The Pearl: A Kickstarter Success Story in Prestwich

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Key concepts: Monopolistic Competition; Data Analysis; Linear Probability Model

Over the last few years, Prestwich, a northern neighbourhood of Manchester, has become not only a vibrant neighbourhood but also a place for culinary innovation and competition. The last restaurant to open in October 2023 is The Pearl, a fine British dinner restaurant that uses local, seasonal, and sustainable products in line with current consumer preferences. Restaurants in general, particularly in Prestwich, are an excellent example of Monopolistic Competition.

Monopolistic competition is a market structure characterised by numerous sellers offering differentiated products. In the landscape of Prestwich, the variety of restaurants offers consumers unique culinary experiences, different atmospheres, and specialised services, creating product differentiation. But while there is a multitude of restaurants, each tends to have its own niche or target audience. Individual establishments have a degree of control over pricing and product features, a feature that distinguishes this market structure from Perfect Competition, where firms are price takers (they don't have market power), and the product is homogenous. This pricing flexibility arises from product differentiation and the perceived uniqueness that each restaurant offers. While there are many competitors in the market, establishments can adjust their prices based on factors such as brand image, type of ingredients, service quality, and marketing strategy. This ability to influence both pricing and product features allows restaurants in monopolistic competition to attract and retain consumers based on their distinctive attributes, contributing to a dynamic and diverse landscape.

The Pearl was a new entrant in a Monopolistic Competition industry, injecting a fresh wave of dynamism and innovation. As a newcomer in the market, it needs to carve out its unique niche, differentiating itself from the existing players. This often involves innovative product offerings, distinctive branding, or a unique consumer experience. On the one hand, in Monopolistic Competition, the entry of a new player triggers a competitive response from established businesses, prompting them to reassess and refine their strategies to maintain their market share. On the other hand, consumers benefit from increased choices and diversity of options as each restaurant will try to stand out in the crowded marketplace. The entry of a new player, therefore, not only challenges the status quo but also stimulates the industry, promoting a continuous cycle of differentiation, competition, and consumer choice within the framework of Monopolistic Competition. A new entrant may face barriers to entry into an industry; however, theoretically, in the case of Monopolistic Competition, these barriers tend to be low to medium, depending on the industry.

The Pearl entered the restaurant industry in Prestwich, operating under the dynamics of Monopolistic Competition. This industry presents several barriers to entry. One prominent barrier is the substantial initial capital required to establish and operate a restaurant, covering expenses such as the lease or purchase/rental of a suitable location, kitchen equipment, and interior design. Additionally, licenses and high operating costs, including staff wages and food supplies, contribute to the financial challenge. However, the innovative use of crowdfunding platforms, such as Kickstarter, has emerged as a transformative solution to mitigate these barriers. By leveraging the power of crowdfunding, new restaurant ventures can access financial support from a diverse pool of backers, ranging from local enthusiasts to global supporters, thus circumventing traditional funding constraints. Kickstarter not only provides a platform for creators to showcase their culinary concepts but also serves as a mechanism to generate funds, making it an instrumental tool for overcoming financial barriers to entry in the competitive restaurant landscape. This platform enables creators to bring their innovative ideas to life. This doesn't just support innovation but also stimulates economic growth by fostering a more inclusive and diverse landscape of ideas and products. The Pearl was possible thanks to a successful Kickstarter crowdfunded campaign.

Here is a brief overview of how Kickstarter works:

1. Project Creation: Creators meticulously outline their project, specifying the idea, funding goal, and campaign deadline. This initial stage requires clarity and persuasiveness in presenting the creative concept.

2. Campaign Launch: The success of a campaign often hinges on an engaging launch. Creators strategically share detailed project information, employing multimedia elements like images and videos. The provision of enticing rewards for backers is a crucial component of this phase.

3. Funding Goal: Creators set a financial target reflective of the resources needed to bring the project to fruition. Importantly, Kickstarter follows an "all-or-nothing" model, necessitating that the project must meet or exceed the funding goal within the stipulated timeframe to receive any funds.

4. Backer Pledges: The heart of crowdfunding lies in backers' contributions. Individuals interested in supporting a project pledge money, and in return, they receive rewards commensurate with their level of financial support.

5. Payment Processing: Kickstarter utilises a third-party payment processor to collect funds only if the project successfully reaches its funding goal by the campaign deadline. This minimises financial risk for backers and ensures that creators receive the necessary resources to proceed.

6. Project Completion: Upon achieving the funding goal within the specified timeframe, creators receive the pledged funds. This marks the transition to the implementation phase, where creators work diligently to bring their projects to fruition and fulfil promises made to backers.

7. Communication and Updates: Transparency and effective communication are vital throughout the campaign. Creators engage with backers through regular updates, responding to questions, and providing insights into the project's progress. This fosters a sense of community and trust among backers.

8. Project Delivery: As the project concludes, creators are responsible for
    delivering the promised rewards to backers. Kickstarter emphasises ongoing
    transparency and communication between creators and backers, ensuring a
    positive experience for all stakeholders.

Data Analysis Task:

To gain a more profound understanding (and to practise our Excel skills) of the
crowdfunded landscape for restaurants, we are going to look at a comprehensive
dataset titled "Kickstarter Restaurants"[1]. The dataset comprises 2,269 restaurants
over eight years (2013-2020). Key variables are described in Table 1.

Table 1: Description of the variables

Variable	Description
Creators_id	Unique identifier of the Kickstart creator registration
name	The commercial name of the business
currency	The currency the pledge was made on.
launched_at	The date and time the pledge in Kickstarter started. From this variable, I created different variables (which you don't have to create again). 1) **launched_year,** which is the year the pledge in Kickstarter started. 2) **launched_month** is the month the pledge in Kickstarter started. 3) **launched20*,** which is a set of year dummy variables from 2013 to 2020
blurb	A short description of the business for commercial purposes
country	Country where the pledge is made
deadline	The date and time when the pledge will finish
status	Whether the pledge was successful, from these variables, the dummy variable success (which you don't have to create again) was created; this variable is one if the project managed to get all the money pledged and 0 otherwise.
City	City where the pledge is made
usd_pledged	Money in US dollars (base 2013[2]) pledged.
backers_count	Number of people who backed up the projects or donated

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[1] https://www.dropbox.com/scl/fi/hcu3zw8tjkf5wp9od59s6/Dataset-Kickstarters-
Restaurants.xls?rlkey=ed8t415tsxsa6qzz2c2myzmrm&dl=0
[2] Note that this variables and goal_usd are adjusted for inflation, the base rate is 2013.

previous_projects	Number of projects (if any) a creator has already completed on Kickstarter.
goal_usd	Amount of money a creator needs to complete its project (base 2013). Note that in Kickstarter, if the goal is not reached and the project is unsuccessful, then the creators get no money,
duration	The duration of the pledge is in days from the start until the end.

We will begin the analysis by examining the summary statistics of the numerical variables. This will give us an initial understanding of the distribution and variability of critical parameters. Table 2 shows the descriptive statistics of the variables.

Table 2: Descriptive statistics

	blurb_length	backers_count	previous_projects	goal_usd	duration
Mean	109.816	60.744	0.026	54386.274	35.522
Median	122.000	6.000	0.000	20200.279	30.000
Mode	135.000	1.000	0.000	10000.000	30.000
Standard Deviation	29.436	141.410	0.178	135886.840	13.104
Minimum	9.000	0.000	0.000	10.000	2.000
Maximum	135.000	2026.000	3.000	2600000.000	60.000
Count	2269.000	2269.000	2269.000	2269.000	2269.000

Looking at Table 2, we can observe that there is considerable variability between restaurants in terms of the money pledged goal, with some of the restaurants significantly more minor than others in terms of the funding they want to achieve. Similarly, we can see that some of the restaurants didn't have any backers, while others had a large number of backers; this may depend on the selling point of the firm's innovation or also the rewards the backers may get from backing a project.

The restaurants in the datasets are located in different countries so that we can look at the success rate of Kickstarter projects (in this case, restaurants) across different countries. We can calculate the success rate per country as the total number of successful projects per country over the total projects per country from 2013 to 2020 (Equation 1).

$$Success\ rate\ per\ country\ i\ (\%)$$
$$= \left(\frac{Total\ succesful\ projects\ for\ countr\ i}{Total\ projects\ for\ country\ i} \right) x100 \quad (1)$$

Table 3 shows the success rate per country. As you can see, some countries have a success rate as low as 0 while others, such as Japan, have a success rate of 67%. The country where more restaurants released a pledge for this period is the United States, with a total of 1,689 pledges. Why do you think some countries have a lower success rate than others? We could think about different reasons, such as the average income of the population or how used people are to Kickstarter as a platform as crowdfunded may be more common in countries like the USA and so its population may trust this platform more than in other countries if they are more used to it.

Table 3: Success rate per country

Country	Successful rate (%)
Austria	0%
Australia	30%
Belgium	0%
Canada	34%
Czech Republic	0%
Germany	3%
Denmark	33%
Spain	0%
France	5%
United Kingdom	31%
Hong Kong	0%
Ireland	18%
Italy	3%
Japan	67%
Luxembourg	0%
Mexico	4%
Netherlands	31%
Norway	0%
New Zealand	0%
Sweden	38%
Singapore	0%
United States	31%

We can now look at the determinants of the probability of success in estimating Equation 2 using a linear probability model:

$$Success_{it} = \alpha_0 + \beta_1 L_{it} + \beta_2 C_{it} + \beta_3 P_{it} + \beta_4 G_{it} + \beta_5 D_{it} + \beta_6 US_i + \beta_7 \delta_t + \varepsilon_{it} \quad (2)$$

$Success_{it}$ is the dependent variable, and it takes the value 1 if the pledge for restaurant i in year t was successful, 0 otherwise.

L_{it} is the length (in words) of the brief description on the Kickstarter page for the restaurant I in year t.

C_{it} is the total number of backers restaurant i got in year t after the pledge finished.

D_{it} is the duration (in days) of the pledge for the restaurant I in year t since it was released on Kickstarter until it finished.

$It's\ a\ dummy\ variable\ that\ takes\ the\ value$ takes values 1 if restaurant i is in the US and 0 otherwise.

δ_t is set of year dummy variables to control for time fixed effects – external shocks by year.

ε_{it} is the error term

The results for Equation 2 are in Table 4. Looking at the results from Table 4 we observe that if a pledge of for a restaurant in the US, it will be more likely to succeed; as mentioned before, this could be due to several reasons, such as consumer preferences towards backing crowdfunding projects, and having more information about the platform, more information would be needed to analyse this result in more detail. The higher the number of backers for a pledge, the higher the probability of success; these results make sense if you think that the higher the number of backers, the more likely you may be to get the pledge goal.

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Table 4: Linear Probability Model

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.647
R Square	0.419
Adjusted R Square	0.415
Standard Error	0.346
Observations	2269

ANOVA

	df	SS	MS	F	Significance F
Regression	13	194.866	14.990	124.900	0.000
Residual	2255	270.630	0.120		
Total	2268	465.496			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	0.242	0.126	1.924	0.054	-0.005	0.488
blurb_length	0.000	0.000	1.834	0.067	0.000	0.001
backers_count	0.002	0.000	28.844	0.000	0.001	0.002
previous_projects	0.015	0.041	0.376	0.707	-0.065	0.096
goal_usd	0.000	0.000	-6.786	0.000	0.000	0.000
duration	-0.004	0.001	-7.823	0.000	-0.006	-0.003
US	0.064	0.017	3.781	0.000	0.031	0.097
launched2014	0.495	0.121	4.081	0.000	0.257	0.734
launched2015	0.066	0.119	0.553	0.581	-0.168	0.300
launched2016	-0.033	0.119	-0.278	0.781	-0.267	0.201
launched2017	-0.013	0.119	-0.105	0.916	-0.247	0.222
launched2018	0.023	0.120	0.191	0.849	-0.212	0.257
launched2019	0.005	0.120	0.039	0.969	-0.231	0.240
launched2020	0.012	0.121	0.100	0.920	-0.225	0.249

We can see in Table 4 that some other coefficients, such as the pledge goal or the blurb length, are statistically significant, but the effect on the probability of success is 0 or near 0. You can think about other variables that you may think may be useful to include but are not in the dataset, for example, the rewards (if any) that the firms were offering their backers; this may have increased the number of backers or the money they funded, increasing the probability of success.

To summarise, The Pearl's Kickstarter success story not only highlights the adaptability of business in monopolistic competitive markets but also highlights the transformative impact of crowdfunding in the restaurant industry. As culinary entrepreneurs continue to navigate the challenges of entry, innovation, and

competition, crowdfunding emerges as a valuable tool, fostering diversity, community engagement, and economic growth.