data that led to the findings of three new main business models in the fashion industry.

4. METHODOLOGY

The purpose of this chapter is to give the reader insight regarding the methodological choices that were made. We will therefore present the chosen research design and method, and specify the sources in our data collection and how we analyzed this data. The reliability and validity of the research also deserves attention, as it is crucial to all studies. It will therefore be addressed in the last part of this chapter, together with ethical considerations undertaken.

4.1 Research Design

The research design is the general plan of how one intends to answer the research question (Saunders, Lewis and Thornhill, 2016, p. 136). We aimed to get a clearer picture of crowdfunding in the fashion industry, as well as lay the groundwork for future research on the topic. We are, in other words, building a theory through collection and analysis of data. Thus we are using an inductive approach (Saunders et al., 2016, p. 51). As mentioned earlier in the paper, the intersection between crowdfunding and the fashion industry is a relatively unexplored area in the literature. Crowdfunding in itself is a new term in the literature and there has been done a limited amount of study on this topic alone. Our study therefore has an exploratory purpose (Saunders et al., 2016, p. 174). Exploratory research has the advantage that it is very flexible, and that it can be changed if new data appears (Saunders et al., 2016, p. 175).

4.2 Case Study

In order to answer our research question and meet our objectives in the best possible way, we chose case study as a research strategy. The different cases we studied, were companies that have used crowdfunding in the fashion industry. This is a qualitative research method, which is often preferred in an explorative study such as ours (Saunders et al., 2016, p. 185). By studying cases, we got a deeper understanding of this phenomenon as the situation is today. We decided to use multiple cases in order to get a better view of the variety of business models that have emerged from crowdfunding. As the business models was our unit of analysis, it followed that our study aimed at looking at the businesses as a whole. Thus, the case study had a holistic approach (Yin, 2014, p. 42).

Research strategies are not mutually exclusive, and it could be valuable to for instance include surveys as a part of our case study (Saunders et al., 2016, p. 178). However, the time that we had to write our master thesis was limited to five months, which gave us certain

limitations. A lot of the start-ups we contacted were quite busy, which might have made it difficult to get answers of a sufficiently large enough number of firms in a quantitative study. Therefore, we found it beneficial to focus specifically on case studies in this specific study.

4.3 Semi-Structured Interviews

As our study is exploratory and we wanted to get a deeper look into the dynamics of different business models, we found that semi-structured interviews would be an appropriate research method in our case. Semi-structured interviews are not standardized and based on a questionnaire, but have some structure due to themes or questions that have to be covered during the interview (Saunders et. al., 2016, p. 391). The flexibility in a semi-structured interview enabled us to go more in depth on areas that seemed interesting, which lead us to the discovery of new aspects. It allowed us to not only get answers to “what”- and “how” questions, but also “why”. Even though our approach was exploratory, we were aware of which aspects we wanted to find out more about. Thus a semi-structured interview was beneficial, as it gave us greater control over the process than in an unstructured interview (Saunders et al., 2016, p. 391). We made an interview guide beforehand of the interviews, which provided a certain structure for the interviews (Appendix A). The questions could be adjusted to fit each given case, as well as the order and logic of the questions. This resulted in increased quality and significance of the data set. In the interviews, we also had the opportunity to ask the informants to explain their statements or opinions, which prevented us from interpreting the data incorrectly. We could also ask them to elaborate, which was beneficial when a discussion arose in areas we had not considered relevant, but that actually was important for answering our research question (Saunders et. al., 2016, p. 391). This enhances the validity and credibility of the research.

It is important to address that there are certain data quality issues related to semi-structured interviews. The interviews were not standardized, and this implies that another researcher might not get the same research results. Biases was another factor that might have affected the reliability. These issues had to be overcome, and how we attempted to do this will be addressed in the validity and reliability section of this chapter.

The cases we chose are mainly located in other countries, meaning that traveling abroad to conduct the interviews face-to-face would be both costly and time-consuming. Due to limited time on our and the informants side, and limited resources on our behalf, we decided that the

interviews would mainly be conducted online. We did, however, conduct a face-to-face interview in Oslo. We conducted the remaining interviews via Skype, and email when Skype was not possible. Even though the quality of the data might be somewhat lower in the email-interviews, interesting aspects were revealed that were valuable to our research. The nature of the questions we posed were not personal or sensitive, which means that personal contact was not crucial for getting the data we were interested in.

4.4 Secondary Data

During the search for relevant companies for our sample, we came across a company with a unique business model. Unfortunately, they did not have the time for an interview as they have a small team. They did, however, send us links to podcasts, press kits and links that, as they wrote; “might help” us in our research. This written and oral documentation helped us to answer most of the questions we had regarding their business model. We decided to transcribe the podcasts, and then analyze the data in the same way as we analyzed our primary data.

4.5 Collection of Data

4.5.1 Sample

We used a strategic selection when selecting informants, as we found it beneficial to interview managers in the different businesses. One of the criterias we had for the cases we interviewed was that they had used crowdfunding of some sort in their business model. Further, the informants had to at least work as a manager or higher in the respective companies. We found the different companies in various articles during our literature review, and also by searching for successful funding projects on crowdfunding platforms such as Kickstarter and Indiegogo, the Norwegian platform Bidra.no, as well as the 15 largest platforms in Europe (Ambani, 2014). We considered many different projects, and finally decided to contact the projects that were successfully funded and that we found relevant to the research. As exploring the different business models that crowdfunding has enabled in the fashion industry was our purpose, diversity in the business models was an important criteria when collecting the sample. We kept having interviews until we experienced that there was no new information regarding the business models, in other words until extended saturation was reached.

4.5.2 Our Cases

In the following section, the different cases in our research will be presented.

DSTLD offers premium denim and luxury essentials to a lower price than competitors. They have cut out the middlemen in order to give the customers more of the value created. They are based in Los Angeles, and focus on bringing good denim products to people who want a high quality product, but at a lower price (DSTLD, 2016).

Eki Orleans offers silk clothing and scarves with a uniquely designed print that is supposed to tell a story of its own, with inspiration found in nature, travel, and the African continent. They can make a unique design for each customer, and also give them the possibility to create their own design and prints. The London-based company creates products that are ethically produced and locally made, and focus on “buying less, but choosing well” (Eki Orleans, 2016).

Fair & Square is a Norwegian start-up that wants to guarantee ethical working conditions in China by managing their own production. They have chosen to offer basics, because they fit “everyone”, and they claim such clothes are hard to buy ethically produced, and second-hand. While hoping to pivot the way for a more ethical industry, they also focus on the environment in their choice of materials, dying, and production methods (Bidra, 2016).

Gustin is an American brand that sells premium menswear at a wholesale price, which is possible by cutting out the middleman. They line up supply and demand for every product they make, by having an in-house crowdfunding platform to decide what gets produced and what does not get produced. This creates a zero waste cycle and they return the savings to the customers. (Gustin, 2016)

Marita Huurinainen is a Finnish brand launched in 2013 with a philosophy to “not create any wasteful into this world” (Marita Huurinainen, 2016). The brand has two main concepts WILD and WAVE, which are both inspired by the Finnish nature. WILD is based on ethical furs and leather, and is the only concept in the world to do so, while WAVE is a wooden design shoe that is both beautiful and functional, and therefore patented. The collection is today launched in 15 different countries (Marita Huurinainen, 2016).

Ministry was founded by former MIT-students. They use engineering-inspired tech and design processes to create smart, professional apparel that looks sharp in the office and has the performance capabilities of athletic clothing. Using advanced technology, the company aims to solve the common pain points of professional clothing, like the restrictiveness of fitted suits or the stifling warmth of dress shirts. (Ministry, 2016)

Pharrell's is a UK-based company that offers a somewhat limited choice of premium and casual clothing for men and women. They focus on being sustainable, and have therefore chosen to use fabric made 100% out of organic cotton. The material is produced in a sustainable and ethical way (Pharrell's, 2016).

Sword & Plough is a company with a social purpose, and especially so related to the US military. Their mission is to take military materials and technologies and recycle and repurpose them for a peaceful civilian life. They do this by not only recycling military surplus and using that fabric in the production of their new bag designs, but also employ veterans trying to get back to their civilian lives, working with American manufacturers, and donating 10% of the profits to veteran organizations (Sword & Plough, 2016).

Victor Athletics makes high-quality and affordable vintage-inspired athletic wear manufactured in struggling U.S. factories. They give 5% of their profits back to the factories in order to reinvest into their employees. They also use entirely organic materials sourced from USA and Japan, and send a free trial box to the customers. One of the things they take pride in is that their products go straight from the factory to the customer. (Victor Athletics, 2016)

Wild Thing (previously Festival Fashion) is a website that selects different independent UK brands that all together can dress men and women in festival-inspired alternative styles. The site was first called Festival Fashion, and was founded due to a realization that this was a possible niche on the online marketplace. New sellers get an opportunity by joining the website every week, and the idea is that this will result in clothes that customers never thought could exist (Wild Thing, 2016). Wild Thing is our 10th case, but as they did not have success when using crowdfunding, they are not used to identify the different business models.

Company	Country (founded in)	Informant's role in the company	Type of interview
<i>DSTLD</i>	Los Angeles, the US	CEO/COO	Skype (length: 29 minutes)
<i>Eki Orleans</i>	London, the UK	Founder/Creative designer	Email
<i>Fair & Square</i>	Oslo, Norway	Founder/CEO	Face-to-face (length: 45 minutes)
<i>Gustin</i>	San Francisco, the US	Founder/CEO	Secondary source, two podcasts (length: 27 + 6 minutes)
<i>Marita Huurinainen</i>	Helsinki, Finland	Founder/CEO	Skype (length: 35 minutes)
<i>Ministry</i>	Boston, the US	Founder/CEO	Email
<i>Pharrell's</i>	London, the UK	Founder/Director	Email
<i>Sword & Plough</i>	Kansas, the US	Founder/Creative director/Product designer	Skype (length: 40 minutes)
<i>Victor Athletics</i>	Cincinnati, the US	Team leader/ CEO of the Nobel Denim team	Email
<i>Wild Thing</i>	Bristol, the UK	Founder/Director	Email

Table 4: Sample

4.5.3 Provisioning of the Interview

In order to get the most out of the interviews, we made sure to prepare properly. We had already done most of the literature review in advance of the interviews, so we knew a lot about the topic before interviewing any of the informants. We also read about and discussed the company we would interview beforehand. This allowed us to ask questions that we wouldn't have been able to ask otherwise. Showing interest in the company also made the companies more interested in sharing information with us. Another aspect of our preparation for the interviews was that we created an interview guide. The interview guide included areas that we knew we had to gain knowledge about in order to answer our research question, and was used as a guiding light during both the provisioning and the conduction of the interviews. It gave us a greater control over the process, and enabled us to, to a certain extent, make sure

we got the information we needed in the interviews. For a more detailed explanation of the interviews, please see the Appendix B. We decided to send the interview guide to the informants couple of days before the interview. This let them prepare for what type of information we were requesting. This way we made sure that we were talking to the right informant, and that the informant was as prepared as could be to answer our questions.

4.6 Data Analysis

When it came to analyzing the data in order to answer the first part of our first research question (*Which new business models have emerged in the fashion industry as a result of crowdfunding...*), we decided to analyze the data as we collected them. The analyzing process started with us familiarizing ourselves with the data by first transcribing the interviews and then reading through it. The interview guide gave us a certain direction, and the main themes we looked for were “crowdfunding” and “business models”. We used Osterwalder and Pigneur’s (2010) Business Model Canvas to identify the different parts of the business model. We therefore looked for quotes where the informants had talked about one of the nine building blocks in the canvas. When coding the data, we used a manual approach by printing out the transcripts and writing the codes in the margin of the paper. In order to identify the new business models we started off by looking at the different models individually, and then looked for similarities across the different business models, which determined what classification they were assigned. We decided it was beneficial to group the companies according to how they had incorporated crowdfunding in their business model. This resulted in three main types of business models, which will be presented in the results chapter.

The second part of our first research question (*...and what are the main characteristics of these?*) was analyzed using the data we got from the informants, and with help from Amit and Zott’s (2012) categories of business model innovation; content, governance, and structure. This helped us identify different characteristics of the business models, which we eventually were able to use to create our own framework. While looking at the different business models we could see how these business models have been changed as a result of crowdfunding, therefore being characteristics that are distinct to business models that have incorporated crowdfunding.

When we analyzed the data in order to find an answer for the second research question (*Which implications do these new business models have for start-ups and the industry as a*

whole?), we used a combination of what the informants said, existing literature, and our own reflection. We looked at all the three main models to see how they might change the status quo in the industry.

4.7 Evaluation of the Research Method

Before presenting our results, we will briefly evaluate the chosen research method.

4.7.1 Validity

In a broad sense, validity refers to how fitting and well the data set is able to answer the research question (Grønmo, 2016, p. 241). Semi-structured interviews can have a high level of validity (Saunders et al., 2016, p. 394). Validity can be categorized as internal and external.

Internal validity

Internal validity in qualitative studies is concerned with whether the study is credible; which implies that what we present as the social construction of the informants reality, is actually aligned with what the informants intended to say (Saunders et al., 2016, p. 203). We as researchers were the data collection instrument, and we took several measures to achieve a high internal validity. We tried to phrase the questions similarly to the different informants, and avoided asking leading questions. We decided to explore the meanings the informant had that we were not entirely sure about, by asking probing questions. In doing this, we made sure that we did not misinterpret the data. This was particularly important due to the fact that we were interviewing informants from other parts of the world, and misunderstandings could occur both because of differences in culture and language. Another measure we took to increase the internal validity of the research, is that once we had transcribed the interview we sent it back to the informant to confirm that the data was correct. This way, we managed to decrease the chance of analyzing data that was incorrect.

By interviewing people with a high rank in the companies' hierarchy we aimed to increase the validity of our research as these people might be more professional (Saunders et al., 2016, p. 400). This way we hoped that they would leave most of their personal meanings at the door and answer our questions as professionally as possible, as we were asking purely about the business, and not personal meanings. However, it is important to keep in mind that it is likely that they would like to portray their company in a positive light.

External validity

In a qualitative study, external validity of the research is concerned with whether the results of the study can be generalised to other relevant settings or groups. In other words, its transferability (Saunders et al., 2016, p. 400). Even though the results of this research may not be generalized to a population, we think that the results can be applied to other industries that traditionally have used retail in their business models. Business models using crowdfunding can be used by companies that produce a variety of different products to consumers, thus also by companies in other industries than the fashion industry. In this section of the master thesis, we have tried to provide a transparent and thorough explanation of the methodological choices we have made, hopefully making it easier for others to evaluate whether or not the research can be applied to a certain setting or group. In order to increase the quality of our data and strengthen the external validity, we kept having interviews until extended saturation was reached. This means that we interviewed companies until we experienced that there was no new information to gain.

4.7.2 Reliability

Reliability refers to replication and consistency (Saunders et al., 2016, p. 202). In other words, to what degree it is possible for another scientist to replicate our study and get the same result. When it comes to qualitative studies, reliability is more related to researchers reading through the research and agreeing on the conclusion. One of the ways we tried to increase the reliability of our research paper was to work in a fully transparent way, which allows other researchers to judge for themselves. Several biases could affect the reliability of our research. How we have chosen to minimize these will be addressed next.

The interviewer bias is if we as researchers affected the answers through our tone, body language or comments, or if we demonstrated a bias in the way we interpreted answers (Saunders et al. 2016, p. 397). It is true that we are interested in, and have worked in, fashion. This could induce a bias on us as researchers. A fact that can reduce this bias is that we are two researchers. We are a man and a woman with different taste in fashion, and this helped us as a duo, to not be too biased. As researchers we could control each other's work, and make sure we asked all the necessary questions. Furthermore, it allowed us to get two different views when analyzing the interviews. We are both new to crowdfunding, and thus new to crowdfunding in the fashion industry. We think this was beneficial, as we did not have a strong predetermined opinion on the subject.

In order to minimize the participation bias, we made sure that our informants were sitting in a closed room while the interviews were conducted (Saunders et al., 2016, p. 397). This was to make sure that the informant gave us their true opinion on the matter instead of saying something that people around him/her would want to hear. Given that our questions were more of the objective type, rather than personal, the chances of having participant error were relatively small. However, it is possible that the informants might not have been comfortable with sharing certain information with us, and therefore left it out.

Another aspect of the participant bias is that the informants might want to show themselves in a good light, and overemphasize the importance of some aspects of the business model due to the fact that the informant might have been in charge of this part. If we saw that a participant had been working with customer relations, and they emphasized the customer relationship as one of the most important aspects of the business model, we would ask follow-up questions to make sure that this was not only due to the informant's bias, but a true fact. We did find that some of the informants were trying to promote their brand, and used words such as "luxury brand" to describe clothes that are casual, and mention percentages instead of a certain modest amount of money that the funding exceeded. Therefore, we decided to stick with data that could be verified with actual facts in the analysis.

4.7.3 Ethical Considerations

There were multiple ethical issues that we needed to consider. First of all, there were several considerations that had to be taken in regards to the informants. We wanted to make sure that we had an informed consent from the informants. Therefore, we informed them about the purpose of our research and what part they would play in it, already in the recruitment of these informants. Furthermore, we asked for their consent to record the interview in beforehand, which all of them agreed to. We also felt it important to inform them that they were free to withdraw from the study at any time. In taking these measures, we made sure that the participants shared information out of free will, and not because they felt pressured to do so.

Another ethical issue that was important was to process the data the right way. In order to achieve this, we decided to save our interviews on our computers and two different memory sticks stored in our lockers at school. This meant that we always had access to the information, while most importantly; not having to worry about exposing our informants. All of the informants were given an opportunity to be anonymous, but they all wanted to use their

real name. Given that our research did not include any sensitive information about individuals, we did not have to go to greater lengths to keep the informants anonymous.

It is important for us that the results of our research reflect the true situation when it comes to the new business models that have emerged through crowdfunding. Therefore, fabrication of data was an ethical concern that we found crucial. We tried to overcome this issue by sending the transcripts to our informants for confirmation. As some of our interviews were conducted over Skype, technical issues occurred occasionally, which made it hard to hear the exact word that the informant used. However, this was solved by sending the transcripts to the respondents, which ensured that the word we thought they said was identical to the one they actually said.

5. RESULTS

Our findings show that crowdfunding has not only enabled one, but three, new main business models to emerge in the fashion industry. In this chapter, we will first explain how we have classified these different business models identified. Then, each of the business models will be explained in detail using the Business Model Canvas framework.

5.1 Classification of the Business Models

During our analysis, we classified the different business model typologies based on how the companies interviewed have integrated crowdfunding in their business model. This resulted in three main business models: The Gustin model, the Pre-sale model, and the Equity model, where the Pre-sale model has two subcategories: The Launch model and the Collection model. As illustrated in Table 5, crowdfunding is integrated in the business models in four different ways.

Business models	How crowdfunding is integrated
<i>The Gustin model</i>	A company has its own crowdfunding platform where new products are launched continuously. Customers thereby decide all of the products that get produced.
<i>The Pre-sale model</i>	<ul style="list-style-type: none">- <i>The Launch model</i>: Start-ups offer a tiered system of rewards, essentially a pre-sale of products, on an external crowdfunding site. The money raised is used to start the first production, thus launching the company- <i>The Collection model</i>: A company uses an external crowdfunding platform to pre-sell collections.
<i>The Equity model</i>	A company sells equity on an external crowdfunding platform. This enables customers to become owners, and creates a symbiotic relationship.

Table 5: Clasification of the Business Models. Source: Authors

5.2 Description of the Business Models

The Gustin Model

Overview: The model is based on the brand Gustin. In this model the brand has its own crowdfunding platform where each individual item has its own crowdfunding campaign, and an item will be produced if it has enough buyers. The campaign is updated to show how many percentages of the needed backing it has reached at all times. It also shows how many days there are left of the campaign. Instead of going to an external crowdfunding platform to launch a whole new collection, this model enables individual products to be launched as soon as they are designed and the material has been selected. This helps the company both economically and environmentally. The model gives the brand the opportunity to produce clothes when the demand for the clothes is high. It also gives the company the benefit of not having to produce more than they can sell, and therefore they do not have to set a higher price to account for the unsold products.

Example: Gustin

Value Proposition: In this model, the customers get a chance to wear something that few people have, as there is a limit to how many items per clothing will be made. This limit is decided before the campaign starts, so the potential customers know exactly how far away the campaign is from being closed (see Appendix C). This can increase the value for the customers, as they know they are one of the first ones to “back the product”, hence being one of the people who started the interest for the product, i.e. be an early adopter. It will also increase the value for customers that “back the product” in the closing days to enable the product to get 100% backing, thus giving the customer the feeling of being the one who came through and made it happen. Just being able to watch the progress of the campaign creates an additional excitement to the purchasing process. Since a company using this model does not have to take big risks on a particular type of fabric, they can also offer a lot more variety. The fact that they do not have to set a price to account for unsold products, implies a lower price to customers, which means that the customers get more value for their money.

As companies using this model only have to buy the exact amount of materials they are going to use, the model also has value for customers who care about the environment and want to limit the excessive surplus of unused materials. In today's world with an increasing focus on environmentally friendly ways of doing business, this could have great value for customers.

Customer Segments: Brands that follow the Gustin model often have customers that are looking to wear something special, or want to feel like they belong to the brand. Many of them are customers who are focused on finding environmentally friendly businesses. However, this does not necessarily have to be the case. The business model can be adopted by any company that wants to sell clothes online, and the customer segments can be fitted to each individual brand. The business model is nevertheless especially attractive for consumers looking for a brand that does not “mass-produce” their clothes, and/or are looking for good products without having to pay too much. The environmentally friendly aspect of the value proposition makes this business model attractive for consumers looking for environmentally friendly businesses.

Channels: Brands using the Gustin Model mainly reach their customers through their own online store. They also use social media to get in touch with existing and potential customers, for example Facebook, Instagram and Twitter.

Cost/Revenue Structure: A brand using the Gustin Model will generally not need a large number of employees, however, this will also depend on the size of the site and the number of product campaigns that are running simultaneously. Gustin has 6 - 15 campaigns running at the same time and has 5-6 employees. A company using this model also saves large costs by only using materials needed to produce the clothes that have been bought in advance. This way, there is zero waste. Other than that, the companies do not have to gamble on fabric and material, which means that they save a lot of costs compared to competitors.

One of the biggest benefits of this model is that they are able to make the customers commit to a sale before the company commits to large expenses. In other words, they secure revenue before paying the suppliers.

Customer Relationship: Another huge benefit of this model is that it increases the quality of the two-way communication with the customers. This way they can find out what people like and what they dislike based on what they are interested in buying, not just based on what items they click on. They can also use the campaigns that might get a lot of backing, but does not reach the goal, by asking the customers what they liked about that product and what tweaks can be made in order to improve the product.

Key Partners: The key partners of brands using the Gustin Model are mills and tanneries that produce the different fabrics, manufacturers that can produce their products, preferably on an

ad-hoc basis. Brands also have an agreement with a delivery service in order to send the finished products to the customers.

Key Activities: One of the most important activities a brand using this model has to perform, is design of new products to keep the site relevant and encourage people to visit it and see if there are any new campaigns that they might want to fund. They also have to market the brand in order to get customers to their site.

Key Resources: One of the benefits from this model is that you do not need to invest in extensive resources. Gustin has managed to crowdsource their entire business. Except for 5-6 employees, they do not need many other resources. Through the partnership with mills, tanneries, and manufacturers they can produce all their products without excessive resources, and they probably rent the office space needed.

THE GUSTIN MODEL			Example: Gustin	
Key partners - Mills and tanneries - Manufacturers (ad-hoc)	Key activities - Designing new products - Marketing	Value proposition - Give the customers the opportunity to be early adopters. - The customers decide what gets produced - Environmentally friendly	Customer relationships - Engaging customers - Two-way communication	Customer segments - Environmentally concious consumers - Early adopters - Not looking for mass-production
	Key resources - Few resources needed - Office space (rent)		Channels - Own online store - Social media	
Cost structure - Few employees (5-6) - Save costs on materials			Revenue structure - Secure revenues before paying costs to suppliers	

Table 6: The Gustin Model Business Canvas. Source: Authors

The Pre-Sale Model

While companies using the Gustin model have their own crowdfunding platform where they launch their products, companies using the Pre-sale model pre-sell their clothes on an external crowdfundig platform (e.g. Kickstarter and Indiegogo) where they compete with other companies and projects. Another difference is that every product produced in the Gustin model is launched through crowdfunding, while this does not neccesarily have to be the case for the Pre-sale model. The way the Pre-sale model works, is that customers pay for the products upfront, and the products are then produced if the campaign reaches a certain threshold during the given time of the campaign (e.g 30 days). Unlike the Gustin model that sets a goal (which is also the limit) in the number of products, the goal in the Pre-sale model is a certain amount of money raised. The amount of money raised can exceed the funding goal within the time of the campaign. If the campaign does not reach its goal, on the other hand, the products are not produced. This model not only gives the company capital to cover the costs of production, but also provides a better picture of the demand for the products. It therefore saves both the environment and the company's costs, as it prevents them from investing in production of products that eventually do not get sold.

The funders of a crowdfunding campaign are primarily offered to pre-purchase a certain product (Pharrell's, Eki Orleans, Ministry). However, this model also offers other values in return, such as quantum rebates included in different packages (Fair & Square), or pre-sale of a choice of many different types of products (Victor Athletics). A tiered reward system is mostly used. This means that, depending on the funders' contributions, the rewards can span from thank you cards (Pharrell's) rebates on first purchases (Eki Orleans), gift cards (Fair & Square), and a meet and greet with other backers and the designer (Eki Orleans), to a custom-made outfit (Eki Orleans). Our focus will be on pre-purchase of products.

We have identified two submodels of the Pre-Sale Model: 1) The Launch Model, and 2) The Collection Model

The Launch Model

Overview: In most of the cases, the crowdfunding campaign is used as a means to actually be able to start the production of a product and launch the company.

“We definitely relied pretty heavily on the success of the Kickstarter campaign” (Sword & Plough)

Example: Eki Orleans, Fair & Square, Pharrell’s, Sword & Plough, and Victor Athletics.

Value proposition: The Launch Model offers a high value for early-adopters, as they are now assured to be one of the first people to buy a new product. Pre-purchasing the product therefore adds significant customer value for this group. The model also gives them an opportunity to support and take part in the actual launch of a new brand. The feeling of being able to decide what gets produced and which brand gets launched could also be preferable, along with the fact that they get to decide which movements get started through the support of these brands, such as ethical production (Fair & Square). This creates a stronger feeling towards the brand, and a shared identity.

Furthermore, the fact that the pre-sale of products enables companies to cover costs in advance, and gives them an opportunity to not produce more than demanded, also lowers the risk of producing. Many of the companies using this model have chosen to produce locally rather than in low cost countries (Sword & Plough, Victor Athletics, Pharrell’s, Eki Orleans). This can increase the customer's perceived value of the product, as many find it important to support the local community and have transparency in the production.

Customer segments: The majority of the brands using the Launch Model have customers that are both men and women in the age of 18-40 years old (Sword & Plough, Pharrell’s, Fair & Square). One of the brands sell specifically to women (Eki Orleans). The customers of brands using the Launch Model are often young urban professionals that are not only interested in looking good and having clothes made out of quality fabric, but also focus on keeping up with the latest “trends”; such as minimalism or supporting sustainable and ethical production. Many of these customers are early adopters. Some of them support the brand because they have a relation to the founder and want to help them realize their dream.

Channels: Brands using this model mainly sell their products directly to the customers through crowdfunding platforms and their online store. In order to get people to these specific websites and keep existing customers updated and satisfied, they are active on social media such as Facebook, Twitter and Instagram. Sword & Plough use a combination of online store and bricks-and-mortar, as 90% of their sales are online, and 10% go through retailers throughout the US. They do this to leverage the relationship and the community that the retailers (such as TOMS and Under Armour) have developed to expand their own brand.

Cost/revenue structure: The Launch model enables the companies to cover some of their costs before the production has started. Some of the costs increase due to the local production of clothes and the choice of sustainable materials, but the risk of covering these costs is already taken into consideration. The companies try to keep their costs down by not owning a lot of inventory besides the necessary (e.g special machines in Fair & Square's case), and they prefer their team of employees to be small. Fair & Square have through their crowdfunding campaign gotten help from 20 different people in areas such as photography, marketing, and design. These people are not paid yet, but are willing to work as volunteers at the time being.

Revenues in the Launch Model are accumulated through the crowdfunding campaign, and many of the companies raised a lot more money than their initial goal.

" Our goal was to raise 20 000 dollars, and we ended up raising 312 000 dollars in 30 days, which was pretty incredible" (Fair & Square).

The largest part of the money raised comes from pre-sales, but some people also donate money to the companies. The companies eventually generate revenues from direct sales to customers through their online sites, and in Sword & Plough's case; from sales through their retailers. Fair & Square wish to not only sell directly to consumers (B2C), but also to companies (B2B), in addition to offering to produce other companies' products ethically.

Customer relationship: As the customers have helped the companies get started, the feelings that these customers have towards the brand becomes stronger.

"People start to wonder; why would you give 200 dollars for a product that you're not gonna see for 6 months or even a year? And it is a good question to ask, but people are doing it, and I think that what it really comes down to, is this desire to be involved. There is this certain

level of engagement that comes with being able to support a company at its infancy. People are purchasing because they want to say “hey, I was one of the first people to back them, I helped them start the company” (Sword & Plough).

The companies try to take care of their existing customers by being active on social media and answering emails, and in this way they also wish to grow their customer base. Some of the companies have ambassadors that both during and after the crowdfunding campaign, help promote the brand and spread positive associations through word-of-mouth. This works really well for them, and not only gets their customers to like them more, but also helps the companies get assistance from different experts in photography, design and marketing.

Key partners: The majority of the companies that the Launch model is based on, do not manufacture their own products. This implies that manufacturers are key partners. As previously mentioned, the fact that the companies have covered their costs before production, gives them a lower risk when choosing a manufacturer. Many have therefore chosen a local one, e.g Sword & Plough that work with veteran-owned businesses in the US. As previously mentioned, ambassadors can also be considered as key partners, as they are very important for the success of the launch.

Key activities: Marketing and being present on social media is an important activity for companies using the Launch model, especially since the majority of them are only present online. Many of the companies highlight the fact that they want to tell the story of the brand (Pharrell’s, Victor Athletics, Eki Orleans), and the cause they are working for (e.g Sword and Plough: veterans, Fair & Square: ethical production). Design is another essential activity in their business model, as it is another part of what attracts customers who in turn can enable them to launch the company.

Key resources: An advantage of the Launch model is that not a lot of resources are necessary, besides employees with strong marketing and design skills, and a strong social network. Fair & Square has especially emphasized the fact that they would not have been able to succeed with the crowdfunding campaign if not for all the people who engaged themselves and promoted the case. The Launch model does not require a lot of inventory, as production can be outsourced, office space can be rented, and the number of employees can be kept small.

THE PRE-SALE MODEL The Launch Model			Example: Eki Orleans, Fair & Square, Pharrell’s, Sword & Plough, and Victor Athletics.	
Key partners - Manufacturers - Ambassadors	Key activities - Designing new products - Marketing	Value proposition - Take part in the launch of the company - Decide which movements get started - Up-and-coming designer/brand	Customer relationships - Engaging customers - Two-way communication	Customer segments - Early adopter - Young urban professionals - Follow trends
	Key resources - Few resources needed - Strong social network		Channels - Crowdfunding platforms - Online store (Brick-and-mortar) - Social media	
Cost structure - Few employees - Low inventory needed			Revenue structure - Secure revenues before paying costs to suppliers	

Table 7: The Pre-Sale Model, The Launch Model Business Model Canvas. Source: Authors

The Collection Model

Overview: The Collection model differs from the Launch model in the way that the Launch model only uses crowdfunding to launch their company, while the Collection model uses crowdfunding as an integral part of the business. Companies using the Collection model use a crowdfunding platform to launch fashion collections. Ministry had invested heavily in R&D and the creation of prototypes in advance of their crowdfunding campaign. They had enough capital to launch the collection, but decided to use crowdfunding as a way to test the market by seeing if the demand was sufficiently high enough to proceed to the production-phase of their collection. They have launched several collections this way.

“My co-founders and I shared this vision for performance-professional clothing, and we wanted to see if others agreed. Our first Kickstarter was hugely successful, we raised \$400,000 more than our initial goal. That let us know there was a market need for high-

performing professional clothing, and that the opportunity for our business was huge!”
(Ministry).

Example: Ministry

Value proposition: The Collection Model offers value to customers by letting them take part in launching a brand new collection. By being able to take part in the development of the company through crowdfunding campaigns of collections, they actively take part in developing the brand. Most likely they will have stronger feelings towards the brand because they have a feeling of ownership towards it.

By being able to fund the company's collections, the customers take part in the decisions of what gets made, and thereby not only the development of the company, but the fashion industry itself. In the cases of Ministry's crowdfunding campaigns, the customers have helped new technologies (e.g the Apollo dress shirt that used a technology developed by NASA to improve fit and manage temperature, and coffee-infused, odor-absorbing socks) to actually be introduced to the fashion industry, and are able to say that “I was one of the first people to back this collection”. This will especially be valuable for early adopters. They can find value in telling others about the new technology, thereby finding pleasure in being able to help others with common pain-points in; but also by being perceived as up-to-date and opinion leaders in the industry. In addition to this, they can enjoy the new technology for themselves in their everyday work life.

Customer segments: Customers of companies using the Collection Model find value in being up-to-date, and are often early adopters. Being able to take active part in the launch of collections attracts people that have a strong interest in the fashion industry to this model. The customer segments further depend on what kind of products the company offers, and in Ministry's case, they target both men and women who are active young professionals who grew up appreciating the performance of athletic attire such as Nike Dri-fit. This way, the Collection Model can attract people that are not necessarily fashionistas/opinion leaders in fashion, but wish to be updated on the latest technologies, or want take part in new ways of doing business through crowdfunding.

Channels: Companies using the Collection Model use crowdfunding platforms such as Kickstarter to test the market for new collections, and these platforms are therefore essential channels. After the collection has been launched, the company's website serves as a further

channel to sell this collection to others, unlike the Gustin model where the amount produced is limited to the crowdfunding campaign. Social media is an important way of generally getting the brand known to potential customers, and keeping existing ones.

Cost/revenue structure: In the Collection model, the company has already spent resources on the design of this collection, and in Ministry's case, also extensive resources on research and development for the technologies used in the products.

The Collection Model enables companies to not waste money on collections that fail in the market, and thus saves them costs. The model can be used by companies that do not have access to sufficient resources to launch a new collection. It can also be used by companies that have the required resources to launch the collection regardless of the crowdfunding campaign, but wish to minimize the risks of launching an unsuccessful collection. The campaign can also generate more feedback that the companies can incorporate in their products before the launch, thereby increasing revenues.

As for the revenues in the Collection model, they are first earned by pre-sales of the products in the collection, and can then be earned through sales on the online stores or in physical shops.

Customer relationship: The Collection Model actively engages the customers in the future development through deciding which collections get realized or not. The companies using this model are therefore forced to become more customer-oriented, thus increasing the strength of the customer relationship. Ministry generally takes their customers' feedback very seriously. They claim that customer engagement is a crucial part of their product development, as they incorporate this information into future products.

Key partners: No data available (not answered)

Key activities: A crucial activity for companies using the Collection model lies in the design of the collection, so that customers are actually interested in buying the product. Otherwise, the collections will never get realized in this model. Ministry has an engineering-based approach to design, which is a bit «unorthodox for the fashion world», as they design more like a tech-company. A key activity is therefore R&D, and years of R&D are invested in in each product. Companies using the Collection Model have to do the necessary work that will get customers interested in their collections, and they have to get people to the page through

social media and/or word-of-mouth. Further in the process, they have to keep this customer activity up in order to get sales through their website.

Key resources: No data available (not answered)

THE PRE-SALE MODEL The Collection Model			Example: Ministry	
Key partners - N/A	Key activities - Designing new products - Marketing	Value proposition - Take an active part in launching new collections - Take part in developments in the industry through new technology - Continuously engaged in the brand	Customer relationships - Engaging customers in future developments - Two-way communication	Customer segments - Early adopters - Fashionistas - Interested in technology
	Key resources - N/A		Channels - Crowdfunding platforms - Online store (Brick-and-mortar) - Social media	
Cost structure - R&D - Few employees - Low inventory needed			Revenue structure - Secure revenue ahead of costs	

Table 8: The Pre-Sale Model, The Collection Model Business Canvas. Source: Authors.

The Equity Model

Overview: The Equity model differs from the two previous models, mainly due to the fact that while they use crowdfunding to sell products, the Equity model is used to raise additional capital by selling equity. A brand using this model can sell 10-15 % of their equity and still be in charge of the decision-making, thus not losing control of the company. By selling equity through crowdfunding, the company does not have to go public on the stock market. Thereby, they save a lot of paperwork and extra regulations that they would have to adhere to, not to mention the costs that comes with an Initial Public Offering (IPO). Investors can pay as much as they want, but normally a minimum limit is set. This way the companies will have a lot of investors that one by one will not have an impact on decisions. It is also a way to turn customers into owners, thus making them more willing to spread the word about the company.

Example: DSTLD and Marita Huurinainen

Value Proposition: Customers want the company to succeed and take pride in owning a small portion of the company. By letting customers invest in the company, they will be more likely to spread the word about the company. When a customer is looking to buy a type of clothing that is also offered by the brand, they are more likely to buy it from the brand they own equity in, as that will help the brand and thus helping their own investment. Further, the opportunity to own equity in a brand one likes and is a customer of increases the value for the customer.

When it comes to the products brands using the Equity model are offering, they could in theory be anything from cheap baby clothes to expensive fur garments. However, in our sample we had one brand that offers classical, elegant clothes to women, fur being one of them, and a brand selling high premium denim products. In order to take advantage of the model the brand should be producing quality clothes, as this is what the potential investors/customers are mainly looking for.

Customer Segments: When looking at the equity part of the business model, the customers are mainly normal people with a disposable income looking to invest.

What clothes the companies using this model produce depends on the individual brand. However, in order to take advantage of the additional value that comes from having

customers who have invested in the brand, the right segment to target are men and women over the age of 25, with higher education, and a disposable income. This does not necessarily mean that the products have to be expensive, but that the quality should be high. In our sample, the brand DSTLD are able to offer a product to a lower price than most retailers can offer, but at the same time these clothes are of premium quality. They do this by skipping middlemen. Marita Huurinainen also offers high quality products.

Channels: The channels used to sell equity are crowdfunding platforms that offer this type of crowdfunding (equity-based). Our cases have used fundedby.me and seedinvest.com, but there are also other sites such as: AngelList, CircleUp, Fundable, Crowdfunder, and many more.

It is also important that the brand is easy to find online, and thus social media is an important platform that they should use to reach customers, such as Facebook, Instagram and Twitter.

Cost/ Revenue structure: The costs will naturally depend on what kind of clothes the companies offer, but brands using the Equity model will have less costs related to selling equity than a firm that decides to go public. There are also costs associated with the PR- and marketing agencies used. The companies get more revenue from selling equity than brands that decide to keep 100% control of their brand. How they use this money is up to each individual brand, but it gives them better liquidity, which opens the doors to new opportunities. Our cases used the money raised from selling equity to grow the business and cover marketing expenses.

Customer Relationship: By turning customers into investors, brands using the Equity Model are able to create a unique relationship with their customers. As one of our informants said:

“I am now willing to pay more to acquire a customer because there’s a chance they will also invest in the brand.” (DSTLD).

The fact that a brand is willing to invest more in acquiring customers is the basis of creating a stronger relationship with the customers. As previously mentioned, customers who have invested in the brand are more connected to the firm. They will take pride in the brand's success and are more likely to make an effort to help it succeed. They will also share more of the progress of the brand with investors, thus letting them know more about the brand than they will about other companies.

Key Partners: An important partner for brands using this model is a PR- or marketing agency. It is important to keep the customers updated on what new collections or products they have, as well as showing that the company is prospering. Therefore, companies using this model have specialists helping them with this.

Key Activities: Marketing is one of the most essential activities for brands using this model, as well as designing products.

Key Resources: There are no common resources in the two companies we interviewed, and there are no specific resources needed for brands using this model, other than what is required for a “normal” fashion company. The companies that this model is based on, both have good products and a good business idea, making it desirable for customers to invest in the brands.

THE EQUITY MODEL			Example: Marita Huurinainen and DSTLD	
Key partners - PR and Marketing agency	Key activities - Designing new products - Marketing	Value proposition - Making customers into owners - Increased ownership - Quality clothes	Customer relationships - Customers become owners - strong relationship - Customers can wear clothes from a brand they own - Uncertified people can invest	Customer segments - 25+ - Higher education - Disposable income
	Key resources - N/A		Channels - Equity Crowdfunding platforms - Online store - Brick-and-mortar - Social media	
Cost structure - Lower cost than an IPO			Revenue structure - Increased revenue from selling equity	

Table 9: The Equity Model Business Model Canvas. Source: Authors

6. DISCUSSION AND CONCLUSION

Based on how companies have integrated crowdfunding in their business model, we have been able to identify three main types of new business models in the fashion industry with the potential to disrupt the entire industry: The Gustin model, the Pre-sale model and the Equity model. The Pre-sale model has two subcategories: The Launch model and the Collection model. In the results chapter, we first explained how we classified the different business models, and then we described the different business models in detail, using Osterwlder and Pigneur's Business Model Canvas (2010). In this chapter, we will start by stating some of these similarities shortly, before discussing the characteristics of the business models, and the implications they have. The last part of the discussion will be dedicated to informing the reader about the limitations of our research and suggesting topics for future research, before finishing our master thesis with some concluding remarks.

	THE GUSTIN MODEL	THE PRE-SALE MODEL		THE EQUITY MODEL
		The Launch Model	The Collection Model	
<i>Value proposition</i>	<ul style="list-style-type: none"> - Opportunity to be early adopters. - Customers decide what gets produced -Environmentally friendly 	<ul style="list-style-type: none"> - Take part in the launch of the company - Decide which movements get started - Up-&-coming designer/brand 	<ul style="list-style-type: none"> - Take part in launching new collections - Take part in developments in the industry through new technology - Continuously engaged in the brand 	<ul style="list-style-type: none"> - Making customers into owners - Increased ownership - Quality clothes
<i>Customer segments</i>	<ul style="list-style-type: none"> - Early adopters -Environmentally conscious consumers -Not mass-produced 	<ul style="list-style-type: none"> - Early adopters - Young urban professionals - Follow trends 	<ul style="list-style-type: none"> -Early adopters -Fashionistas -Interested in technology 	<ul style="list-style-type: none"> - 25+ - Higher education - Disposable income
<i>Channels</i>	<ul style="list-style-type: none"> -Own online store -Social media 	<ul style="list-style-type: none"> -Crowdfunding platforms - Online store (Brick-&-mortar) - Social media 	<ul style="list-style-type: none"> -Crowdfunding platforms -Online store -Social media 	<ul style="list-style-type: none"> - Equity Crowdfunding platforms - Online store - Brick-and-mortar - Social media

<i>Cost/revenue structure</i>	<ul style="list-style-type: none"> - Secure revenues before costs incur - Few employees - Save costs on materials 	<ul style="list-style-type: none"> - Secure revenue before costs incur - Few employees - Low inventory needed 	<ul style="list-style-type: none"> - Secure revenue before costs incur - R&D - Few employees - Low inventory needed 	<ul style="list-style-type: none"> - Increased revenue from selling equity - Lower cost than an IPO
<i>Customer relationships</i>	<ul style="list-style-type: none"> - Engage customers - Two-way communication 	<ul style="list-style-type: none"> - Helped launch – strong relationship - Active on social media - Ambassadors 	<ul style="list-style-type: none"> - Engage customers in future development - Two-way communication 	<ul style="list-style-type: none"> - Customers become owners - strong relationship - Customers can wear clothes from a brand they own - Uncertified people can invest
<i>Key partners</i>	<ul style="list-style-type: none"> - Mills and tanneries - Manufacturers (ad-hoc) 	<ul style="list-style-type: none"> - Manufacturers - Ambassadors 	N/A	<ul style="list-style-type: none"> - PR and Marketing agency
<i>Key activities</i>	<ul style="list-style-type: none"> - Design - Marketing 	<ul style="list-style-type: none"> - Design - Marketing 	<ul style="list-style-type: none"> - Design/R&D - Marketing 	<ul style="list-style-type: none"> - Design - Marketing
<i>Key resources</i>	<ul style="list-style-type: none"> - Few resources needed - Office space (rent) 	<ul style="list-style-type: none"> - Few resources needed - Strong social network 	N/A	N/A

Table 10: Comparison of the Three Main Business Models. Source: Authors.

Even though the business models differ from each other, there are several similarities across the different models, as illustrated in Table 10. All of the business models identified are able to engage their customers in a way that has not been done before by fashion companies. This is done by either letting them decide what gets produced and not (The Gustin and the Pre-sale model), or allowing them to buy equity in the firm (the Equity model). They are also very active on social media in order to make sure they reach out to potential and existing customers, and keep them updated on what the brand is doing.

Another trait the majority of them have in common is that they are able to secure some, if not all, revenue before the costs of production begins. This is also something that has been impossible for incumbent firms in the fashion industry to do before crowdfunding.

Design and marketing are components that are critical activities in all of the business models. This is mainly due to the industry they are in, and is not something that is exclusive for these business models. The activities are however done in different ways than in the traditional fashion business model. The customers in the Gustin Model and the Pre-Sale Model take part in the decision making of the designing process as they have a say in what gets produced and what does not. They also use crowdfunding platforms, or their own (in-house) crowdfunding platform (the Gustin Model), in their marketing of the brand. This is a new source to market the brand that other companies cannot match in their marketing.

Two of the main models, Gustin and Pre-sale, have in common that they both have early adopters as a part of their customer segment, as well as few employees and low costs. The Gustin Model and the Pre-sale Launch Model also claim that they own few resources, and that this is not needed using this model. They are able to keep low costs, as they do not need much inventory or excessive production.

6.1 Characteristics of the Business Models

We have found several characteristics of the business models that are beneficial, which will be presented in this section. Based on our findings presented in the previous chapter, we have composed a framework that describes the new business models we have identified. The framework consists of two of the main characteristics of the business models, and is illustrated in the diagram below, with “revenue boost” on the Y-axis, and “customer engagement” on the X-axis. In the following, we will explain the two concepts, before addressing how they are relevant for the new business models. We will highlight how the new models differ from the traditional business models in the fashion industry using Amit and Zott’s categories of business model innovation (2010).



Diagram 1: Characteristics Framework. Source: Authors

The customer engagement depends on the customer's degree of involvement in what gets produced or not, and also the sense of attachment to the brand. Business models score higher on the customer engagement dimension the more they listen to customers when it comes to decisions. The revenue boost dimension, on the other hand, concerns a business model's ability to boost a company's relative revenue. The higher the score on the revenue boost dimension a business model achieves, the higher the increase of the revenue a company tends to experience when using this model. We have also found that cost-efficiency is a key characteristic of the business models. Although not integrated in the framework, it too has an ability to affect profits directly, and will therefore be addressed in the revenue boost section.

We will now explain the business models' placement in the diagram further, starting with customer engagement.

6.1.1 Customer Engagement

The Gustin model is the business model that scores the highest on customer engagement. Companies using this model actively engage their customers on their website, where they get to decide which products get produced or not, and which fabrics these products will be made from. This is a new way of doing business in the industry that involves the customers to a great extent, and changes the content (new activity that is added to the business model) and the governance (who performs the activities) of the business model, which according to Amit

and Zott (2010) is a source to business model innovation. This is likely to create a strong customer relationship, as the customers feel that they are heard and included in the process, and it also results in products that they are more satisfied with. Customers of brands using this model might also feel proud to tell others about wearing clothes from a company that is revolutionizing the industry.

The difference between the Gustin model and *the Collection model* regarding this dimension, is essentially that the Collection model engages the customers to less of an extent. As opposed to individual products, they design collections that the customers can decide to support or not. Companies using this model might also offer other products that the customers have not pre-bought. This model is therefore placed slightly more to the left in the diagram compared to the Gustin model.

In both the Gustin model and the Collection model, the brands ask the customers if they like the products or not before a potential production starts. With crowdfunding this works differently than when early adopters pre-buys the new iPhone, as the iPhone will be produced even if they don't have a long list of pre purchases, while the future of the crowdfunded product relies on accumulating sufficient funding. Companies using the Gustin or Collection model are able to find out what their customers prefer. By asking the customers for multiple products they will not just get a "like or don't like"-response, they are better equipped to predict which attributes the customers are looking for over time.

In the *Launch model*, customers have helped the brand come to life. This naturally creates a strong relationship to the brand. Customers of the Launch model will be able to say that they were the ones that enabled a given product to get produced, which will create an added value for this customer. Nevertheless, the degree of customer involvement in this model is not given. Companies using the Launch model can choose to what extent they wish to include customers in future development of products and the company, as it is not an integrated part of the business model typology. It is likely that customer involvement is beneficial for the company, and the companies claim to be active on social media and email in order to keep in touch with their customers. Compared to the Collection- and the Gustin model, the customer engagement facilitated by this business model is moderate, while it is higher than in the Equity model.

In the Gustin-, Collection-, and Launch model, customers are involved at an earlier stage than in the traditional business model in the fashion industry. Added value is created for the early adopters as they now have the opportunity to back and purchase a product before it goes into production. Value is also created for other customers that wish to follow the early adopters and be updated on the latest trends. Through the different crowdfunding platforms, it gets more visible which products the early adopters like. Crowdfunding enables customers to instantly see what products get the most funding, thus seeing what is popular. Previous literature (Viotto, 2015) has also indicated that the cumulative capital in a crowdfunding campaign has an effect on the decisions of contributors.

The Equity model has the lowest degree of customer engagement of the different business models. Although companies in this model value the needs of their customers highly, customer involvement is not an integrated part of the business model. Companies using this model have products that their customers desire, such as ethical fur or quality basics, but having products that customers desire is an important aspect of every company, as they need people to buy their products. In other words, customer involvement is not a prominent feature of the model. The Equity model does however have a relatively high degree of customer engagement due to other factors. Crowdfunding has opened the doors for a larger amount of people to invest in companies and buy shares of both existing and up-and-coming brands. By giving more people the opportunity to own equity in companies, they open the possibility for these people to wear clothes from a company they actually own a small portion of. The CFO of DSTLD claimed that the opportunity to turn customers into owners and vice versa is one of the biggest upsides of crowdfunding. He also told us that this makes the company more willing to invest in the customers, as some of these customers (5% in their case) will want to invest in the company.

In the business models we have identified, the involvement of customers is higher the more crowdfunding is an integrated part of the business model. All of the models facilitate a sense of attachment to the customers, and the customer engagement is generally strong. This is in line with the general development of business models, which have a tendency of being more customer-oriented than before (Teece, 2010). Although the business models help facilitate a certain engagement of the customers, each individual company also affects the relationship; the story of the company, the products, and the values they stand for being important factors. Fair & Square is in the Launch model, which is ranked third in customer engagement.

However, the company has a good story in pivoting the way for a more ethical production in the industry. Consequently, a customer of the brand might have strong feelings towards Fair & Square, because one feels proud to be a responsible customer, or is passionate about the cause and therefore identifies with the brand. This implies that Fair & Square might actually have a stronger customer engagement than illustrated in Diagram 1. Thus, the importance of a good story, and not just a good business model, is enhanced in order to connect with the customers. Our diagram only shows classifications of the *typologies* of the business models in regards of customer engagement and revenue boost, and are therefore not absolute.

6.1.2 Revenue Boost

The main reason for a company to use crowdfunding is the potential revenue that comes from it. We will in this section explain the different business models according to the “revenue boost” dimension, ending with another characteristic of the models that is beneficial: cost-efficiency. In Diagram 2, the second dimension shows the difference in boost of revenue a business model gets from the crowdfunding campaign. We have illustrated this more detailed in the following graph:

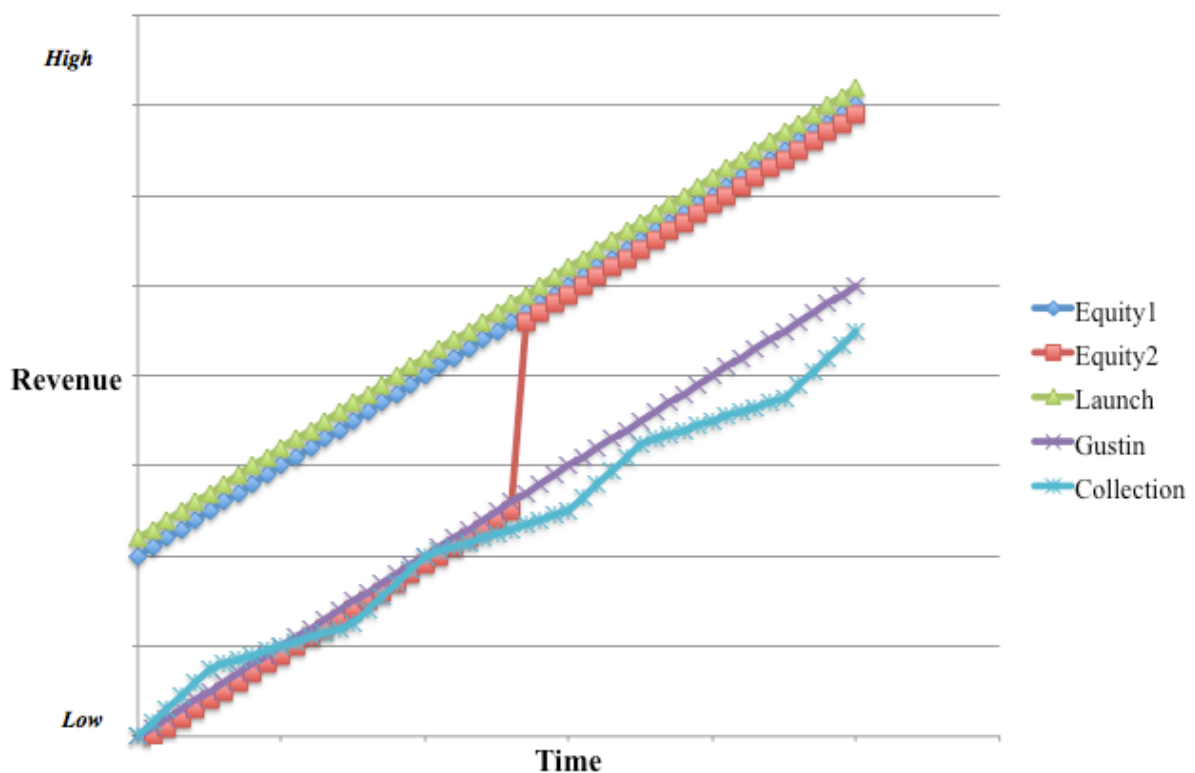


Diagram 2: Revenue Boost. Source: Authors

The illustration does not serve as an explanation for which of the models that generates the largest revenue in total, but is rather meant to show the tendency in the relative boost in revenue a company can experience using a specific business model. We have therefore illustrated the lines in a parallel manner. Besides the Collection model that has a more uneven revenue stream, the difference between the lines simply shows *when* the boost in revenue from the crowdfunding campaign occurs. Which of the different business models that are superior or inferior are not taken into consideration, as this is outside the span of our research.

The Launch model and the Equity model get the highest relative boost of revenue, given that the crowdfunding campaign is successful in reaching its goal. In *the Launch model*, the relative boost in revenue is large, as the companies start with no revenue (and limited capital), but at the end of the campaign have earned a lot of revenues that serves as their starting capital and enables them to start production and keep operations running. Therefore, they have a “boost” in revenue in the beginning of their lifespan.

Even though the term “revenue” usually refers to income from a company's normal business activities, we have decided to use it to describe the money accumulated from the crowdfunding campaign (ref. Revenue structure in the Business Model Canvas used in the results-section). In *the Equity model*, a company will be able to get a boost in revenue when they sell equity. This can be done either by selling equity in the beginning of the brand's lifetime (Equity1 in Diagram 2), or by raising money later in the lifespan of the brand (Equity2 in Diagram 2). In Diagram 2 you may see that the revenue from normal sales are the same, but the boost in revenue depends on when the equity is sold.

Companies using *the Collection model* are likely to experience a boost in their revenues when a new collection campaign is successfully completed on a crowdfunding platform, and will have a decrease in this boost as it gets further from the campaign. Consequently, we have illustrated the line showing a positive trend with fluctuations. *The Gustin model*, on the other hand, enables companies to have a steady stream of revenue as they can continuously introduce new campaigns with products. They will not experience large fluctuations in the revenue stream, thus the Gustin-line is straight, indicating constant growth in revenue.

Up to this point we have concentrated on the revenue aspect of the business models. However, there is also another aspect that might increase profits in these business models.

Cost-efficient models

We have found that the business models have an advantage over traditional companies in the fashion industry when it comes to low costs.

Secure costs ahead of production. Crowdfunding enables a company to secure some of the costs ahead of production. This applies for all of the identified business models. By having sold the products before they go into production, they have already made sure that they will be able to cover the costs of production, and hopefully also some of the fixed costs. This has been mentioned by Cook (2015), but has not been found in empirical research. The fact that the companies have received the revenue of the products before they start producing them, changes the traditional business model through “structure” (Amit and Zott, 2010). When changing the structure, or other aspects of the business model, it is important to have a systematic view where the entire eco-system in which the brand operates is taken into consideration (Amit and Zott, 2010). The new business models now require that the manufacturers and suppliers are able to deliver on short notice, thus this has to be integrated in the contracts. The contracts should also be flexible in regards to the production, due to the fact that the products will not be produced if the crowdfunding campaign fails to receive sufficient funding.

Cutting out middlemen. One of the biggest benefits of the Launch-, Collection-, and Gustin model is the cost-efficiency. With these models a company is able to reduce the costs of the clothes they sell. One of the ways the Gustin- and the Collection model is cost-efficient, is that they let companies cut out the middlemen by selling their clothes without a brick and mortar store. As mentioned by Bhatnagar and Syam (2014), a company saves costs related to rent, salary to employees in a store, cleaning expenses, and electricity, when cutting out the middlemen. One could, however, integrate brick and mortar stores in the model, where customers can come in and feel the fabric and see the prototype, as well as getting their measurements taken by an employee. Another way the business models save costs is by not needing a large warehouse to store large quanta of stock. This saves a lot of costs vis-à-vis competitors in the online store sector. By having already sold the products that will be produced, they can send these products to the customers as soon as they are finished. The majority of the companies we talked to, however, stock the products briefly in a warehouse when they get the products from the manufacturer, before re-addressing it to the customers

directly. This means that the time the stock is in the warehouse is still much shorter than their competitors.

Reliable market research. Further, the business models save costs by having the crowdfunding campaign as a sort of a “market research” that is very reliable, because the customers have to “put their money where their mouth is”. This way they get an idea of how large quantities need to be made, thus saving the costs of producing a number of items that are not sold. Another advantage of this is that if a project is not successfully funded they can move on without spending too much time and resources on the project, saving a lot of costs compared to brands not using the Launch model or the Gustin model. This has been recognized as an advantage in an article by Kansara (2013), but has not been found in empirical research on business models up until now.

Low fixed costs. Kansara (2013) also writes that it is important for start-ups to run a lean model treading carefully and allocating resources in the way that makes the most sense. Using the two models (Launch and Gustin), brands are able to do this by not having to tie their business to fixed costs, like the ones mentioned earlier in this chapter. This way, a new brand will require less start-up capital in order to get their business running, which lowers the entry barrier in the industry. It also reduces the risk of bankruptcy, as most of the costs are variable costs.

To sum up, the models are cost-efficient in terms of saving costs by not producing more than demanded, as well as having low fixed costs. It is also beneficial in terms of having some of the costs covered in advance. This implies that the risks for start-ups in the industry is lower, as both entry- and exit-barriers are lower.

The framework proposed shows that the new business models identified have characteristics such as high degree of customer engagement and different forms of revenue boost, as well as cost-efficiency. Having answered the first research question, the next section will be dedicated to answer our second research question.

6.2 Which implications do these new business models have for start-ups and the industry as a whole?

In this part of the paper, we will look at the implications of the new business models that have emerged as a result of crowdfunding, as our second research question states:

“Which implications do these new business models have for start-ups and the industry as a whole?”

First, we will discuss the implications of the high customer engagement that is facilitated by the business models. Second, we will discuss how the business models create new opportunities, as well as the competitive advantage this can provide as they are innovating the industry. Third, we will address the implications regulations have on the possibility to use the new models identified. Finally, the theoretical and managerial implications of these findings will be explained.

6.2.1 Implications of high customer engagement

Sustainable production. A benefit in many of the models that further strengthens customer engagement, is sustainable production in the sense that companies only produce what is demanded. This is especially emphasized in the Gustin model as the company only produces the items that have been ordered in advance of production. With the Collection model a company can sell a higher number than what has been pre-purchased, but the number of pre-orders still gives an indicator of how many items need to be produced. These business models can help the fashion industry meet the increasing demand for environmentally friendly and sustainable production. This way the companies will not have to use more materials than they need. It is a way for companies to save costs while also having a stronger focus on quality and running a more sustainable business.

A more ethical fashion industry? Another positive impact the models have, is that the customer involvement they facilitate could actually lead to a more ethical industry. A crowdfunding campaign often requires the companies to explicitly state aspects of their business plan. This gives customers a better overview of the companies' values and ways of doing business. Even though some of the companies might embellish the truth, the campaigns make customers better equipped to make good decisions regarding which companies to support. It is now easier for customers to evaluate other aspects of the companies than simply

the design of the product. Many of the companies interviewed highlighted the fact that their clothes are locally made (e.g. Pharrell's, Eki Orleans, Sword & Plough) and use sustainable materials (e.g. Marita Huurinainen, Fair & Square). They also seem to be aiming towards having a more transparent business. Thus, crowdfunding can help customers take more enlightened choices, which could lead to an increase in the sustainability of the companies in the fashion industry.

Customers have the ability to demand that companies run a more ethical production by supporting brands that might not have the best designs at the moment, but focus on ethical values. Fair & Square is a perfect example of this. They might have designs that are nothing out of the ordinary, but they are pivoting the way for a more ethical industry. They want to show that a company can be run ethically and still make a profit. By moving upstream in the supply chain and managing their own production in China, they make sure that their factory workers have the same working conditions as Norwegian workers have by law. The fact that customers have supported this brand, shows that they care about having clothes that are ethically produced and are willing to pay extra for these kinds of products. It creates an added value for the customers. By wearing clothes that are ethically produced, they feel better about themselves and this adds to the perceived value of the product they are wearing. In addition to this, they also feel responsible for making that specific product come to life. This added value can not be achieved by competitors using other business models.

The companies in our sample have large elements of sustainability and ethical values, which implies that there is a demand for these types of companies. With all the controversy in the fur industry, Marita Huurinainen has found a way to avoid upsetting many on the opposition side of the fur battle. The fur used in their products comes exclusively from Finnish wolves that have to be hunted in order to control animal population and maintain a balanced ecosystem. Thus, they are only using fur that would otherwise be thrown away. Sword & Plough also take advantage of such products. By using surplus materials from army clothes and equipment, they have found a sustainable way to produce clothes. With the backing of customers through crowdfunding they were able to see that there was a market for these kinds of brands. The fact that these companies succeed, might also affect incumbent brands as they see how much customers care about a company being ethical. The incumbents might adopt the new business models as they see that the customers appreciate them. It could potentially

improve the conditions in the industry. We will get back to this later in the chapter addressing implications and future research.

6.2.2 Innovative business models as a competitive advantage

We will now discuss how the business models are innovating the fashion industry in the light of existing literature, and to what degree they can be seen as a competitive advantage.

Innovative business models creating opportunities. It is quite possible that many of the companies we interviewed would not have made the cut with venture capitalists (VC), as the risks could be perceived as too high and they might not perceive the market to be sufficiently large. Further, banks might not see a market for such products, or retailers might not want to take them in, as it for instance does not fit with their customer segments. Since many of the companies did not have the required start-up capital on their own, it is possible that they would not have been able to launch if not for crowdfunding (e.g Fair & Square, Sword & Plough). According to Amit and Zott (2012), they are therefore innovative business model, as they create a new market or enable a company to create and exploit new opportunities in existing markets. The start-ups simply might not have existed if it wasn't for crowdfunding. The Equity model is in these terms also an innovative business model, as it creates new opportunities for customers to become investors in the fashion industry.

Competitive advantage. The Gustin Model can be seen as very innovative. It changes the way things are done in the industry, which Gustin claims to have experienced as an advantage when it comes to low costs, being sustainable, and creating a special bond with the customers. The Gustin, Collection- and Launch model have also changed *when* the clothes are sold. Existing literature (Magretta, 2002) states that a business model can in itself be a source of competitive advantage if it changes the way things are done in an industry, and is hard to imitate.

In order for existing brands to adopt the Gustin model, they will have to change their business model entirely, and not just adjust minor details. This gives Gustin an advantage over incumbent firms, as it makes it harder for them to imitate their business model. The business model is, however, possible to imitate. In theory, it requires a website where you post ideas for clothes and have people pre-purchase and come with feedback, as well as someone to design the clothes, and special contracts with mills, manufacturers, and transportation. An essential factor in succeeding with getting enough customers to pre-purchase the clothes is

getting people to the site and building a brand. Gustin claims that running a company on the Internet is tricky, and harder than many would imagine. A company has to be good at online marketing, social media, and personal promotion in order to imitate this model, and in this regard it is especially important to reach the early adopters. As Gustin was one of the first companies to use this model, they could have a first-mover advantage in the market, as they have been successful with marketing and building their brand.

While all of the new business models can be identified as “innovative”, not all of them are as hard to imitate. The Equity model is the business model that is the easiest to imitate of the four, especially for incumbent firms; as it does not require any further changes in the business model other than new ways of reaching the customers, and setting up on a crowdfunding campaign as long as regulations in the country support this. It can thus be seen as an innovative business model according to Amit and Zott, but according to Magretta (2002); it is not necessarily a competitive advantage over a long period of time, as opposed to the Gustin model.

6.2.3 Regulations Setting the Limitations

When companies are applying one of the new business models identified, they have to take crowdfunding regulations in their respective country into consideration. Regulations set limitations to the different types of crowdfunding one can apply, thus also to the business model. We will therefore include a section that explains this relationship for the companies we studied.

Country	Company	Relevant crowdfunding regulations
The United States	Sword & Plough Gustin Ministry Victor Athletics DSTLD	Reward-based Reward-based Reward-based Reward-based Equity-based
The United Kingdom	Pharrell's Eki Orleans EMEL + ARIS	Reward-based Reward-based Reward-based
Finland	Marita Huurinainen	Equity-based
Norway	Fair & Square	Reward-based

Table 11: Relevant Regulations for Different Companies We Interviewed. Source: Authors

As illustrated in Table 11, the majority of the companies we interviewed used a reward-based crowdfunding platform, which was also open for donations. This type of crowdfunding was used in three of the identified business models (the Launch model, the Collection model and the Gustin model). Two of the companies (Marita Huurinainen and DSTLD) used the equity-based crowdfunding in their campaign. We do not have any companies that used lending-based crowdfunding in our sample.

The US was the first country to have a reward-based crowdfunding site, and crowdfunding is generally very popular in this country compared to others. Five of the companies in our sample are from the US, and four of them (Sword & Plough, Gustin, Ministry, Victor Athletics) have primarily used reward-based crowdfunding with an element of donation-based crowdfunding (for customers that want to contribute with an amount exceeding their pre-purchases, or for customers who only want to donate). Three of the other companies in our sample had origins from the UK, which is not surprising given that the UK is a first-mover in crowdfunding in Europe and had bespoke regulations for crowdfunding (Viotto, 2015). Reward-based and donation-based crowdfunding is generally not tied by regulations, and this could explain the fact that there are a lot of successful projects using these types of crowdfunding.

When the US company Sword & Plough was launched in 2013, the JOBS Act, Title III, had not yet been passed. Equity-crowdfunding was therefore not an option for them.

“There were a lot of concerns people had with essentially unqualified investors coming onboard, and not understanding the risks involved right” (Sword & Plough, 2016).

The regulations prevented the majority of people from investing in companies, as it held strict requirements for the investors. Now however, the regulations encourage more equity-based crowdfunding by allowing non-accredited individuals to invest in the early stages of companies (Sherman, 2015). Since the beginning of 2016, Finland has gotten similar regulations related to equity-based crowdfunding (The Finnish Crowdfunding Act and the JOBS Act) that make it both easier and cheaper for firms wanting to register on such crowdfunding platforms. The Equity model is based on two companies from these respective countries, DSTLD and Marita Huurinainen, who both have used crowdfunding to grow their existing business. The equity model could also be used by small companies to gain enough

capital to launch, but this is harder to do in countries that do not have regulations supporting this, such as Norway.

Crowdfunding is not very outspread in Norway yet, and Fair & Square was actually the only Norwegian company we found that had used crowdfunding in the fashion industry. Fair & Square claimed that because a lot of people have never used crowdfunding in Norway, they chose to use a Norwegian crowdfunding platform (Bidra.no) so that the customers would not feel as alienated. As lending and equity are two types of crowdfunding that are challenging to pursue legally in Norway (Sandnes, 2015), it limits the options for Norwegian companies, and thus the business models that can be applied. The regulations are meant to protect the investors and the risks at stake (Viotto, 2015), but it is possible that it is preventing growth in the industry. As crowdfunding is increasing in popularity, it will be interesting to follow the decisions of the policymakers in regards to this. More flexible regulations related to crowdfunding could lead to an emergence of other firms and also new business models in the fashion industry in Norway.

6.3 Theoretical Implications

To our knowledge, this is the first study that identifies the new business models that have emerged as a result of crowdfunding, thus this paper is an important contribution to the literature on crowdfunding. In contrast to existing theory, we look at how crowdfunding can be implemented in a company's business model as a new strategy. Our findings show that not just one, but several new business models have emerged in the fashion industry as a result of crowdfunding. In addition to this, we describe important characteristics of the business models, and which implications they have on theory and managers.

Although our research does not close all of the gaps in the fragmented literature on crowdfunding, such as the economic benefits crowdfunding has on society, or the new business models that have emerged as a result of crowdfunding in other industries, our research is an important contribution in closing some of the gaps. Our research can work as a foundation for future research, as scholars can use our findings to look at more detailed aspects of the models, which can lead to an even better understanding. This can vary from finding strengths and weaknesses of the different models, to tweaking the different models, or looking at the prevalence of these business models in the fashion industry. Our findings can also serve as a foundation for research on business models in other industries.

6.4 Managerial Implications

The major contribution of this thesis is being one of the first scholarly studies to explore the business models that have emerged as a result of crowdfunding, specifically in the fashion industry. Our findings have implications for the industry as a whole, both start-ups and incumbent firms, in the sense that they now have new business models to apply, compete with, or take into consideration.

Our paper can open the eyes of aspiring designers when it comes to the opportunities crowdfunding provides in the fashion industry. Some of the designers we talked to in the beginning of our literature review, as well as one of our informants (Wild Thing), claimed that they did not see a huge potential in crowdfunding, and they felt that crowdfunding was like asking for charity. In the business models we have identified however, crowdfunding does not work like a charity; it is actually a good way of running a business.

The new business models are innovative. They either engage the customers at an earlier stage than usual or make them owners of the company; resulting in a strong customer engagement and an added value that is difficult for other companies to compete with. The models provide more sustainable and cost-efficient ways of selling clothes in the fashion industry. For companies, these aspects are highly beneficial, and implementing one of the new models (especially the Gustin model) could give them a competitive advantage. The new business models identified have lower risks than the traditional business models in the fashion industry, as they require few assets and less capital. This makes it easier for start-ups that have a good business idea, but not necessarily sufficient resources, to enter the fashion industry. Crowdfunding also provides start-ups with a new way to raise funding. The realization that crowdfunding can be implemented in the business model and thus be a new way into the fashion industry, can lead to a number of new brands, as it lowers the bar to start a new business.

For incumbent firms, our findings emphasize the opportunities to raise funding without going to VCs or asking the bank for a loan. This might increase their chances of expanding their business, as our informants have done. Further, incumbents have the opportunity to implement the Collection- or Gustin model in their business model. A well-known brand can for example engage the customers by running a campaign where they let the customers pre-purchase a number of products from a collection of 20 products, where only the first 10 products to reach the campaign goal will be produced, thus letting the customers decide what

gets produced and not. This way they are able to engage their customers, and at the same time increase profits and run a sustainable collection. Our findings might also put more pressure on incumbent firms when it comes to ethical business, thus changing the industry as a whole. Crowdfunding enables customers to make informed choices as to which brands to support. The fact that many of the companies using the business models identified are responsible companies, could push incumbent firms towards a more sustainable and ethical way of doing business, as they see that customers value these aspects.

To sum up, the new business models we have identified have implications not only for start-ups, but also for incumbent firms in the fashion industry. If crowdfunding regulations become more flexible in the future, the new business models might have an even bigger impact.

6.5 Limitations and Future Research

We have tried our best to both collect and analyze the data in a way that increases the quality of our research. Nevertheless, it is important to be aware of the fact that, like all other research, our research has certain limitations.

Doing a qualitative study, we as researchers play a big part in which data is collected, how we collect them, and how we analyze them. As mentioned in the methodology section, we have tried to achieve a high degree of reliability and validity. However, we are only human, and we cannot perfectly ensure that we were unaffected by biases, or on the other hand; that we did not affect the informants in any way.

The informants decided which type of interview they were comfortable with and had the time for. As a result of this, we conducted both personal- Skype-, and email-interviews. A limitation is therefore that the quality and amount of information varied more than it would have if all the interviews were of the same type. However, we did get to conduct either a Skype or personal interview in both the Pre-sale and Equity model, and we had used extensive podcasts as a secondary source for the Gustin model. This enabled us to have a lot of data on all of the models.

Further, a limitation is that our research is in the context of the fashion industry, as there might be additional business models in other industries. Thus, our research does not necessarily show the entire picture of new business models that have emerged as a result of crowdfunding in all industries.

Lastly, we would like to point out that all of the companies are relatively young compared to other fashion brands, implying that we can not state the growth potential of the models over time. Given that crowdfunding is a relatively new phenomenon, there might also be additional business models emerging in the future.

For future research, we suggest taking an in-depth look at the strengths and weaknesses of the business models that we have identified in this master thesis, as this could help improve the business models.

It would also be interesting to look at the possibility for companies that used crowdfunding to actually get backing from VCs. This meaning, would companies that use crowdfunding campaigns actually get backing if they had gone to VCs, or has crowdfunding increased the number of business ideas that comes to life?

Our research sample did not include any companies that had used a lending-based crowdfunding platform. We think that this deserves attention in the future, and suggest studying if new business models will emerge in the fashion industry by using this type of crowdfunding.

In this thesis, we have used the fashion industry as the case in which we study new business models that have emerged as a result of crowdfunding. As the topic has not been conducted research on before, we suggest that future research is conducted on the same topic, but using cases from other industries. There might be other opportunities that are inapplicable to the fashion industry, or that the industry has overlooked, or yet to emerge. Conducting a study similar to ours in a few years could also show how the new business models we have identified have evolved, or possibly been replaced by new business models.

6.6 Concluding Remarks

In this master thesis, we have contributed to existing literature and laid the foundation for future research by identifying not only one, but three new business models that have emerged in the fashion industry as a result of crowdfunding. The business models identified require fewer resources and have lower risks than the traditional business models, thus they are lowering the entry barriers for start-ups in the industry. The models have characteristics such as revenue boost, cost-efficiency, and sustainability, indicating that they have great potential for future profitability. They also facilitate a high degree of customer engagement, which

enables companies using these models to create an added value that other companies cannot match. Another advantage of the business models is that they empower customers to make informed choices regarding which companies to support or not, which could lead to a more ethical industry.

If more companies implement the new business models, the nature of the competition in the fashion industry could change into becoming more customer-oriented, sustainable, and ethical. In a world where competition is fierce, the business models we have identified have great future potential.

Crowdfunding could disrupt the fashion industry.

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APPENDICES

Appendix A. Interview Guide

Interview guide

1. Firm:
2. Name:
3. Could you tell us about your role in the firm:
4. Time with the company:

Business Model

5. What is it that you (the company) provide to your customers?
6. Who are your customers?
7. How do you segment your market?
8. What is it about your product the customers' value?
9. What are your key activities in order to create this value?
10. Which channels do you use to get in touch with your customers?
11. What kind of assets do you have?
12. Who are your key partners?
13. How do you price your products?
14. How and when do you charge your customers?
15. Could you tell us about your cost structure?

Crowdfunding

16. How did crowdfunding enable you to get financed? How did you use crowdfunding?
17. In your opinion, what is your biggest success factor?
18. Have you changed your business model since the first time you launched the company?
19. Anything else you would like to add?

Appendix B. Interview Transcripts

Appendix B.1. DSTLD (Skype Interview)

Interview type: Skype

Date and time: September 8th. 9 am Californian time, 6 pm Norwegian time.

Duration: 29 minutes

Language: English

Note: Some technical problems when using the recorder on the Mac, but this was solved by using the recorder on our phone. Otherwise – good quality.

Could you start by telling us a little bit about your role in the company?

Sure. I'm the CFO and the COO of the company, so I manage all of our finances, I manage all of our accounting, and I manage all of our operations so that includes filming, warehousing, customer services, and also all of our production management. So, anything related to placing purchase orders, so I work with our design team to program/b what we're going to order, how many of each size, what color. I'm not a creative person, so I look the creative team to look for what colors we should order. But I look at the historical data, demands, trends. Did this go well, we should order this? And I also help manage our digital marketing efforts with our marketing team, because digital marketing is so numbers-focused. So like I said, I'm not a creative person, so I am not the one creating the ads, but I am working with our advertising partners, with Facebook, to look at the success or failure of various digital marketing campaigns. So I manage a lot, but we're a small team, we're 10 people, so everyone here wears multiple hats.

Okey. So, you have ten employees? Not twelve like the website says?

Um, we are ten full-time, and we actually have three part-time now. So depending on how you look at it, ten to thirteen people.

How do you segment the market?

In terms of our customers?

Yes.

We used to be a company called 20Jeans?? And we sold only men's products. So we changed/pivoted the brand from 20Jeans to DSTLD about two years ago.

So we made the product much more premium, higher price, and we launched women's as well. So we have always sold men's, we kind of knew this phase well, and women's has been a little bit slower to come. So right now about 40% is women's, 60% is men's. We really use

Facebook initially to help acquire a lot of customers, and first we will see what Facebook tells us, and we will serve Facebook ads to a large broad audience, and we will see which subset, which demographics serves better. So it's really trial and error everywhere. We have the ability to send ads to millions to people, and then we can see which gender, geo location, age range does better. So it is a little bit trial and error, but the nice thing with Fb is that we are able to turn ads on and off very quickly, and we can get a lot of real time data, so we are not spending a lot of money on segments of the market that isn't gonna convert well.

I see. So who are your customers?

Typically, men and women, 60% men, 40% women. In general, our customers are 25-35, maybe 30-40 age group. So, a little order. Typically have a college degree, many have a graduate degree. Our price point is low for the product, the quality of the product, but paying 65-85 dollar a jean is still very expensive, so we found that we are not selling to people in college, because typically when you are in college you are buying a 30-40 dollar jeans, maybe a GAP or H&M or something.

We still saw that you had a lot of "back-to-school"-videos on Yotube, so there must be some part of college students, but maybe not the biggest part of the segment? Is that what you are saying?

Yes, so there is certainly a back to school- element to our seasonality. August and September are big sales months. I think also we call it "back to school" when people are finishing summer, the weather is getting colder. So jeans you know, you don't buy them in June, you buy them when it's colder.

What is it that you provide to the customers?

We provide a high quality premium product, at a fraction of the retail price. We do that because we are cutting out the middlemen, so instead of selling to a department store that marks up the price even more, we are selling to the consumer at the wholesale price. We don't have any stores, we are online only, so we can basically save on all these costs by going directly to the consumers. We are also selling, so it's a distilled business model, there is no middlemen. It is also a distilled brand esthetics, so if you go on our website, we try and carry basics. We carry basics in white, black, grey and denim, and everything matches, so we are trying to take the best elements of every style or product category, Instead of making 20 pairs of jeans, we are making 5-10 pairs of jeans that will always be in stock, and wont go out of style for many years. We are trying to go shallow, so not too many products in each category, but a lot of categories. T-shirts, belts, jackets, jeans, leather goods, outer wear, scarves, hats, things like that.

What do you think the customers value about your product?

I think it is a lot of the product esthetics, simple basics, but they are premium. So we are essentially offering you a 200 dollar jeans to 65-80 dollars, so its kind of the price point of Zara, but the quality of something like Fiery(?), or Helmut Lang, and.. I don't know which brands you're familiar with in Norway. But it is kind of the fast fashion and price point of Zara, but a higher quality product.

What are your key activities in order to create this value?

Well, I would say there is 2 really important elements. 1 is marketing, being able to ... marketing activities. We are not quite at the point where we can spend a lot of money on magazine advertisements and things like that, so we have to be really good at Facebook advertising, Instagram advertising, we have to explore some targeting ads, display ads, google, advertising. We have to be very data focused and data driven. So one part of it is acquiring customers at a very inexpensive rate, and the other thing is forecasting products: if you are selling to a department store, it will place some orders from a brand 6-9 months in advance, I then have 6-9 months to make for 10 000 units of a jeans. We don't have that, cause we are selling direct to the consumers. So I need to be able to order products from the factory and have it delivered to our warehouse within maybe 4-6 weeks, otherwise I have too much of my cash tied up in inventory. So we need to be able to predict demand for what people want, but also not order too much, so we have to turn our inventory very quickly. We are a start up, so we need enough cash funds to be able to support the demand of customers, but also not run out of cash. I think managing our working capital, cash flow, but also predict customer demand. So with our product team it's like ok, we have seen this design, maybe from like a high end brand, and let's try and replicate that with something similar, and get it to market really fast. So that's kind of like the fast fashion element of what we are doing.

Where are your factories located?

All of our t-shirts are made in LA. All of our jeans are made mostly in LA or Mexico, some in China, and we make all of our leather goods in India, so we are all about sourcing products that is the best quality, but also the best price. So we could make a leather jacket in Italy, but then we would have to sell it to 650-700 dollars to the customer. If you are used to paying 2 000 dollars for Italian made leather jackets, that's a good deal. But our customers don't want to pay that even if it is a good deal. So for us, we say let's make it in India, and we can still sell it for a fraction of the price. So for us it is about finding the best manufacturer that makes the best quality for the price that our customers will support. But also will give us products quickly. I can make t-shirts in Cambodia, but then it will take 2-3 months, I have to ship them by boat. That's gonna take too long. Instead I can pay a dollar or 2 more, make it in LA, but for smaller dollars, then I can order 2-300 t-shirts a time, if they sell out quickly, I can place a new order and get them in 4 weeks.

How does that work with the items that you get produced in India? Do you get them to LA, and then distribute them?

With India, it is higher price-point products, so I am ok by shipping them by air, because shipping them by air is probably 6 bucks a jacket, but when we are selling a jacket for 350 dollars, it's not that much. So, typically higher priced products are produced overseas, but of course in India our manufacturer is still very good, so it can make products in 5-6 weeks. So it is a combination of a great manufacturing partner, and of course higher price point products are able to absorb the shipping costs because we can air them. If you were to ship jackets produced in India by boat, it's gonna take at least a month.

So you get the jackets to your office and then you send it to your customers, or does it go directly from the factory in India to your customers?

It goes to our warehouse, and then we ship them to our customers.

What kind of assets do you own? Do you have an office and...?

That's it, just office, but we don't own any machinery or buildings. Our warehouse is outsourced so we use a 3rd party logistics company that stores our products and ships them. They also process all of our returns, which is great because we don't have to manage the warehouse, we can focus on the brand.

So if I order a pair of jeans from you, how long does it take before I get it?

If you're in the US, it is typically 3-5 business days. We have limited international options now we ship to the UK, Australia and Canada, and I think NZ. We were shipping to Scandinavia and Europe, but we were getting a lot of fraudulent activity. People were ordering with fake credit cards, or fraudulent credit cards, so we temporarily scaled back international shipping because we don't have the customer service staff to support handling all of the fraudulent activity. We do plan to reoffer shipping to places like Norway soon, but we had to scale it back temporarily.

Who are your key partners? You mentioned outsourcing of the warehouse?

Warehouse, we are advertising some, we are using some digital advertising agencies that we can manage. We used to do a lot of digital advertising in-house, but when you are starting to grow, and we are doing this co-funding, and most of the funds, we are using towards marketing. We start spending more and more and more on marketing, it is good to have someone help you manage that. Hiring someone internal, let's say manage all of your Facebook-marketing, is risky, because it is an expensive hire. The last thing you want is to hire someone, and then it doesn't work out. We are a start-up; we are tight on cash. So we started to use some engaging agencies that can help us scale up our advertising.

Can you tell us about your cost structure?

Yes, so if you are to buy 200 dollar pair of jeans in the US at a department store, what's happening is that the product is probably made for 20-30 dollars from the factory. The brand in this case will buy it from the factory, they'll mark it up to 60 dollars let's say, and then they'll sell it to the dept store for 60 dollars, and they mark it as 200 dollars. So there's 2 mark ups that the customers pay for. That's why, at least in the US, twice a year, you see these big sales. 50% off, 70% off. That's because department stores still make money on that, because the markup is so high. For us, we essentially cut out a 2nd markup, we sell to the customer at the wholesale price. So in general, we try to markup our product, 2-3 times depending on what product we are talking about, and we are selling to the customer at that wholesale price.

CROWDFUNDING

Moving on to the crowdfunding. How did crowdfunding enable you to get financed?

We have taken advantage of this new federal regulation. Part of the federal jobs act that was passed in 2012, it gives small companies like us, access to raise money from people other than sophisticated investors. So up until this point, the only way you could raise money as a small company, was to raise money from friends and family, or accredited investors = someone who has a net worth more than 1 million dollars, or makes more than 2 million dollars a year.

Yeah, the last couple of years, wasn't it? 200 000 for the last couple of years.

Yeah. And the reason now, is because the government to protect ordinary citizens. They don't want people to be taken advantage of. So they say, you make enough money, you are sophisticated enough to know what you are doing with your money. If you are making 30-40 thousand dollars a year, and they give you a 500 dollar check, the thinking is that they can be taken advantage of, and there'd be scams all over the place. SO that was the case for a number of years, and then the federal jobs act was passed to help/jump start the economy, and part of it is what was called Regulation A, which is essentially a mini IPO or a sort of kickstarter, but instead it's like you give me money, I give you a product, or you give me money, I give you equity. So it is a mini IPO. And it allows us to essentially .. investments from the general public. We do have requirements, so we have a file with the SEC. We have to get our financials audited annually, and the SEC will review our entire audit. SO there is some regulation around it. They are not gonna approve any company, they wanna make sure we are very transparent in all our information. But that has enabled us to essentially go public. It is a mini-IPO, and we are not traded on the exchange, but you can go on our C-fundig website, the minimum investment is 500 dollars, and there is no max investment. The great thing is, we are able to use that, we are an online-only company. We know what we are doing with digital marketing, we understand this phase, we can leverage those existing... that knowledge that we use to sell jeans to people, and we can take those processes and strategies and apply that to c-funding. And we can also target our customers as investors, and target our investors as customers. So it becomes this kind of symbiotic relationship where your

customers are your investors and vice-versa. Because it is online, it makes it easier. We know everything about our customers, we have their emails. It has changed the economics too, because lets say im willing to pay 20 dollars to acquire a new customer to buy jeans. But if 5% of all of my customers invests in the company, I am now willing to pay more to acquire a customer because theres a chance they will also invest in the brand.

So you say that you have equity crowdfunding, what does someone who invests in your equity get? Do you pay dividends, or?

No, there`s no plan yet. There`s a whole disclaimer on the SeedInvest – our platform that we are using to raise our money. But legally we are not allowed to make any promises about the success or failure of the company, or whether people are gonna get their investments back. We are not allowed to mislead investors. I can send you more information on the wording of that, but essentially theres a chance that we may fail, theres a chance that we may succeed. If we continue to well, and someone buys the company, theres a chance that someone gets return on their investment back. But as a start-up it`s risky. We make sure that`s very clear to the customer.

So you don't have anything written that says "if we have a profit of X, then you get dividends... "?

No, there`s nothing like that.

What makes c-funding different from a banking financing? That you don't have to pay anything, is that why you chose c-funding?

I'd say the biggest thing is that, if we were to get VC-money or something like that, you typically have to give up a large control of the company. We are trying to raise 2-3 million dollars. If a VC-firm would have given us 3 million dollars, theyre gonna want a seat on our board, theyre gonna want a large chunk of control. Theyre gonna be breathing down our necks to hit certain goals, to achieve really high growth numbers, which is difficult to grow 10 times from year to year, which a lot of these V-firms want to see, really high growth. As owners of the company, we said well, we could go down that route, or we could raise the same amount of money from our customers. Foster the sense of community, and grow our customer base and get people who are really fans of the brand, and help them become owners of it. But also, not have to give up control of the company. We enjoy what we're doing. We don't want to answer daily to some higher power that is driving us towards unrealistic goals. So for us, it was the most practical option. We are also the first fashion brand, apparel brand, to do it. So theres a novelty with that, which has helped with acquiring investors, we have raised over 1 million dollars so far, it is moving very fast. We are excited of where things are going.

Did you ever discuss going to the bank and getting a loan, or was that off the table right away?

We have gotten loans on our inventory. So we have what is called a scalable inventory loan, that allows us to borrow against products that we have in the warehouse, that helps us grow inventory. So we do have certain forms of financing that help us more operationally, but the reason we are doing this regulation A, is primarily to grow our marketing efforts and also probably head count (?). Most of the money will go to the marketing, we will do some new hires, but most of it will go to marketing.

You said that you are the first apparel brand to use crowdfunding. Did you use it in a marketing strategy as well?

Yeah I think so. First fashioning to get press, then ... (unclear because of sound). There's a marketing element to being the first fashion brand to do this.

What would you have done if you didn't have crowdfunding? Would you not start a business, or would you actually go to the VCs?

We would try to raise some more money, maybe go to some VCs, but fortunately this regulation came about, so it's great timing for us.

Which countries do your investors come from?

Mostly the US. Right now, if you are overseas and want to invest, you have to invest minimum 10 000 dollars. There's some rumour around that, we're trying to lower that, but all of our investors now are US-based.

We saw an interview that Mark and Cory did with Business Rockstars, they talked about how you're the only one with this kind of business model. But as you explained it, it is not rocket science. Do you think that others might follow your lead, or is it something, because you had the crowdfunding...?

I think the c-funding is helping a lot. It is very difficult to do a direct consumer-apparel brand. There's not many people who has done it very well. One of our competitors goes by the name of Everlain. They're in San Francisco, and they're about two years ahead of us, but it is very difficult when you are doing an online direct consumer-fashion brand, because you are vertically integrated, so we manage production, filming, customer service, finance, everything. So there's a lot of people required to do this. And then of course as I mentioned, it is difficult to make sure you have the right product for the right person at the right time. I can't be sitting on millions of dollars of products in our warehouse. Otherwise, we'll have no money. So it's not impossible, but I think we are definitely getting some first-mover advantage. We have been doing this for a while, and understand that it is not easy to do this. But you know, there's always the possibility of competitors coming, but I think we also live that LA kind of brand-lifestyle, kind of an edgy, denim. People in LA dress casual, people wear jeans to work, so I think we are taking advantage of the LA-lifestyle.

So in your opinion, what would you say is the biggest success factor that you have?

I think we have been able to acquire customers very easily, and denim, jeans are hard to make, and that's our core product; so we partner with the right manufacturers to be able to make high quality products to our customers at a very competitive price.

Have you changed your business model since you first launched it? You said you first sold to men, and now it is to women as well, but are there other parts?

About 3 years ago, we were 20jeans.com. We were selling cheap 20-30 dollar jeans to men only, made in China, not the best quality, but we have to sell a lot of 20 dollar jeans to make money, because there's fixed costs to everything, you still have to pay a certain cost to acquire a customer, so we decided to pivot in 2014, and we went to 20-30 to 65-80 dollar jeans, we are premium, much better quality, and we've also gone into women's. So I think that was one big business model change that we made.

When you get the products to your warehouse, how is the shipping to your customers? Do you ship everything by air or?

Yeah, we mostly use US postal service to ship.

Who is it that designs your products?

We have an in-house designer that does a lot of the designing. Even Corey, who is one of our co-founders, he is also our creative director. So he provides a lot of creative direction. But we do have a designer in-house that understands the more technical aspects of design. Plus, he has tons of experience on product design on both men's and women's, so he has a great eye.

How often do you come up with new collections?

All the time. We are always launching new products.

Is there anything you would like to add?

No, I think that's it. Feel free to shoot me an email with any other Qs you may have as you're going through your thesis. Happy to help! If you have any other questions?

No, not right now at least. We are really thankful that you took the time to do the interview. Thank you so much!

Happy to help, best of luck.

Appendix B.2. Fair & Square (Face-to-face Interview)

Interview type: Personal

Location: Mariboesgate 8, Oslo

Date and time: 19th of October, 11:30 AM

Duration: 42 minutes

Language: Norwegian

Kanskje du bare kan starte med å fortelle om din rolle i selskapet?

Ja. Jeg er daglig leder i Fair & Square, og gjør alt og ingenting.

* Latter *

Så ja, og samtidig som vi i Fair & Square i Norge eier et selskap i Kina, som er vår fabrikk. Og på den måten så, jeg leder jo ikke fabrikk, vi har en produksjonsleder, men jeg har mye å gjøre med hva som gjøres på fabrikk også.

Ja, skjønner. Er det en fabrikk?

Det er en fabrikk, med fire ansatte. Så det er ikke veldig stort ennå, men forhåpentligvis så kommer vi til å bli det. Altså, vi åpner jo nettbutikken nå i januar, og da er det jo liksom det som avgjør i hvilket tempo vi kan utvide. Hvor mye vi klarer å selge, hvor mye vi klarer å nå ut til folk.

Jeg så dere hadde startet med testproduksjon. Har dere startet med den "skikkelige" produksjonen også enda, eller?

Ja, vi har startet den ordentlige produksjonen. Vi solgte jo ut 1000 t-skjorter i mai/juni, og de er nesten ferdigproduserte nå, så de skal vi levere i november, og så begynner jo vi med en gang å lage de første produktene som må være klare i nettbutikken til vi åpner. Så nå går det for fullt.

Stilig. Hvordan var det dere fastsatte det målet dere hadde på crowdfundingkampanjen? Med 1000 t-skjorter.

Det var litt ut ifra det vi trodde var mulig å få inn. Og så var det liksom om det tilsvarte det vi trengte for å starte opp. Men hadde vi trodd at "nei, vi klarer helt sikkert ikke mer enn 600 t-skjorter, da hadde vi valgt 600. Og så hadde vi heller sett etter penger et annet sted. Vi var liksom, vi hadde på følelsen at vi skulle kunne klare 100 t-skjorter, og det gjorde vi. Vi kom jo godt over, hva var det vi endte på?

70 000 kr mer enn målet.

Ja, vi kom jo nesten 100 000 over, altså i penger så det blir jo 200 t-skjorter eller noe sånt.

Ja, det er kjempebra. Vi kan gå litt over på forretningsmodellen deres. Hvordan er det dere segmenterer markedet? Har dere gjort noe sånt arbeid?

Eh, ja og nei. Vi sliter litt med å finne veldig definert målgruppe. Og det er litt kanskje pga. At vi startet dette ut ifra verdier og endringer vi ønsket skulle skje. Ofte så begynner man jo ofte med produktene, plaggene, og så tenker man, ”Ok, er dette klær for folk som liker å gå litt stivt kledd på jobb, eller er det ungdommer som skater, eller. Men det utgangspunktet har ikke vi, og så i tillegg har vi basic-plagg. Så det er veldig vanskelig å si at ”en basic tskjorte, det er for den eller den målgruppen”, så vi har jo snakket mye om det, vi føler litt at hvis all vår kommunikasjon tar utgangspunkt i være verdier, og det er grunnlaget, så vil det være med å kanskje peke litt ut vår målgruppe. Og så tror vi jo egentlig på ”millennias”-aldersgruppa, litt ut i 20-åra, gjerne har fått seg jobb, kanskje opp til 40, litt sånn identifiserer seg med, ønsker endring, føler seg opplyst, eller får med seg ting i verden. Men egentlig, ganske unge under 40, men vi tror likevel at det er veldig mange over 40 som kan ha sansen for dette her, og kan kjøpe det. Så vi strever litt sånn helt tydelig. Det blir veldig på verdiene, hva er det vi ønsker å kommunisere. Og vi ønsker å være litt annerledes. For eksempel, vi ønsker ikke å bruke vanlig eller standard modeller, det er en ting som skiller oss ut der, og så prøver vi å skille oss ut på flere områder.

Så det er mer verdiene og ikke produktene som avgjør kundene da?

Ja. Men samtidig så ønsker jo vi å nå ut til mange flere enn de som er etisk bevisste, eller ønsker å være med på å endre klesbransjen. Altså også de, hva skal man si, egoistiske kundene, (* latter*) som tenker bare på produktet, at vi ønsker jo også å nå dem. Og derfor så har vi fokusert på at det skal være likeverdig og verdt den prisen vi setter, eller at man føler at det er verdt den prisen vi har satt. Så en tskjorte kommer til å koste 400kr, og det er det jo også andre tskjorter i markedet som gjør, som ikke blir produsert på noen mer eller mindre etisk måte enn de fleste andre klær i markedet som også er billigere. Så hvis de klarer å selge tskjorter for 400kr, så må jo vi også det.

Så hvilken verdi føler du kunden får av å kjøpe en t-skjorte fra dere?

Altså, den er laget av bambus, 95% bambus, 5% elastan. Så den tilbakemeldingen vi får er at det er veldig godt å gå i, veldig behagelig, veldig mykt. Og så jobber vi selvfølgelig med at det er en god passform, og at kvaliteten er god, slik at den skal holde lenger. At vi for eksempel legger på søm på skulderen for at den ikke skal gå opp, vi legger på ekstra sømmer der vi tenker det er nødvendig, slik at det holder bedre.

Hva vil du si er hovedaktivitetene for å skape verdi i bedriften?

Altså, på en måte salgskanaler?

Ja, eller mer hva som er viktige aktiviteter i bedriften deres? For at det skal gå.

Innad i bedriften?

Ja, innad i bedriften. Er det for eksempel design dere legger mest vekt på, eller er det..?

Jeg føler vi driver med litt av alt. Altså, det er jo veldig mange som ønsker de produktene vi kommer med, altså etisk produserte klær. Men vi må jo nå dem, altså de må jo høre om dem. Altså, vi kan ikke at det er ingen som er interesserte hvis det er ingen som har hørt om dem. Vi har jo kanskje brukt en del tid på sosiale medier, og tenkt på måter å nå så mange som mulig. Og hvert fall i begynnelsen, og nok folk til at det går rundt, så det er kanskje noe vi har hatt veldig mye oppmerksomhet på. På fabrikk, så har vi mye oppmerksomhet på at alt er veldig nøye gjort. Det kommer litt an på hvor i bedriften man er, hva man har brukt mye tid på da. I Norge, så er det å nå folk, og i Kina, at alt er veldig nøye gjort.

Hvordan har dere kontakt med kunder da? Hvilke kanaler bruker dere?

Det er sosiale medier som er det største. Og så er det for eksempel e-poster, Instagram. Vi hadde et par stands, men det er sånn direkte konvertering. Så det har jo vært mest på nett egentlig, som vi har vært mest synlig.

Hvilke eiendeler har dere? Jeg så dere leier en fabrikk i Kina?

Ja, vi leier et lokale, og så eier vi seks-syv maskiner, vi eier maskiner for å klippe stoff, vi eier flere tusen kilo stoff, vi har jo på en måte innredningen på fabrikk da, som vi eier selv. Og ellers så eier jo vi ikke så mye. * Ler *. Vi eier noen ferdigproduserte klær.

Hva var det som avgjorde at dere valgte Kina som land å produsere klærne i?

Det handler om hvilke kontakter vi har, eller jeg har. Hvor jeg kjenner folk, jeg kjenner en del i Kina som jobber i produksjon. Så det handler rett og slett om hvor vi har kontakter.

Ok. Han som er produksjonsansvarlig, kjente du han fra før?

Ja, jeg har kjent han i mange år.

Hvordan da? Kan jeg spør om det?

Han kom jo fra dette området, og det er jo egentlig et turistmål, slik at jeg var å besøkte noen i samme provins, og så dro vi dit, og da kjente hun jeg var på besøk med læreren hans på videregående. Og så var det en mulighet for dem og øve engelsk, det var han og en annen venn som jeg traff og så kunne de øve engelsk og vi kunne spørre dem.

Jeg las at dere får leie produksjonslokalene gratis fra de kinesiske myndighetene de første to årene?

Ja, eller vi endte ikke opp der. Det var flere ting som gjorde at det ikke var det riktige for oss nå å benytte oss av det tilbudet.

Ok, for det va visse lokaler som de hadde tilbud om eller?

Ja, de hadde bygget en industripark. Og da var det jo, en ting var at det ble litt stort, vi kunne jo få flere hundre kvm, og det ble egentlig litt stort og litt for dyrt for oss i begynnelsen. Altså, selv om det var gratis, så forplikter du deg i en kontrakt over lengre tid, og det var månedlige administrasjonsgebyrer og den type ting. Så det var billig for den størrelsen, men når vi var i så liten skala, og alt er så usikkert, så hadde det blitt litt sånn, oss midt i et ... * latter * .

Ja, det forstår jeg. Du nevnte litt i sted om prising av produkter. Tenker dere sånn ca 400kr, eller var det mer 2-300 (stod på crowdfundingsiden)?

400 for en tskjorte, 500 for langermet, og så 300 for singlet.

Hvordan har dere fastsatt de prisene da?

Noe er jo kostnadene. Så vi har jo sett på, hva koster det egentlig å lage t-skjortene, hva slags kostnader har vi i Norge, og at vi må ha litt overskudd og investere videre, og også bygge opp litt egenkapital da, så vi har sikkerhet. Så det er litt ut ifra det, og så er det også litt ut ifra resten av markedet, altså hva kan man selge en t-skjorte for i Norge. Så vi har gått rundt og sett litt t-skjorter til 1 000 – 2 000 kr, og da tenkte vi: ja, 400kr er ganske billig det. * Latter * Så ja, det er litt sånn, flere ting samtidig da, som har gjort at vi har landa på den prisen. Og så har vi på en måte sjekka med noen da, er denne 400kroners t-skjorta like bra som de andre 400kroner t-skjortene. Og det mener vi at vi har et like bra produkt, sånn at vi føler at kunden vil føle det er minst like mye verdt da, som andre t-skjorter til 400 kroner.

Hva er det du føler er deres konkurransefortrinn i forhold til konkurrentene?

I Begynnelsen, så er det jo dette med etikk tenker jeg. Og at vi er helt åpne med alt, slik at man kan vite hvem som faktisk lager klærne som du kjøper. Det er jo ganske unikt i markedet i dag. Og så er det jo at vi bruker et stoff som ikke er så vanlig, det er jo en del som har det i sokker og underbukser og slikt – bambus. Men veldig lite i andre typer plagg. Så det er jo et konkurransefortrinn.

Er det mer med tanke på at det er behagelig, eller er det miljøvennlig og sånt også? Jeg kan ikke så mye om Bambus.

Det er veldig behagelig, det er nok det første kundene vil tenke på. Men det er også, Bambus er en veldig rasktvoksende plante, den trenger ikke mye vann og sprøytemidler, og derfor så er det for så vidt et bra alternativ til den konvensjonelle bomullen. Og så er jo selvfølgelig

ikke bambus perfekt, men det er vertfall bedre enn den konvensjonelle bomullen. Sånn ut ifra den informasjonen vi har funnet.

Tror du at deres kostnadsnivå blir høyere enn andre konkurrenter, siden dere bruker litt mer etiske...?

Ja det blir mye høyere. For det første så bruker vi et ganske dyrt stoff, det vi bruker er 70 kr, 70 yun(?) per kg, og hvis du bruker vanlig bomull, så er du helt sikkert under 20/10, altså masse lavere, kanskje 5kr på kiloen. Og så koster jo arbeidskraften mange ganger det vanlige. Fordi det er normalt å jobbe 90 timer i tekstilbransjen. Vi har 37,5 timer, det samme som i Norge, i norsk AML. Det, samtidig som vi har høyere lønn. Timelønnen vår kan man jo på en måte har jo mer enn doblet seg, og så har vi betalte ferier, det gjør at på en måte i løpet av et år, så er det jo nesten en måned som man får betalt der man ikke produserer noe. Så den tida må jo fordeles på alle plaggene. Og så bruker vi mer tid per plagg, fordi at vi ønsker at det skal bli nøye gjort, og kvaliteten skal være bedre, og så har vi flere sømmer på hvert plagg. Sånn at hvis man sier at vanligvis så burde en t-skjorte, eller vanligvis så er det slik at det tar 7-10 min på en t-skjorte, så ligger vi kanskje på mellom 20 og 30. Men nå har vi ikke kommet sånn skikkelig i gang, så det er litt vanskelig å si når vi er ordentlig... På andre året kan det hende vi vi vet eksakt hvor mye vi bruker per t-skjorte, men vi bruker jo mer tid, kanskje det dobbelte eller tre ganger så lang tid på en t-skjorte, som andre. Og det gjør at arbeidskraftkostnaden på den t-skjorta også går opp, sånn at arbeidskraftkostnad på en t-skjorte er kanskje 7, 8, eller 9 ganger så høy. Så det gjør jo at alt blir jo dyrere. Nå er vi jo i små kvanta, så shipping blir dyrere, mange sanne ting er også litt dyre nå da. Men det er jo forhåpentligvis midlertidig, at med de tingene, så vil vi komme... Men selvfølgelig, det er jo dyrere å produsere ordentlig. Fordi for å få billige klær som vi er vandt til å få hos de billige kjedene, så må man jo utnytte folk.

Men dere tjener penger på de prisene dere har satt, med tanke på kostnadene, eller?

Ja. Vi må det. Fordi vi ønsker at det, det skal ikke være sånn at, i Norge nå, så er det ingen som får lønn. Men på sikt, så må det jo være en bedrift hvor folk arbeider, ikke sånn frivillig opplegg. For da får vi jo heller ikke vist noen at det går an. Da viser vi bare at "nei, det går ikke an". Så vi ønsker jo på en måte å vise at detter er faktisk mulig.

Litt over til crowdfunding. Hvordan har det hjulpet dere?

Det vi har hatt av oppstartspenger er jo fra crowdfunding. Så vi fikk jo nesten 500 000kr, og det er jo, altså vi har jo hatt til sammen 750 000kr tror jeg, nei 700 000. Vi har satt inn noe egenkapital, altså oppstartskapital, og så har vi lånt noen penger. Så 500 000 av disse 700 000 er jo crowdfunding. Så hadde vi ikke hatt det, kunne vi ikke ha startet opp.

Hva hadde dere gjort da, vet du det? Har dere prøvd å gått til bank og slik for eksempel?

Vi har liksom ikke, ja, kanskje vi hadde prøvd, men det er litt vanskelig fordi vi har jo satt en begrensning på oss selv med at vi ikke ville ha investorer, fordi at det er en grunn til at de investerer penger, og det er ofte for å tjene penger. Og så har vi som regel i selskapet at man kan ikke ta ut overskudd. Og de som har investert mest, har også makten i selskapet. Sånn at vi ønsket ikke ha med noen som vi ikke visste, som kom til å bytte mening at ”men hvis vi gjør litt sånn, så kan det jo hende at vi tjener litt mer penger”, altså det er ikke det som er målsetningen. De fleste selskap har jo som hovedmålsetning å tjene mest mulig penger for investorene. Og da gjør man jo masse logiske valg for å nå det målet. Vårt mål er å skape flest mulig gode arbeidsplasser, primært nå i tekstilbransjen, og da gjør vi en rekke logiske valg for å nå de målte, og da ville vi ikke bruke tid på sånn intern kringling eller maktkamp om hva som egentlig er vårt hovedmål. Så derfor så ønsket vi jo ikke noen eksterne. Og da hadde vi egentlig satt begrensningen på oss selv, at dette måtte vi få til! * Latter * Og det kan hende det var reflektert i da hva jeg og en som heter Håvard som var med helt fra begynnelsen av i Norge, hva vi har gjort i den crowdfundingsprosessen, fordi vi har jo spammet alle vennene vi har på Facebook, med liksom en personlig melding. Liksom, er dette noe for deg å støtte? Og det har jo gjort at mange har sett det, og mange har gått innom, hvor mange også har støtta. Sånn at vi har jo også vært ... i metoden. Fordi det handler også om at andre skal tjene penger, så da tør man kanskje å gå litt lenger med liksom å spamme folk litt mer. Fordi det er ikke vi som skal tjene penger, vi skal liksom rydde litt opp.

Ja, ikke sant. Det er en god sak. Vet dere hvem det er som har bidratt? Har dere en oversikt over det? Er det mest venner og slikt, eller?

Det er jo en del navn jeg kjenner igjen, det må jeg jo innrømme. Men det er ikke 1000 personer jeg har spammet på Facebook som har bidratt. Så det er jo masse folk jeg ikke vet hvem er og ikke kjenner. Vi ligger jo en slik video, en crowdfundingsvideo, og den fikk jo ganske god spredning utover. Slik at det er folk som har delt den videre, og da kan man jo nå ganske mange på sosiale medier.

Har dere forandret forretningsmodellen noe siden helt i oppstarten?

Nei, ikke egentlig. Vi har jo kanskje sånn, budsjettene og målsetningene og slik, å gjøre de mer og mer realistiske hele veien. Og det er jo for så vidt fortsatt veldig vanskelig. Det er veldig vanskelig å lage budsjett for 2017, for vi vet jo ikke hvordan oppstarten går. Altså det kan jo gå bedre enn vi håper, det kan også gå verre. Og da er det veldig vanskelig å si, hva skjer egentlig i september 2017, når man ikke en gang vet helt hva som skjer de tre første månedene. Så det er jo noe som vi for så vidt endrer på hele tiden. Og så har vi jo utsatt oppstarten fra november til januar fordi vi så vi ikke klarte det, så sanne ting, det grunnleggende. Hva er det vi ønsker å selge, hva er det vi ønsker å formidle, hvem er det vi ønsker å nå, hva er det vi ønsker å formidle, det har ikke egentlig forandret seg.

Tenker dere først nettbutikk, eller?

Vi ønsker å prøve flere kanaler samtidig. Vi skal ha egen nettbutikk, vi prøver å selge til andre butikker. Og så produserer vi gjerne for andre merker, fordi vi er jo både utsalg og produksjon, sånn at vi kan produsere klær vi ikke skal selge med eget merke. Og så, for da kan jo folk få garantert at det er etisk. Man kan se arbeidskontrakten, på en helt annen måte en når man leter etter leverandører i dag. Og så kan vi selge til bedrifter hvor vi trykker på logo og slike ting. Så vi prøver liksom mange kanaler samtidig, og så vil vi etter hvert se litt hva som er lønnsomt, og antagelig kjøre hardere på det som er mest lønnsomt. Fordi vi er jo begrenset med folk også, så hvis vi ser at privatsalg er mest lønnsomt, så må vi kjøre hardt på det.

Hvilke hovedpartnere er det dere har? Eller har dere noen samarbeidspartnere?

Egentlig ikke. Vi liker å være frie. Det er egentlig en rekke veldig engasjerte mennesker som vi har med. Det er veldig mange som ønsker å bidra, altså sånn med sin kunnskap. Så vi har jo nå en som jobber i Norgesgruppen som har jobbet i Varnergruppen før, som hjelper til, designeren vår har jobbet i Varnergruppen med Bikkbok, hun jobber jo også gratis nå midlertidig. Så det er veldig mange som, fotograf som ønsker å bidra. Sånn at samarbeidspartnerne våre er egentlig oss som kommer inn og får det til å bli ordentlig profesjonelt. Men vi har ikke egentlig noen eksterne samarbeidspartnere på den måten.

Nei. Er de ansatte de du fortalte om nå?

I Norge nå, så er det ingen som tjener noen ting. Så det er fire ansatte i Kina, og i Norge så jobber jo alle gratis enn så lenge. Og så i 2017 så vil vi kunne ansette folk med lønn.

Hvor mange er det som hjelper til i Norge da?

Altså, vi er sikkert 20 personer hvert fall, mer eller mindre. Altså noen har jo bare vært inn og ut et par ganger, i et par møter. Vi kan presentere planene, de kan komme med innvendinger, tilbakemeldinger, blant annet en som jobber med merkevare, noen som jobber med forskjellige ting. Så ja, det er jo ca. 20 personer da ca, som er mer eller mindre involvert.

Så dersom du skal fortelle hvilke kostnader dere har, hovedkostnadene, hva vil det være da?

Nå?

Ja?

Sånn det som faktisk går ut av bankkontoen liksom?

Ja.

Det er jo produksjon. Det er jo Kina, fabrikken vår, kostnadene, altså produksjonen av varene. Og så er det jo å få de til Norge, og så er det nettbutikken, og utsendelse av varene til kunden.

Hvordan sender dere varene da?

Jeg tror det blir med posten. Men vi har en avtale, eller vi holder på å lage en avtale med et lager som samarbeider med den nettbutikksselskapet, altså det er et lite selskap i Kvitseid, jeg kjenner en som jobber der. Altså de programmerer, de designer nettbutikken selv, og så programmerer de. Med alle disse løsningene som må inn i en nettbutikk. Og de har en avtale med et lager som sender ut til kundene. Og jeg tror det er Posten som sender ut dette her. Men vi driver å gjøre klart alt nå til Januar, så det er fremdeles mye som er litt sånn... Jeg føler jeg ikke kan si veldig konkret om noe før vi har liksom gjort alt ordentlig en gang. Og så ”sånn ja, det er sånn det fungerer”. For jeg finner egentlig ut litt sånn mens det skjer.

Det er en spennende prosess da!

Ja det er det.

Men alle disse 20 menneskene i Norge, hvordan har dere fått kontakt med de? For eksempel han i Varnergruppen?

Ja, det er egentlig gjennom Facebook da. Det er Facebook-siden vår som har over 12 000 personer som liker, og da som har delt og som har tipset videre, og som har sett, tatt kontakt selv, sendt e-post. Altså hun designeren, hun sendte epost selv og sa at hun ville være med på dette her. Og så har vi noen ambassadører, vi har liksom en gruppe. Så da blir det jo enda flere enn 20 da. Vi er en gruppe med, nesten alle er unge mennesker, så er veldig engasjerte for dette her, som liksom ønsker at dette skal gå bra, og er det vi kaller ”ambassadør”. Og de snakker jo til venner og kjente, og promoterer. Og så har vi en fotograf vi samarbeider med ikke sant, og han fikk vi jo tips om gjennom en ambassadør, og så hadde hun snakka med han om hvor bra dette var, og da var jo han veldig, hadde lyst til å være med ikke sant. Så det er liksom å skape sånne ringvirkninger gjennom å engasjere eller få med så mange som mulig som ser at ”oi, dette er faktisk en god ide”. Og da kan jeg bidra litt, jeg trenger ikke å bidra, man trenger jo ikke å bidra masse heller, men bare liksom jungeltelegrafene da, er det beste form for markedsføring. At folk forteller ”oi, jeg har oppdaget dette her”, det er en mye mer troverdig måte å høre ting på, enn store plakater. Så vi tror nok at det kommer til å være det som gjør at vi får dette til. For vi er jo sikre på at vi skal få dette til! Jeg tror det som kommer til å gjøre det, er jo egentlig den type, altså det er alle de menneskene som ser ”dette her er noe jeg har ventet på, for at skal skje” og så har de selv da tatt ansvar for at det skal skje. At man har sagt, ja, men da skal jeg være ambassadør, og så skal jeg prate om dette her. Og det er alle de kombinasjonene av alle de menneskene, alle de som har tatt litt eller mye ansvar, som gjør at vi kommer til å få det til. Ikke egentlig meg, eller Håvard eller Fang, det er totalen av alle de som vil bli litt engasjerte eller mye engasjerte, og snakke litt om det.

Disse ambassadørene, hadde dere de før crowdfunding-kampanjen, eller har de kommet etterpå?

Det husker jeg ikke. Jeg tror vi, jo vi hadde noen på forhand. Ca. En måned før, så begynte vi å etterlyse ambassadører. Så det var flere av de som var aktive, og delte og slik under den perioden. Så jeg tror også det er jo sånn, hvis man skal få til crowdfunding, så må man jo få til en crowd! * latter* . Og da må man jo få til en veldig tydelig plan, på hvordan skal vi få nok mennesker. Ikke sant, hvis du skal selge 1000 t-skjorter, da må du jo kanskje nå hvert fall 10-20 000 personer. Og da må du vite hvordan du skal nå disse 20 000 personene. Du kan ikke bare opprette en nettside og ja.. Den nettsiden, det er jo egentlig bare betalingsløsningen. Det er jo veldig få, hvert fall i Norge, som går inn og ser etter prosjekter å støtte. I USA er det kanskje litt mer kultur for det, men i Norge så ja. Så da er det nesten bare betalingsløsningen, og så må man selv finne ut ”Ok, da hvordan skal jeg sende folk til den siden”.

Hva var det som gjorde at dere valgte Bidra.no som plattform? Kunne dere også for eksempel ha brukt mer internasjonale sider som Kickstarter?

Altså grunnen til det er jo at det er Norge vi skal nå. Vi har ikke kapasitet til å nå det internasjonale. Og da vil vi ha prisen oppgitt i norske kroner, vil vi ha alt oppgitt i norsk, ikke sant, at knappe plutselig er på engelsk. Liksom slike ting som gjør at noen kan plutselig føle seg litt fremmed. For jeg tror at i Norge, så er ikke crowdfunding veldig vanlig. Så det er også det at de folkene vi skal nå, har kanskje aldri vært med på en crowdfunding-kampanje før. Og da er det slik at når man kommer inn, så må man forstå hva som skjer. Så det er litt det, og også sånn at det at de sitte i Norge gjør at man kan ta kontakt med dem, ”ok, nå er det et problem”. Vi har fått god oppfølging underveis når noe har blitt feil, så det er også noe som spilte inn på den avgjørelsen. Det er liksom, norsk side, vi er i Norge, vi skal nå det norske publikum, da tenkte vi at det passet.

For måten å bidra på var å kjøpe en av de tre pakkene som dere tilbydde, stemmer det?

Ja, så man kjøpte jo egentlig produktet. Det var noen som bare ga, eller donerte penger, men det var i utgangspunktet at man kjøpte en t-skjorte, eller to t-skjorter eller fire.

Opplevde dere noen positive eller negative sider ved å bruke crowdfunding?

Positive er vel at vi fikk inn penger. * Latter * . Negative, neeei, ikke egentlig sånn. Altså det gikk jo veldig godt for oss, altså vi hadde en veldig god plan, det er viktig egentlig å påpeke at vi var ikke heldige, vi hadde en plan som vi fikk gjennomført, og så gikk det litt bedre fordi at vi klarte å engasjere nok mennesker. Men det handlet jo om å ha en plan. Så sånn sett, så vil jeg ikke si at det var så mye negativt. Det var veldig positivt å se at man klarte å lage en plan og gjennomføre den egentlig.

Ja, det må være veldig kult å se når tallet stiger og det tikker inn med bestillinger.

Ja, det var veldig, det gjør jo at man får følelsen av at dette kan gå. For hadde ikke crowdfundingen gått bra, og den type planer man har, evner til å legge, ikke fører til de resultatene man ønsker, så ville det jo sett litt dårlig ut for de neste rundene. Så det gjør jo at vi kanskje føler at vi har noe kontroll, over oversikt over hva som nå kreves i de neste rundene. Hva vi må gjøre, hva vi kan forvente.

Så det blir på en måte, også for å teste markedet litt, eller?

Du kan jo si det. Og så for å teste oss selv egentlig. Fordi det er jo ingen av oss som har jobbet med varesalg før. Hvert fall ikke vi som drev med crowdfunding. Det var egentlig mest meg og Håvard, og han er jo nettopp ferdig grafisk designer. Så vi hadde jo ikke drevet med dette her, så vi fikk jo se da. Om vi faktisk har forståelse for noen av konseptene. Hva er det egentlig som kreves.

Ja, hvilken bakgrunn er det dere har?

Jeg er ballettdanser, og så har jeg jobbet her i en deltidsstilling i et par år, og det er med verving av medlemmer i organisasjonen. Så det ligner jo litt, i det at når du verver en person til å støtte en organisasjon, så selger du jo ikke en vare, du selger da på en måte en ide. En visjon, en drøm som vi kan bli enige om er veldig bra, og som folk kan bli enige om ”ok, jeg ønsker så mye at vi skal komme dit, at jeg betaler en månedlig sum til dere for at vi sammen når det målet”. Og det er jo litt det crowdfunding er også, fordi vi har ikke direkte varesalg ved det at du gir produktet med en gang, men man selger jo en ide om at hva vi kan få til hvis vi når dette målet, så og så mye penger. Sånn sett var det jo noe likhet der. Men i verving så er det jo 1-til-1 samtaler på gata, eller dører og telefon, og dette er jo litt men sånn digital verv da.

Hvilken erfaring har Fang da, har han erfaring med produksjon eller noe sånt?

Da vi bestemte at Fang skulle være med, eller Fang bestemte at han skulle være med, så hadde han ikke det. Så det første han gjorde da, var å jobbe i en vanlig tekstilfabrikk, og jobba der... kommer aldri på hvor mange måneder det var. 7-8 måneder for å få den erfaringen som krevde. Og mens han var der, så prøvde jo han å lære seg så mye som mulig om produksjon. Så han er jo på en måte litt som oss, vi er jo nybegynnere, vi lærer litt underveis, men vi er villig til å gå litt lenger, som gjør at vi er de rette personene til å starte opp dette her. At vi er de som er villige til å ”ok, jeg kan ikke dette her, men da lærer jeg meg det”. ”Ok, men vi må stase sånn”, vi er villige til å jobbe, eller han får jo betalt nå da, men vi er liksom villige til å satse på dette ut ifra de verdiene og den drømmen.

Så, skal vi se.. Skal bare sjekke at vi har kommet gjennom alt her. Er det noe du har lyst til å legge til?

Nei, det er ikke jeg som skriver masteroppgave så. * Latter *.

Jeg tror jeg har alt egentlig, som jeg kommer på hvertfall. Har dere lyst til å være anonyme, eller?

Nei! Vi er gjerne ikke-anonyme vi. Full åpenhet.

Ja, supert. Og tusen hjertelig takk for at du tok deg tid.

Ja det var bare hyggelig. Dere kan jo sende oppgaven når den er ferdig, det hadde vært morsomt å lese.

Det skal vi. Veldig spennende bedrift.

Jeg håper du følger oss på Facebook.

Ja, det skal jeg gjøre.

Ja, du må det! Jeg kommer til å sende deg en epost og minne deg om det.

** Latter *, ja du får sjekke etterpå. Nei, men veldig kjekt å få med en bedrift som dere. Det var vanskelig å finne norske bedrifter som hadde brukt crowdfunding. Så vi har funnet en del i utlandet, i USA og England og litt slikt.*

Det er noe i Danmark. Sånn økologiske boksere. Jeg vet ikke om du har sett det?

Jeg tror ikke det.

For de samlet inn 1 million til økologiske boksere. Og de er jo litt nærmere enn England og USA.

Ja, det har blitt litt Skype. Men veldig kjekt at dere gjør noe helt nytt.

Ja, men det tror jeg også, hvis dere skal klare det på crowdfunding, så må det være tydelig hvorfor skal folk faktisk støtte. Hvorfor skal vi vanlige mennesker støtte dette her. Og hvis man får inntrykk av at du har lyst til å starte noe som allerede finnes, for at du skal kunne eie noe og tjene masse penger, så er jo ikke folke interesserte i det. Da må det være noe nytt, en løsning, et eller annet. Og at man føler at de pengene man kjører inn blir en felles gevinst, ikke bare en gevinst for den som har lagt ut prosjektet. Hvert fall når det er bedrifter. Det er litt annerledes når det er hjelpetiltak til folk som er syke eller, det blir jo en litt annen kategori. Da skal det jo helst gagne den personen. * Latter *.

I Norge så er det jo ikke lov at man kan ta opp lån gjennom crowdfunding, eller at folk kan kjøpe eierandeler eller aksjer i selskapet. Men det er jo for eksempel lov i USA. Dersom det hadde gått an, tror du dere hadde gjort det? Eller har dere tenkt noe på det?

Nei, eller vi er litt sånn... Kanskje det er meg, men vi er litt redd for å miste kontrollen, plutselig så begynner ideen å endre seg. For det er jo veldig lett at når ting går bra, når man får mer makt, at man begynner å endre seg. Det skjer jo med de aller fleste. Så det er lettere å sette begrensninger på seg selv, slik at det ikke kan skje med seg selv og noen få andre, enn å på en måte sette begrensninger på kollektivet. For dersom de har flertallet, så kan man jo endre på begrensningene også. Så det er liksom, jeg er redd for å miste definisjonen på verdiene da. Det er vel egentlig det. At man gjør litt endringer, så tjener man litt mer penger eller sånt, for at det skal gagne seg selv litt mer. Nei, det vil vi ikke ha noe av.

Nei, men det er veldig interessant, fordi det hadde jo kanskje ikke vært mulig uten crowdfunding på en måte. For som du sier, da måtte du ha hatt en investor, og så vil de kanskje tjene litt mer penger eller sånt, så da.

Så da passet det veldig godt for oss.

Men dere må ha masse lykke til da! Og så kan vi jo skru av her nå, så var det supert at du kunne ta deg tid til intervjuet.

Further answers from email conversation:

1) Nå i begynnelsen blir produktene transportert av UPS med flytransport. Grunnen til det er at ved oppstart må vi få produktene fort i salg for å kunne overleve. Senere skal vi bruke skip. Det tar 40-50 dager.

2) Vi ser ikke for oss at vi skal bruke crowdfunding igjen. Vi satser på at vi nå skal kunne drive på vanlig måte.

Appendix B.3. Ministry (Email Interview)

1. Firm:

Ministry (formerly Ministry of Supply)

2. Name:

Aman Advani

3. Role in the firm:

I am a co-founder and CEO of Ministry.

4. Time with the company:

I founded Ministry (then named Ministry of Supply) four years ago at Massachusetts Institute of Technology, along with my co-founders Gihan Amarasiriwardena and Kit Hickey.

5. What is it that you (the company) provide to your customers?

We use engineering-inspired tech and design processes to create smart, professional apparel that looks sharp in the office and has the performance capabilities of athletic clothing. We set out to solve the common pain points of professional clothing, like the restrictiveness of fitted suits or the stifling warmth of dress shirts, using advanced technology.

6. Who are your customers?

Our customers are active, young professionals—both men and women—who grew up appreciating the performance of athletic attire like Nike Dri-fit. Now, in their professional lives, they are looking for the same high-performance quality, while maintaining the sharp, polished aesthetic for work. That's where we come in.

7. How do you segment your market?

In September 2016, we began catering to women as well as men. For segments, we think a lot more about psychographics than demographics. We segment by attributes like what types of activities and kinds of lifestyles the people who wear our garments choose. We use these benefit-driven segments to make sure we're building garments for real, everyday use cases of our target customers.

8. What is it about your product the customers' value?

Our customers tell us all the time that they love how comfortable our clothes are. Ministry customers appreciate how their clothes keep up with them throughout the day, so they're not worrying about common problems like sweat stains or wrinkled shirts.

9. What are your key activities in order to create this value?

As engineers turned designers, our approach to designing clothes is a bit unorthodox for the fashion world—we design more like a tech company. We invest years of extensive R&D into each product, talking to customers about their pain points and frustrations, and finding solutions.

Even after a product is available for customers, we take feedback to heart, and will redesign products if they're not perfect. That's how we arrived at the The Going Places Jacket. We redesigned the original jacket based on customer feedback—they wanted uninhibited movement. We scrapped the lining from the jacket and tinkered with a few other features in order to make a jacket that allows for maximum mobility.

We never settle, and are constantly iterating on our designs to find the perfect solution for the problem—be it sweat stains or inhibited motion—that we set out to solve.

10. Which channels do you use to get in touch with your customers?

We talk to our customers in our stores, over email and on social media. We also host focus groups where our customers can give us direct feedback on our clothes, and talk about the problems they face every day with their professional clothing.

11. What kind of assets do you have?

12. Who are your key partners?

13. How do you price your products?

Our prices range from \$15 for socks to \$450 for the 3D Jacket. Our prices are on par with the market for professional attire. When pricing, we focus on the value the product drives. Where will this fit into your life? We also make sure to focus on accessibility - can our customer afford this product? If not, we've built the wrong solution.

14. How and when do you charge your customers?

We charge our customers when they purchase, both online and in-store.

15. Could you tell us about your cost structure?

Our cost structure resembles most direct to consumer companies, where much of the income is used to fuel a better product and experience.

16. How did crowdfunding enable you to get financed? How did you use crowdfunding?

We decided to launch on Kickstarter to test the market. My co-founders and I shared this vision for performance professional clothing, and we wanted to see if others agreed. Our first Kickstarter was hugely successful, we raised \$400,000 more than our initial goal. That let us know there was a market need for high-performing professional clothing, and that the opportunity for our business was huge.

17. In your opinion, what is your biggest success factor?

We were the first to market with this concept of performance professional clothing. We realized first that there was this major need for comfortable, high-performing clothes for the

office, and there was finally the technology available to make it happen. Our success is a result of the perfect storm of being in the right place at the right time with the right skill sets.

18. Have you changed your business model since the first time you launched the company?

We first launched on Kickstarter with only one dress shirt. Following that successful campaign, we launched our coffee-infused, odor-absorbing socks on Kickstarter as well. Since then, we have become more established, and no longer use a Kickstarter model to launch and sell our products. Now, we have brick-and-mortar retail locations in Boston, San Francisco and Washington, D.C. with additional stores in Bethesda, Chicago and Atlanta opening in 2016. We also sell our clothing online at ministry.co.

19. Anything else you would like to add?

We approach business and design with an engineering mindset. We believe in constant improvement and iteration, never settling and always solving problems. That applies to all things we do, from designing a new shirt to rebranding the company.

Hope you had a wonderful weekend! We'd like to pass on commenting on our assets -- which I'm sure you understand. Are there any other questions that would be helpful? Happy to be a resource for you as you work on your thesis.

Why did you choose crowdfunding instead of other ways to get financed? Say Venture capital or bank loans?

We decided to launch our first dress shirt on Kickstarter to see if we were on to something. With crowdfunding, you're financed by actual customers so there's a real opportunity to test the market and gauge interest and demand. That's the value we saw with Kickstarter—it wasn't just a fundraising tool but a way to validate that our vision of performance professional clothing resonated with customers.

Appendix B.4. Gustin (Secondary Source, Podcast)

Secondary source – Podcast

Episode 101 – Stephen Powell from Gustin

June 2, 2016

The Robcast with Rob Bell

<http://robbell.podbean.com/e/episode-101-stephen-powell-from-gustin/>

It's your friend Rob here, and I am in San Francisco today to interview Steven Powell from Gustin for the Robcast. Welcome, Steven

Thank you, Rob.

If you haven't heard of Gustin, it is... There's so many different layers here to what you are doing here, that... I'm gonna start by saying: I first heard of Gustin through my friend Glenn, because he was wearing a Gustin shirt. He was like "Rob, look at this shirt that Gustin gave me!", I was like "Yeah, I like your shirt", and he said "No, these guys are changing the game! That was the first time I heard about it. And I know that many of you who listen to, and have been to the Robcast, are minimalists, and we want less. And the higher quality things you have, they actually last longer, and is better all the way around.

Yes, fewer better things!

Yes. And when you see what Gustin is doing with clothing, you'll see that we are not just talking about clothing, we are talking about all kinds of other things. So, you were working in a normal job, and you had this idea? Where does the story start with Gustin?

The story starts in 2011. I moved out from DC to San Francisco with my wife.

And what's her name?

Her name is Stephanie.

All right, hi Stephanie!

I got a job at a startup here, and it started really well. I really liked my boss there, a guy named Josh Gustin, and as we became friends, he told me about this side-project that he had. He'd started a clothing line, and in business school he had taught himself how to make jeans. And so he had this line, selling to boutiques. So he would make a pair of jeans, sell it to them for 80 bucks, and then they would resell it to the customer for 205-269 dollars. The more he told me about it, the more crazy it sounded. Because it was a really great product, but to actually buy it you had to pay a massive amount of money, because there was all these inefficiencies. He had to pretty much pre-make everything, and so he was stuck with a bunch

of these bets that he'd placed that weren't gonna pay off. So as he and I became better friends, *I kind of tossed out this idea like, let's have a one-time sell on Kickstarter, sell your stuff directly to the customer for 80 bucks, and make a few thousand dollars.*

So you thought was, this clothing, somebody would pay upper-200 dollars for in a store, but we could sell the same thing, like really high quality, for way less. Yes, and make the same margin as a brand.

Because the brand is spending all that money on advertising..?

Because the brand is only making the 80 bucks that the store pays them. They don't make the difference between the 80 and the 269. That's the store.

** laughing * That is unbelievable!*

Yeah, so this idea came about in like april 2012.

So how old are you, you are 26?

Yes. So it kind of evolved over the next 8 months before we launched our Kickstarter, we thought, let's actually use Kickstarter as a sustaining business model. Which no one was doing at that point in time. So our goal was to totally crowdsource everything. So, anything you buy from Gustin, wouldn't be made. The shoes that you are wearing today Rob, we envisioned one day we could make shoes like that, and instead of paying 400 bucks in a store, you could buy them from us for 200, and you'd have to wait 6 to 8 weeks.

Amazing. So you do your first Kickstarter...

We do Kickstarter in January 2013, and our goal was to raise 20 000 dollars to see if this thing had legs. And we did nothing about Kickstarter-PR or anything. We told everyone we know, Facebook, friends, "this thing is going live on January 2013 at 6 a", back it like first thing in the morning". So we would wake up early that morning, press "go", and by the time I got into the city for work, we'd raised 5 000 dollars. Which is a very good start, We thought there was a 50% chance we could do 20 000 over the whole time.

At around 11 am, I get a call from a writer from Esquire (?) Magazine who wants to do a piece on us that day, and so that goes up a couple of hours later. And I'm at my job... I'm like stepping into a conference room like yeah, let me tell you about my denim brand, and not talk about this job that is in the other room.

And so we closed off that first day, having raised 20 000 dollars.

But who? Just friends?

No.

It spread

Yeah, we don't have that many friends!

Who has that many friends?

Exactly. The first 40 people who backed it were friends and family, and then it kind of just took off on its own. And people, I think, got excited about this idea of cutting off the middlemen, super-high quality made in America, clothing

Because you are not gonna make the jeans before everybody buys the fabric to make the jeans?

Yeah, so they get a vote in what gets made. It's not just a creative genius at a brand, deciding what gets made.

Yeah, who comes down the mountain like.. "red cordroy) this season". And everyone is like: crap, I don't like red corderoi.

But then they still have to buy it.

Exactly. So it was like, if you want this made, then let's all have it made together?

Exactly.

So the campaign was at 20 000 dollars, then where does it go?

The Kickstarter campaign was 33 days, and at the end of those days, it closed at 449 654 dollars.

And you remember that number, because it is an amazing moment!

Yes, it was you and your friend at this moment.

And we had our jobs.

With 400 000 dollars. And you have jobs

Full-time jobs.

And you don't know anything about running a denim company, other than making a pair of jeans for this thing.

That`s exactly right. Yeah, I mean those weeks and the few months that followed were some of the most intense of my life. Cause we had these full time jobs, and then we had a much bigger other full time job of starting Gustin, that was 60-80 hours of work a week on top of our jobs.

Who actually designed the first pair of pants?

Josh designed them. He designed three different lines. First couple ones were called "one-off denim", and then in 2011 he launched the Gustin Line, which basically are the same jeans that I'm wearing today.

So how many pairs on the first round?
Pre-Kickstarter, or Kickstarter?

Kickstarter.

Kickstarter was about 5 000 pairs.

Wow!

Roughly 100 dollars a pair.

Wow. And then what happened? And you get all of those orders made and shipped?

Yeah, which was tricky because the biggest production we had ever done before that, was 300 pairs.

** Laughs **

So we came to the factory, and we were like "we told you we were gonna be doing this thing, and you were like yeah yeah yeah whatever", and then we had a 5 000 dollar order. So then we spent kind of February March getting ready on our website, and working on the Kickstarter orders. At the very end of March, we started shipping out those 5 000 pair. And April 1st 2013, we pressed "GO" on www.weargustin.com , our website.

What do you say, like, I assume people come to you all the time like " I got his great idea involving the Internet, it`s gonna change everything". What do you say to them?

The Internet is extremely difficult. I was just having a conversation with a friend a who days ago, who wanted to start a real estate business. It is really tricky to do things on the Internet

** Laughs * That`s a fascinating first answer, that`s a fascinating first answer.*

No, I mean, Josh and I sometimes think about doing other things online, and they're really hard. Getting people to a website is really difficult, building a brand correctly is really difficult, cause you know it seems relatively simple, you build a good website or create a good product and people will come, but it really takes so many more things. It takes the operations behind it, it takes support, you know we have got two guys here that are amazing, at you know responding to every customer inquiry. And that has always been one of the big tenants of what we are doing. There are a lot of pieces you have to get right to do something.

When my friend Glenn told me about Gustin, then I'd go to the site. The first time I went to the site, there are rolls of fabric, there are pictures of rolls, and it said like "this is a whatever ounce, Japanese salvage denim"

Yes.

You find a roll of fabric?

Yes, so we have got relationships with the best mills in the world. In Japan, Italy, and the US. And so they will send us these headers, I don't have any in this room, but that are literally just 6x6 inch swatches(?), and weave thousands of these, so we can say "make a good pair of jeans", or "this is what our customers want", and put it out and say "we don't have a finished pair of pants for these yet, because that would say another 6 weeks, by then the mills will have sold out of the fabric. So we're putting out this right now, decide whether or not you want this.

So what struck me was like, pictures of rolls of fabric, and like we're going to make a shirt out of this fabric. Does anybody want a shirt made out of this fabric?

No one really does this.

And it will be incredibly high quality, made in America, way way less than a shirt of this sort of qual. When I saw it, it was like brilliant, because we intuitively know, like if someone goes to the mall, that there's some sort of scam involved in the whole thing. Do you know what I mean?

Yeah, it has inefficiencies.

We just know, I'm being sold something more than I'm being sold here. And you just cut that out!

The majority of what you pay for when you're buying something in a store, is the store, not the item that you're buying.

So if you buy a 200 dollar coat, I'm paying the rent..

120 dollars of rent, employees, you know. The coffee that they gave you when you walked through the door.

** Laughing **

Did the idea seem obvious?

It did to us, but everyone we told was like "that is a horrible idea".

No way!

Yes.

No way

Yeah.

Like people who know stuff about business?

Friends and family were the people we were talking to originally. They were like "that is not gonna work".

Why did they say that? See, this is what I love. And all of you friends listening, is something that is so great and so killer, you ask the people who started it, and they're like: nobody thought this was a good idea. Was that discouraging, did you believe them? Did you just blow them off, were you like "ah, we know what we're doing here".

I pretty much just ignored them. You know, I remember specifically I was at a dinner party, and I was telling this guy about what we about to launch, and he was like "I would never buy jeans online", and I was like... I don't have anything to say to that. That's fine! You don't have to.

Cause you're sitting there, talking to a guy about what you're pouring 60.80 hours a week into, and he was like "I would never buy that".

Yeah, and that's fine. And we still get that, people who need to touch the item, try it on in the store, and for some people, that's what they need, and they can take that route.

OK, so so far, Lesson number 1: the internet is tricky. Lesson number 2: a bunch of people thought it was a bad idea.

Yeah.

So then you start doing shirts, belts, shoes, jackets, you just start making... Who has the ideas for all of this other stuff?

It developed very organically. Our goal from the beginning was always to make everything that we wore on a daily basis. So the most important item in a man's wardrobe, especially on a casual place like this, we think is a pair of jeans. So that's where we started. Next was a button-down shirt, and then we slowly kind of branched off from there. We don't do suits, because we don't really wear suits, I mean I wear suits to a wedding once or twice a year to a wedding, and that's about it. But we kind of just travel down this path of we wanna make everything we wear. And now we have kind of done that.

But you have kept the operation. Cause I mean, you are still kind of small, but you don't have anything to compare it to. Cause I mean, a lot of people spend a lot of time just looking over to another person, looking over the fence, comparing. Who did you look at to sort of gage how it's going?

We have kind of ignored everyone.

Haha, yes! I love it.

It's hard in San Francisco, because this is a start up place, and people always a metric people gage success by, is the number of employees. So I'm always asked this question, "how many people are you now?", and I'm like "same as two years ago", casue we like to keep a small team of 5-6 people, it works really well for us.

The very interesting thing is that, so many of us were raised with scale is always good, more profit, more employees, more influence, more travel, more whatever it is more is better. I sensed it the first time I came to your site, like "oh wait, these guys are playing a different game". This is not kill yourself in order to win some magical reward for awesomeness, this is have a life with integrity, and balance, and play and family and all that. I could pick that up just from the site. But that is something... where did you gett hat from? Because this start up culture here, I was visiting Google earlier today, is... of course you would make it bigger, and open offices around the world, and og more and more and more employees, and work harder and harder and harder, and have less and less of a life outside of work. Of course you'd og that direction! Is that from family, or background, or something you saw early?

I'm not sure exactly where that comes from, but we started making decisions early on that were kind of in that direction. We considered raising money, and we got term sheets from some investors, and Josh and I sat down and said: we don't wana be in business with these people, we wanna be in business with each other, and being accountable on each other, but we're gonna dislike this more if we have to answer to someone on a daily or weekly basis. So let's just focus on what it is that we want, and what makes us happy.

And you had specific conversations about that. "We could take the investors money, make this massiver, but it didnt feel right.

Yeah, we kind of have this perfect enviroment here. We have our dream job, and we come in here every day. We thought we were gonna kill that if we compromise don these areas.

It`s so interesting. So take us up to what now. Where do you go now? More stuff, more designs, what do you have in mind?

Gustin from here on?

Yeah. Do you have talke like this, like what`s our five year vision? With white boards and color coded strategy?

We try to do it. We have to force ourselves to sit down and think more than two weeks out. But yeah, we have got a product list of, I`d say we have got a four month plan. And it`s a list of products that we`re developing that we`re excited to release, and in a couple of months we will reevaluate. So thinks like we have made a bunch of wax-handle duffel bags, sold a bunch of that, but I have always wanted a really, all-leather, weekendy kind of bag, and so Ive spent kind of a couple of years asking around, like who is the best person to be making these, and didn`t find a good answer until this year, but..

Where do you ask around? I dont understand at all how things get made like this, and I`m fascinated by it. When you are thinking like we need to make a good leather bag, where is that scene where you ask around?

We have been meeting a lot of interesting people in this industry, so you ask people who are kind of semi-related to the field that you are trying to get into. So for this bag for instance, we have got this small shop that makes our boat shoes in Maine, and they buy a bunch of leather from the ...Tanner in Chicago. And I figure there`s some kind of synergy between the people that make shoes, and the ones who make bags, because they`re fairly similar even though they`re different products. So I was talking so the handsome shoe manufacturers, and I was like hey, do you guys know of anyone who makes really good bags, someone who could work for us? Someone like you, theyre the perfect scale, got like 7-15 sewers in Maine. And they`re like yeah, we have got a really good friend, give him a call, tell him I sent you, I don`t think he usually works with new clients, but we like you guys, so I think that will work. And it ended up being the perfect partnership.

So you have been to the place in Maine where they sell shoes?

I have not been to the place in Maine where they sell shoes.

Have you been to the place in Chicago where the leather is?

The tannery? I haven't been to the tannery.

But you've had to have had some kind of crash course in how shoes are stitched, to own a company that stitch shoes?

Yes. I didn't have to do the stitching, but that's the nice thing. These guys are the experts. And we say, we wanna do a boat shoe, and have this kind of sew, and we wanna have this look to it, and these kind of leathers, and they can say. We can put that together, cause we have been doing nothing but boat shoes for 40 years.

And you test this stuff out?

Yes.

Do you ever wear something at home, wife is like, no sorry.

Yes.

Oh really?

Yeah, definitely.

Like a prototype?

Yeah. So, I'm color blind.

Oh no way! No way!

Mhm. So I'll bring shirts home..

You own a clothing company and you're color blind?

Yes.

So online, there's photos like, look at this rich, deep blue, with whatever..

I don't write that.

*You don't know what you're talking about * laughs **

I'm not the one who does that language. I've gotten into trouble so many times over the years with that.

So if you're colorblind, you really ought to into the clothing business.

Yes, it`s perfect.

And not listen to what anybody says.

Mhm. I cannot tell the difference between blue and indigo, but ..

Really? Well, I don`t know if I know the difference...

I think indigo has more red in it.

But for you that would be just a conceptual idea?

Mhm. So I bring stuff home sometimes, and things like that, and she`s like “that does not look good on you, that`s a horrible shirt”.

** Laughs **

And I`m like no, I love this! And she`s like no, you cant, that color palette is not good for you. So that happens fairly frequently.

Ok, with colors.

Mhm

But do you know what people will respond to? Like if we make this, it will be great. Is that a intuitive thing, or do you have data? Like how do you figure out what to even suggest to people?

I would say we kind of come at it from both sides. So we have a lot of customers who write in and say “ hey, Im looking for something like this, would you guys ever consider making something like this?”. Underwear we just launched a couple of months ago, and we have gotten like 200 emails over the last couple of years asking us to make underwear. So that`s pretty easy, pretty straight forward. Some things, they wanna figure out how to make a certain item. My business partner had always wanted to make leather jackets, so that was like a grail or trophy item for him. And so he found the people in LA who make the best leather jackets, and figured out which leather to use, and went to 10 rounds of sampling, and made the perfect leather jacket.

You really just keep making stuff, and experimenting and exploring until it feels right? That`s actually the magic secret behind it all?

Yeah, and sometimes it takes one iteration, and you get one back, and it is perfect, but sometimes it takes years sampling and you know this factory can't do it for this reason, or you know, we have to find a new mill to make the fabric.

What's the most frustrating thing that you made, that we would all be like, that can't be that hard to make?

Crew neck sweatshirts took us almost two years.

Which is like the thing people would think was most basic.

Everyone makes one of those.

Yeah. And that's what I find so fascinating, that something so classic, or so straightforward, but then you find out how hard it is to make that look so straightforward.

We had a hard time finding the right fabric, because we wanted something, you know, pretty thick heather grey, and most of the fabrics do very thin, like sweatshirt fabrics. So that was a big challenge, and then a couple of factories were really expensive, so that we couldn't release the items with their pricing, so that was tricky, we had to find one who could do both the quality and the price. The arm runs all the way up to the collar, it doesn't have shoulder seam, and those patterns are really tricky, and hard to adjust. So we were trying to figure out how to adjust our rag-on-sleeve pattern without neck-hole is really tricky, so we were trying to figure out how to make it without completely throwing off the neck hole or a bulb in the shoulder or something like that. And it was harder than you'd think.

And all that work so that nobody would go: that's a weird looking shoulder.

Yes.

It's like all that work, so that you go " oh yeah, that's what it's supposed to look like. 2 years.

Yeah.

Fascinating. Are you a patient person?

I am, I think I'm generally pretty patient. It's frustrating cause it seems like you're just around the corner with these things, really often. You know, for two years, we felt like we can release this next month. And then kept getting kicked down the road.

Fascinating. Have you found any peers in other areas that are doing similar things? Have you seen other companies that you thought, of wait, they're doing what we're doing

I mean, preordering and crowdfunding has picked up certainly a lot.

There`s a watch, what`s that watch?

Pebble. So I`d say that the industry as a whole has picked up, but ...

But otherwise there just aren`t a lot of people doing what you`re doing.

Yeah. There are a couple of other companies who have taken a model pretty similar to ours, but there`s literally just a handful of us doing it like this.

Wow. It just feels to me like it`s the future, like what do you say. Less things better quality?

Fewer, better things.

Yeah, so fascinating. Ok, so weargustin.com, and people can see everything, anything else to know about what to know about your in sales, there are bags coming, perfect shoulders on sweatshirts.

Yeah, exactly.

In this room we`re in, is all of the product that isn`t already on its way somewhere. So you`re just not sitting on all of this dead stuff.

Right.

Absolutely fascinating.

Yeah, everything comes into our shop and gets shipped off pretty much the same day.

Incredible. Well, thank you.

Thank you!

*Everybody, that`s a little bit of the future, right there. Leaner, less, better, Gustin. * Laughs * Thank you, Steven.*

Thank you.

Appendix C. Gustin Platform Screen Print

