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Applying the Blue Ocean Strategy Framework in Various Industries in Armenia

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Abstract

This paper aims to analyze the implementation of the Blue Ocean Strategy (BOS) in the Armenian startup industry and propose a methodology to implement the Blue Ocean Strategy framework in various industries in Armenia. Applying BOS tools and frameworks to their business strategies will help Armenian companies to achieve high profitability, sustainable future growth, and industry expansion by creating new demand and reconstructing Armenian startup industry barriers. The research paper is constructed based on the sectoral overview of local and international cases. The Crowdfunding Formula (TCF) is an Armenian company, a strategy of which seems to be closest to the classic Blue Ocean Strategy framework. The extent to which the company's strategy corresponds to the Blue Ocean Strategy is checked by using blue ocean theory, analytical tools, and frameworks such as three strategy propositions, value innovation, three tiers of non-customers, four actions framework, and strategy canvas. Additionally, in order to prove that the "Blue Ocean" that TCF has created delivers high value to its customers, the testimonials of their main customers are included. As a practitioner of the Blue Ocean Strategy, TCF's performance is analyzed further to find out the implementation results of the strategy, in terms of the company's growth and profitability. Since it is always possible that new blue oceans can create new red oceans in the future, the paper also estimates how much imitable TCF's business strategy is through analyzing the three strategy propositions the company delivers internally and externally to the marketplace. The analysis is conducted by using the indicators of the industry features, the people culture, and the annual financial statements the company has. Based on the results, the paper will propose a methodology and guideline for other Armenian companies on how to use the Blue Ocean Strategy taking into account unique local market factors.

Blue Ocean Strategy: Theoretical Background

Based on reviewing 15 years of research, analyzing 150 successful strategic moves, and spanning 120 years of business history across 30 industries, the theory of Blue Ocean Strategy was introduced (Renee Mauborgne, 2010). Even if the term "blue oceans" is relatively new, the strategy itself existed in the business world for centuries. Although the dominant strategy of leading businesses was Red Ocean competition-based, the market space has never been steady, it always evolved and its boundaries were reconstructed due to blue oceans which were created from time to time. Today's basic industries as automation, business consulting or IT services did not exist a century ago. Even thirty years ago, industries such as cell phones, biotechnologies or fast-food bars that are worth billions of dollars had not even emerged. The history shows that humanity has underestimated market capacity that waits to be created (Renee Mauborgne, 2010).

The market space consists of two types of "oceans": red and blue. Red oceans represent the well-known market space, where boundaries of the market and the competitive rules are already defined. Here companies perform according to the accepted set of rules, trying to outperform one another and beat the competition. Because the market is crowded supply exceeds demand, products become commodities, and the competition becomes cutthroat aiming to acquire a greater share of existing demand (W. Chan Kim, The New Market Space, 2004).

Blue oceans are defined as uncontested market space with a high probability to gain profit growths. These are competition free and untapped markets, where rules of the game are waiting to be defined. According to the strategy, blue oceans can be created either by going beyond the boundaries of the industry, or within the industry by expanding already existing boundaries. However, the strategic guidelines leading to blue ocean creation are few, as the dominant focus of strategy during the past fifty years was on competition-based red ocean creation. As a result, several skillful tactics are created to beat the competition either based on cost or differentiation. But "the only way to beat the competition is to stop trying to beat the competition" (W. Chan Kim, The New Market Space, 2004).

Table 1 Red Ocean versus Blue Ocean Strategy (Value Innovation: The Cornerstone of BOS, 2004)

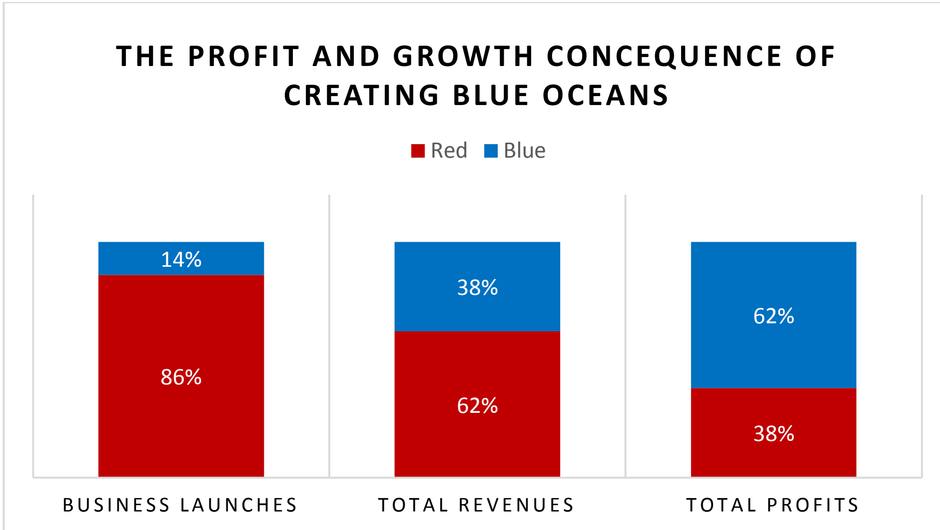
RED OCEAN STRATEGY	BLUE OCEAN STRATEGY
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation *or* low cost	Align the whole system of a firm's activities in pursuit of differentiation *and* low cost

Due to accelerated technologies companies can manage highly sustainable operation processes, sophisticate their production, which let them produce an even more expanded array of products and services at lower costs. Also, the leading trend of globalization collapses the barriers between countries and nations, products and services become easily available, hence resulting in disappearing of niche markets and monopolies. As the global competition ceaselessly intensifies, the supply reaches unprecedented ranges, moreover, the statistical overview shows that the population in many developed countries continuously declines. As a result, products and services are commoditizing, the price wars are increasing leading to shifting profit margins. An example can be American brands confirming increasing brand similarities, decreasing brand loyalty and customer choice mainly based on price differences (Renée Mauborgne, 2004).

This states that the business environment based on which traditional competition-based strategies were created is collapsing. Although no data is tracking the success rate of red and blue oceans, the global performance difference is marked.

To quantify the impact of creating the Blue Ocean Strategy in terms of the company's growth both in revenues and profits, a study of 108 companies' business launches was conducted. According to the study, 86 percent of the companies were line extension, which were incremental improvements in red oceans. Those companies generated 62 percent total revenue and 38 percent profits. In contrast, 14 percent of the companies represented launches in blue oceans, and they generated 38 percent total revenues and 62 percent total profits (W. Chan Kim, The Impact of Creating Blue Oceans, 2004).

Table 2 (W. Chan Kim, The Impact of Creating Blue Oceans, 2004)



The study aimed to find a lasting "excellent" company or industry which continuously outperform market players and reconstructs market boundaries by repeatedly creating blue oceans concluded that neither a company nor an industry should be analyzed to find the unique formulas leading to success. The successful visionary companies on which bestsellers, such as "In Search of Excellence", "Managing on the Edge", or "Built to Last", modeled their theories to lasting success lost their market-leading role within a few years after the publications. The best unit of analysis to study the roots of profitable growth of the companies and the re-creation of industries is "the strategic move". The analysis of more than thirty industries confirmed that neither the organization nor the industry characteristics explain the differences, the convergence and divergence among the group of companies that created blue oceans and within less successful competition-driven red ocean companies. In analyzing the industry, organizational and strategic variables study found that blue oceans were created by developed and extremely declining industries, by old and new emerging companies, by public and private organizations, by social and high-tech companies, etc. Analysis failed to find any visionary company or industry. What was found behind similar success stories was a common pattern in strategic moves used to capture blue oceans, which was consistent across time regardless of industry differences (W. Chan Kim, From Company and Industry to Strategic Move, 2004).

Competition-based red ocean strategy corresponds to *the structuralist view*, or *environmental determinism*, according to which industry structure is defined, and companies are forced to compete with each other to gain a greater market demand. Here, the strategic choice of the companies' is either to compete based on differentiation *or cost*. In contrast, the Blue Ocean Strategy belongs to the r*econstructionist view*, which aims to create new best-practice rules since market barriers are not deafened and can be reconstructed by industry players. The strategy view breaks the existing value-cost trade-off, captures the blue ocean by creating "value innovation" which is based on acquiring both differentiation *and* cost (Chan Kim, n.d.) .

The Structuralist Approach and the Reconstructionist Approach

When entrepreneurs develop a business strategy, they start by analyzing the environment and the industry where the particular business fits to operate. They analyze the industry conditions, and the strength, and weaknesses market players have. Based on that initial industry and competitive analysis they create a unique strategic position that demonstrates their competitive advantage to outperform the market players. However, to acquire their competitive advantage a company often chooses either to differentiate itself from the competition by offering superior value to consumers or offers low costs based on the traditional value-cost trade-off. And accordingly, based on its strategy, the company adjusts its value chain, sets financial targets, and budget allocations. Hence, the idea behind this strategic approach is that environment and market structure shape the strategy, which is also known as a “structuralist” approach. Based on that initial industry and competitive analysis they create unique strategic position which demonstrates their competitive advantage to outperform the market players. However, to acquire their competitive advantage a company often chooses either to differentiate itself from the competition by offering superior value to consumers or offers low costs based on the traditional value-cost trade off. And accordingly, on the basis of its strategy, company adjusts its value chain, sets financial targets and budget allocations. Hence, the idea behind this strategic approach is that environment and market structure shape the strategy, which is also known as “structuralist” approach. The structuralist approach comes from the structure-conduct-performance paradigm of industrial organization economics and it dominated in the business for more than fifty years (Sherer, 1970).

However, the continuous study of the business history reveals that throughout history individual companies, from Ford’s Model T to Cirque du Soleil, came into existence with the strategies that reshaped the industry and competitive environment. The Blue Ocean Strategy reveals that a company’s performance is not determined by the competitive environment it operates. BOS frameworks and tools lead companies to reshape the industry systematically and change the structure-strategy sequence in their favor (Harvard Business Review, 2009).

The main idea of the Blue Ocean Strategy comes from the emerging school of economics called endogenous growth, which states that actions of individual players of an industry can change and reshape the environmental landscape where they perform (Romer, Winter 1994). Hence, it proves that strategy can shape the structure. This strategic approach is called “Reconstructionist”.

The structuralist approach is valuable and relevant, however in certain economic conditions, the reconstructionist approach is more appropriate. Moreover, today’s economic difficulties especially signal the need for reconstructionist approach since it is not only enough for entrepreneurs to identify the right strategic approach based on the challenges that the organization faces, it is vital that they make sure that organizations aligned behind it perform sustainably. The reconstructionist approach helps organizations to reach high and sustainable performance.

Choosing the right strategic approach

The key factors that drive an organization to choose a strategic approach are:

- The structural conditions of the industry the organization operates in,
- The resources and capabilities an organization possess,
- An organization’s strategic mind-set.

Table 3. Choosing the Right Strategic Approach (Harvard Business Review, 2009)

A structuralist approach is a good fit when:	A reconstructionist approach is a good fit in when:
✓ Structural conditions are attractive, and the organization has the resources and capabilities to build a distinctive market position	✓ Structural conditions are attractive, but the market players are well-entrenched, and the organization does not have the resources and capabilities to outperform them
✓ Structural conditions are less than attractive, but the organization has the resources and capabilities to outperform competitors	✓ Structural conditions are unattractive and they work against the organization irrespective of its resources and capabilities
When structural conditions, resources and capabilities do not distinctively indicate on approach or the other, the right choice will turn on the organization's strategic mind-set.	
✓ The organization has bias towards defending current strategic position and reluctance to venture into unfamiliar territory	✓ The organization has an orientation towards innovation and willingness to pursue new opportunities

When the structural conditions of the industrial environment where the organization performs/wants to perform are attractive and the organization has competitive resources and capabilities, the structural approach can work effectively. Even when an industry's structural conditions are less attractive, but the organization still possesses competitive resources and capabilities, the structural approach can still perform well. In both cases, the idea behind the strategy is to leverage organization's core strengths to beat the competition in existing market and achieve high risk-adjusted results in return (Harvard Business Review, 2009).

However, when the structural conditions are attractive, and its market players have highly competitive forces, but the organization does not have enough resources to outperform those competitive forces, the organizations performance is going to be less than mediocre. Or when the industry's structural conditions are unfavorable and work against the organization, irrespective of the resources and the capabilities the organization has, it will not be able to gain a competitive position in the industry. Those are often characteristics of an industry which has excess capacity, cutthroat competition and low profit margins. In these cases, the organization should choose the reconstructionist approach and reshape the industry boundaries (Harvard Business Review, 2009).

When structural conditions, resources and capabilities do not clearly directly indicate on one approach or the other, the right choice will depend on the strategic mind-set the company has. Hence, organizations with innovative strategic mind-set and sensitive to future opportunities will be more successful in adapting to the reconstructionist approach than the organizations that have bias to defend current strategic position and avoid unfamiliar future opportunities, they will perform better with the structuralist strategic approach (Harvard Business Review, 2009).

The Three Strategy Propositions

Whatever strategic approach the company chooses, the success that the strategy will have depends on the development and alignment of these 3 key strategy propositions:

1. Value proposition which delivers attractive value to consumers
2. Profit proposition which is the money that company makes from value propositions
3. People proposition that motives employees and people who work for the company to create the value proposition and execute the strategy (Harvard Business Review, 2009).

Value and profit propositions are the basis of the strategy, they demonstrate what company delivers to its consumers and what it gains from the offer. People proposition demonstrates the quality of the execution. Hence, strategy is defined as the development and alignment of these three propositions which help the organization to either execute or reshape the industrial environment it operates in (Harvard Business Review, 2009).

If the company does not create a complete set of the three strategy propositions, it cannot reach sustainable success. The organization will experience temporary but unsustainable success when the organization has strong value and profit propositions, however the organization fails at people proposition, when employees and supply chain members are not motivated to deliver high value, this is a traditional case of failure. An example of formulation failure is when the organization has strong people proposition, but it lacks the resources and materials to deliver strong value and profit proposition, this will result in poor performance (Harvard Business Review, 2009).

Each proposition should address at least one group of stakeholders, since the successful execution of the strategy depends not only on the performance of the company's employees but also on the performance of its supply chain members. In the same way, when an organization operates in a business-to-business industry it should create two value propositions: one for its customer, another one for its customer's customers (Harvard Business Review, 2009).

Where Reconstructionist Approach And "The Three Strategy Propositions" Approaches Diverge

Under the structuralist approach all of the three strategy propositions, thus all of the company's activities should be aligned with the strategic choice of either pursuing differentiation or low cost. If the value and profit propositions are aligned around pursing low cost, but people proposition is aligned around differentiation, the strategy will not be successful. Under the reconstructionist strategy approach, all of the three propositions are aligned with the strategic choice of pursuing both differentiation and low cost. This alignment helps the organization to break the value-cost trade-off, break the industry structure, thus it helps to pursue a strategy that shapes the structure. This is also the alignment that leads to a sustainable strategy. While one or two of the strategy propositions can be intimated by other organizations, all three and especially the people proposition is hard to intimate (Harvard Business Review, 2009).

While most of the managers know how to align the three strategy propositions so as the structure shapes the strategy, there is not much known how to align three propositions in which strategy shapes structure. The Blue Ocean Strategy reconstructionist move and its tools and framework lead organizations to reshape the industry while aligning the three strategy propositions around both differentiation and low cost (Harvard Business Review, 2009).

Blue Ocean Analytical tools, Frameworks and Principles.

To analyze the current strategies of the chosen local Armenian company and understand whether its strategies correspond to BOS, some of the main analytical tools and principles where chosen. Effectively using the BOS analytical tools and frameworks helps the companies to minimize risks rather than lead them to take risks.

Value Innovation (Mauborgne, 2004)

Value innovation is the cornerstone of BOS. It is created in the regions that positively affect both company's cost structure and the value that is offered to its customers. Cost reduction is achieved by eliminating and reducing all the factors that are key competitive characteristics in the industry. Value proposition is increased by raising the factors that industry is taking for granted and creating the factors that have been never offered by the competitors. Over time the costs are reduced more due to economies of sales as the value innovation generates high sales volume.

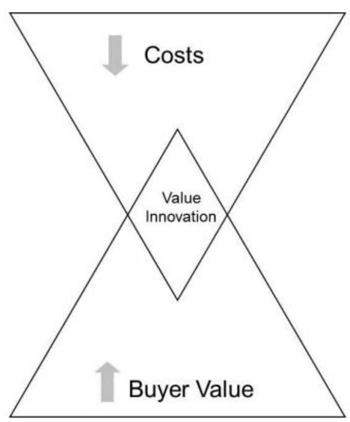
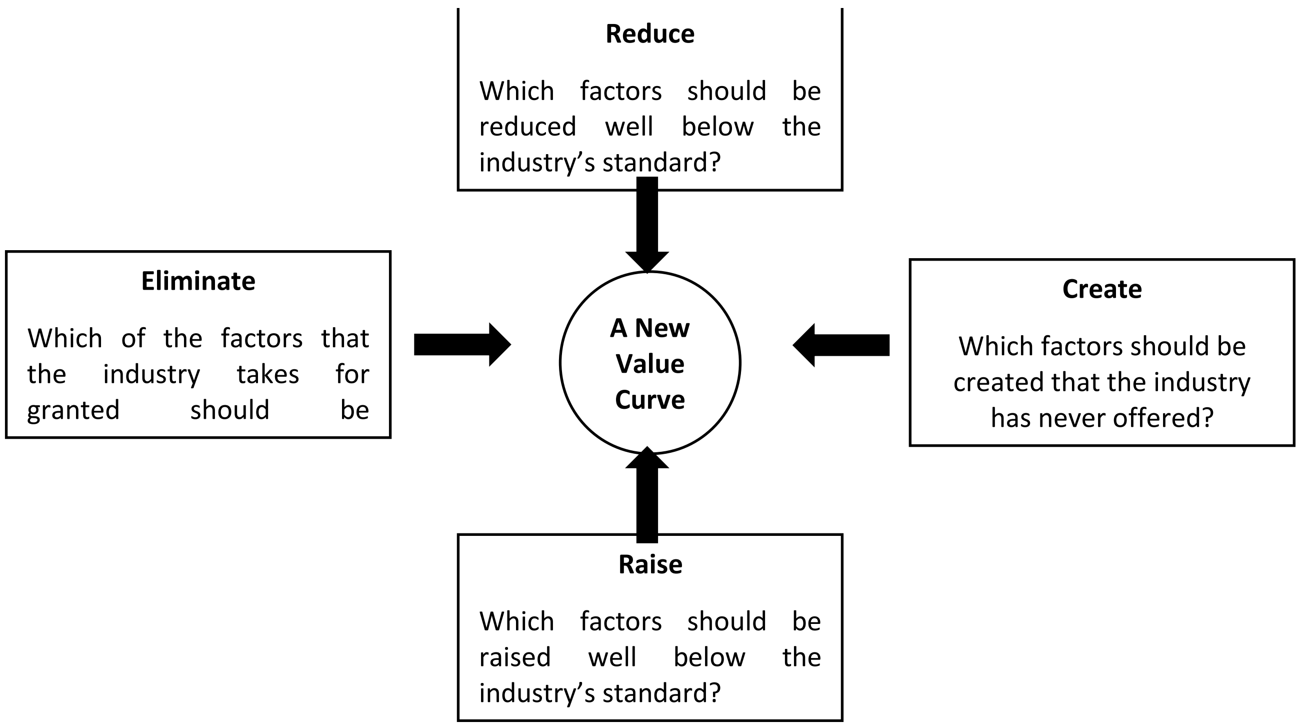


Figure 1. ***Value Innovation*** *(Mauborgne, 2004)*

The Four Actions Framework

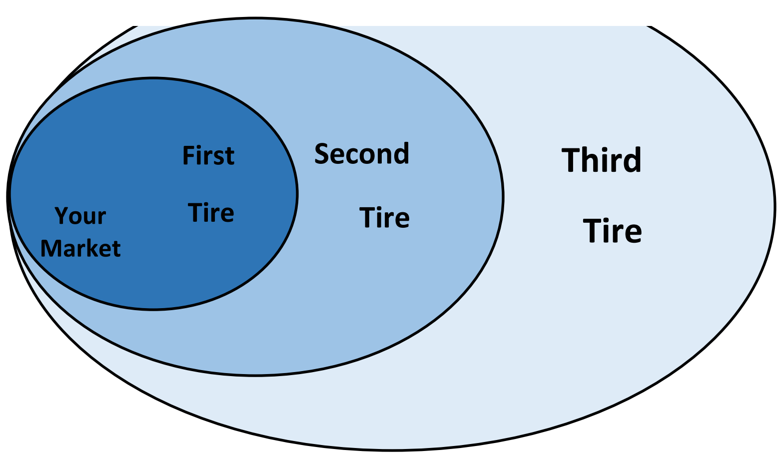
Analysis showed that managers rarely consider eliminate or reduce the main factors that the industry competes on. However, the first two questions of eliminate and reduce make them analyze the factors that the industry competitors take for granted, those factors do not add value but demand high investment. This approach helps entrepreneurs gain insights on how to reconstruct cost structure and gain advantage vis-à-vis competition. In contrast, the second to questions of raise and create give insight into how to lift buyer value and create new demand. Thus, eliminating and creating factors prompt companies to make existing competition irrelevant and get revealing new look at old perceived truths. As a result, companies create a new value curve.

Figure 2. Four Actions Framework (Mauborgne, 2004)



The Three Tiers of Noncustomers

Figure 3, The Three Tiers of Noncustomers (W. Chan Kim, Reach Beyond Existing Demand, 2004)

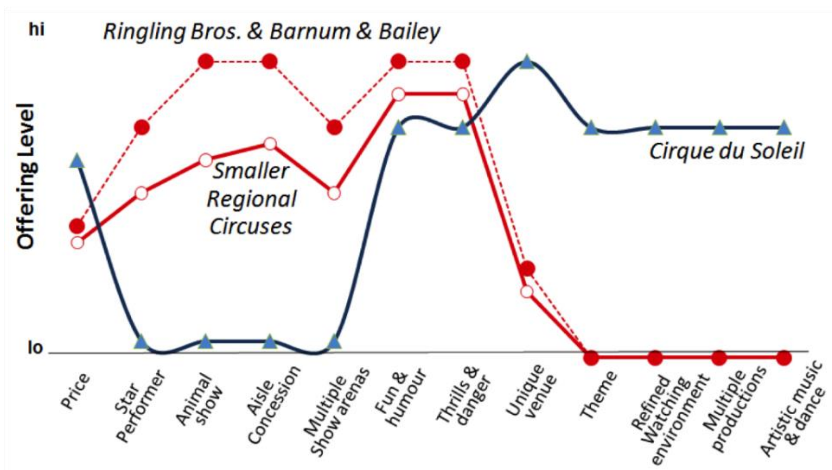


To convert the huge universe of noncustomers into real demand and expand the market, the companies should gain insight into who their noncustomers are and how to unlock them. Based on their relative distance from the market the noncustomers are divided into three tires. The closest to the company's market is the first tire of noncustomers, they are buyers who minimally purchase from the market out of necessity, and are waiting for the first opportunity to leave the market. However, if offered a leap of value not only they will stay but also become frequent buyers of the market. The second tire of noncustomers are people who refuse the company industry's offerings, they have considered the industry's offering as a man to fulfill their needs but have voted against them. The third tire of the customers is farthest from the industry, they have never thought of the market's offering as an option. To attract the tires of noncustomers, companies should analyze all the factors that unsatisfied the customers, the factors that make them reject the company's offering and never considered the offering as an option to fulfill their needs. By eliminating, reducing, raising, and creating industry factors, companies can turn all the three tiers of noncustomers into new market demand.

Strategy Canvas

The strategy canvas is used both for diagnosing the current industry and creating an action framework to create blue ocean strategy. The horizontal axis the range of factors the industry currently competes on and invests in. The vertical axis captures the offering level the buyers receive across all key competition factors. Firstly, companies should analyze the current state of play in the industry, and understand the factors the industry invest in and competes on in product, service, and delivery, and what customers get from their offerings in existing market. The next stage is developing a new value curve, which reconstructs the industry. A new value curve is created with the use of four actions framework.

Figure 4. Strategy Canvas (Mauborgne, 2004)



Literature Review

This is an applied research and probably first of its kind in Armenia which aims to study whether it is practical to use the Blue Ocean Strategy through its analytical tools and frameworks in Armenian industries, and how effective the strategy can be both for the company's and industry's future prosperity. A literature review was conducted to find similar usage of the strategy to improve companies' and industries' business performance around the world. Based on research, companies that achieved high profitability and growth using BOS by addressing the issues surrounding the product rather than focusing on improving only the product, can be separated into 2 groups, which are:

1. Worldwide known industry leader companies that created new demand and market space due to the Blue Ocean Strategy,
2. Researchers and entrepreneurs who applied BOS theory to analyze how effective was the strategy implementation for the company.

1. Worldwide known industry leader companies that created new demand and market space due to blue ocean strategy. Based on the analysis of the following companies' strategic moves BOS theory was observed, and its analytical tools and frameworks, which lead to creating blue oceans were created.

Cirque du Soleil: Pursuing differentiation and low cost simultaneously Cirque du Soleil created a new entertainment experience, which represents the modern circus we have. Instead of following conventional logic of traditional circus competition of creating better circus that had more fun and thrills, Cirque du Soleil offered a new entertainment experience that offered both new type of fun and thrill and the intellectual sophistication and artistic performances that theatre offered at the same time. Cirque du Soleil broke the boundaries of circus and theatre, created a new understanding of circus and attracted not only circus customers (children mostly) but also circus noncustomers: adult theater customers. Cirque du Soleil didn't attempt to be another circus with clowns and animals, its Blue Ocean strategy's value-cost trade-off reinvented the circus. Its BOS was achieved by eliminating star performers, animal shows, aisle concession sales and multiple show arenas, reducing improper fun and humor, thrill and danger, raising unique venue, and creating theme, refined environment, multiple productions, and artistic music and dance. By eliminating high-cost components that didn't add value to the industry, and by raising and creating unique features it has dramatically reduced its cost structure achieving both differentiation and cost. Hence, Cirque du Soleil achieved value innovation and reinvented the industry (W. Chan Kim, Blue Ocean Strategy, 2004).

iTunes entered the market addressing and solving the current market problem of illegally downloading music. iTunes the Blue Ocean Strategy simultaneously addressed the demand for digital music, its strategy created a new type of music sales which not only helped artists to raise profits but also for the first time in the industry gave customers the opportunity to buy a single song instead of buying the entire album. iTunes has dominated the industry for years and has all credits for the creation and growth of the digital music industry (Blue Ocean Strategy Examples, 2017).

Wikipedia: Created a free online encyclopedia by pursuing both differentiation and low cost. Its strategic move offered a set of compelling value, cost and people propositions creating new demand and market space in online knowledge. Instead of using traditional copyright licenses, the company created co-license which made it possible to not only provide free knowledge in more than 270 languages to the internet uses, but also removed technical barriers to edit the articles and become a Wikipedian (Blue Ocean Strategy Institute, 2014).

NetJets: NetJets created its blue ocean by changing the American aircraft industry. It is the first private business jet charter and aircraft management company that sell part ownership or shares of private business jets (Blue Ocean Strategy, n.d.).

Canon: Canon's blue ocean strategic move was creating a new demand for the personal desktop copier industry by shifting the target customers of the copier industry from corporate purchasers managers to users (Blue Ocean Strategy Examples, 2017).

Swatch: Swatch revolutionized the entire Swiss watch industry, by creating an inexpensive, yet good quality watch with quartz accuracy and shock resistance. The company's key strategic move was combining watch and fashion industries to position its watch as a lifestyle symbol and fashion accessory, not as a traditional timekeeping instrument. This approach enabled the company to target all existing market segments and create the Swatch mania (Ivey, 1999).

Polo: In creating Polo, Ralph Lauren, the U.S. designer, created a blue ocean of "high fashion with no fashion" by understanding the factors that determine buyers' decisions to trade up or down from one strategic group to another. The "blue ocean" was created by combining the best features of haute couture such as designer name, luxury material, the elegance of the shops, and classic lines by updating looks and price to capture the best of classical lines such as Burberry. By combining two groups, eliminating, reducing, raising and creating fashion characteristics the company was able to attract both segments of buyers (Blue Ocean Strategy, n.d.).

Other worldwide leader companies that continuously implement the Blue Ocean Strategy are Amazon, Apple, Netflix, Google, Southwest Airline, AIDA Cruiser, The body shop, HBO, Casella Wines, etc. (Kabukin, 2014)

2. **Researchers and entrepreneurs who applied BOS theory to analyze how effective was the strategy implementation for the company.**

Jordanian researchers[1] conducted applied research to test the effectiveness of using the Blue Ocean Strategy and its tools to create new demand in a privately owned Jordanian chocolate company which was struggling in harsh competition. Researchers introduced new methodology which included not only analytical tools and frameworks of BOS, but also applied statistical tools such as discriminant analysis, cluster analysis, and combination bundles analysis. The methodology aimed to analyze the current market situation and the company's position in it, then blue ocean tools were used to create an uncontested

[1] Rawabdeh, I. (2012). Blue Ocean Strategy as a Tool for Improving a Company's Marketing Function: The case of Jordan . *Jordan Journal of Business Administration,Volume 8, No. 2*, 390- 407.

market for the company. For the latter, to create new ideas customer taste surveys were also conducted to find the unique characteristics that customers needed but industry failed to satisfy. Hence, as a result of applied research it was concluded that in developing countries such as Jordan, there is a huge room for companies to use BOS, and satisfy customers' needs with new and revolutionary ideas.

The case analysis showed that it was highly effective for the company to use the Blue Ocean Strategy to change company's existing characteristics and add new ones, such special holiday chocolates for religious events to consume, fruit chocolates for the parents that were concerned about their children's health, and chocolate machine's which enabled to consume any type and amount of unit chocolates for the first time in the Jordanian market. The implemented case analysis helped the company to turn the ideas into real products to reach customer delight and high profitability growth (Rawabdeh, 2012).

The case study of **CJ-GLS South Korean Logistics Company**[2] used BOS and its analytical tools to create third-party logistics systems (3PL) which pioneered new uncontested market space. The case study shows how the 3PL logistics provider created a new business model for electronic logistics which not only attracted existing logistics customers but also non-customers of the logistics industry, by recognizing its future customers. CJ-GLS's competitive advantage included both differentiation and cost, which was built through expanding local capabilities, such as human resources and new technological innovations to use the opportunities of global e-business rather than expanding usage of tangible assets such as warehouses as industry players (Changsu Kim(Yeongnam University, 2008).

In 2019 the Ministry of Economy and Finance, Paris, France held Blue Ocean Awards, bringing together more than 600 entrepreneurs to recognize the most innovative French entrepreneurs who captured uncontested market space by using BOS theory. **Leakmited** was awarded Baby Awards as one of the best start-ups that created new market space. Leakmited's aims to find leaks that cause 35% water loss in the underground every year, which costs $14 billion loss per year. The company created the system which detects leaks from space using pattern recognition as leaks change the ground proposition. The leaks can be detected up to an accuracy of 20 meters, which represents 1000% improvement. **Finalcad** has won the Mentor Award for being a company that created a blue ocean market while making more than one million euros per year. The company facilitated the digital transformation of the construction and building industry, creating new characteristics for the industry such as handling the construction process with the use of flexible app and insightful data collection. **Pandobac** won the Social Award for its blue ocean move that created a new market place while having a positive impact on society. The company's strategic move was to create a new reusable cate for wholesalers' food delivery service. Their crates replace disposable packaging such as cardboard boxes, wood crates, and polystyrene boxes. Pandobac offers the industry zero-waste solution, which is ecologically sustainable. Finally, **Liebr** won the Blue Ocean Hackathon Award for creating a platform that connects motorcycles with independent professional mechanics changing the industry barriers while satisfying everyone's special needs and requirements. All of the introduced companies proved that creating their business model while using the Blue Ocean Strategy and its analytical tools can not only help the company to create high profitability, but also reconstruct industry and have a positive impact on the society as a whole (Team, the Blue Ocean, 2019).

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[2] Changsu Kim(Yeongnam University, K. K.-L. (2008). *A Strategy for Third-Party Logistics Systems: A Case Analysis.* University of Nebraska - Lincoln.

The Blue Ocean Strategy was criticized by some researchers as well (Josmael Roberto Kampa, 2012). However, the critical reliable sources are few. According to critique analysis, Rao criticized BOS as lacking a clear link between its formulation principles and its execution, the researcher also addressed the lack of clarity and practicality of the strategy. Additionally, it is mentioned that the strategy has two variables that are constantly changing: as it focuses on addressing what the market expects to receive, and at the same time what the market players fail to satisfy. Other researchers state that BOS does not address the examination of the unexplored market, it focuses mainly on the examination of the sector where the company already operates in, thus from the point of an entrepreneur who wants to start a new business BOS fails to give clear guidelines. Rao also believes that BOS gives entrepreneurs a false sense of security, as the strategy does not provide strong risk analysis. However, most of the mentioned criticisms are not scientifically proved and reliable. It was concluded, that despite the weakness the BOS is a unique strategy, which aims to restructure the market and supply sector. The critics admitted that the strategy is fundamental as is considers developing new products while providing guidelines on how to use opportunities that lead to differentiation and cost simultaneously (Josmael Roberto Kampa, 2012).

Conclusion

The Blue Ocean Strategy is an approach that leads companies to new demand by creating uncontested market space. Nowadays, it is a highly effective strategy for present companies to reach sustainable profitable growth and market renovation considering all the rising imperative of creating blue oceans. Although the strategy has been criticized for several practical gaps, it is highly beneficial for BOS practitioners. Compared to already existing theories such as Porter’s Five Forces, it’s rather a new unique model that addresses the current need of entrepreneurs to achieve sustainable growth through value innovation.

Methodology

The research questions of this paper are formulated as follows:

Is it effective to use the Blue Ocean Strategy in the Armenian industry in terms of profitability and future growth?

Sub-questions:

- To what extent an Armenian company implemented BOS?
- How profitable and sustainable was their strategic move?
- How has the BOS practitioner affected the industry?
- How imitable is their strategic move and is there a possibility that their created blue oceans will create new red oceans in the near future?

To check how much the local company's business strategy corresponds to the Blue Ocean Strategy, the following methodology is used:

Stage 1: "Current Ocean" Analysis

1. Check the correspondence of local company's strategy to BOS:

1.1. Market research will be conducted to highlight the industry's main features that companies compete on,

1.2. Blue ocean theory and analytical tools will be implanted to check the correspondence of the company's strategy to BOS:

1.2.1. Three Strategy propositions: the company's strategy will be analyzed through Value, People and Profit Propositions to understand whether the company has broken the value-cost trade off and reconstructed the industry it is involved in.

1.2.2. Value innovation and three tires of noncustomers – The possible BOS practitioner who is found to have fully used the insights of the Blue Ocean Strategy will be deeply analyzed. To understand how they did value innovation by enhancing value and reducing cost thee strategy propositions will be analyzed, which are value, profit, and people. Value is defined as the compelling reason for people choosing the company. Created new demand will be analyzed by using the tool of three tires of noncustomers to understand whether the value innovation resulted in lifting value not only for existing customer, but also those who were previously unsatisfied with the market offering, or rejected it or even never considered the offering as a mean to satisfy their needs. Profit is defined as a sustainable business model, which will be analyzed by using annual financial data to get insights into their reduced cost structure characteristics. People are the company's staff, corporate partners which will be analyzed with company's code of ethics, failure culture, and motivational factors considering both the delivered spiritual and monetary value. As a result, the effect of the Blue Ocean Strategy implementation on the companies' profitability and sustainable future growth will be measured.

1.2.3. Four actions framework analysis: With the use of for actions framework, the unique breakaway strategy the company implemented will be analyzed using previously collected data to get the insights into what industry factors were eliminated, reduced, raised and created which resulted in the creation of the new value curve.

1.2.4. Strategy canvas (value curve) – with the use of strategy canvas tool the key factors that specific market competes on will be identified. The BOS practitioner and its market competitors will be analyzed separately. The Vale curves of industry players will be illustrated based on how much of the competition factors the industry companies offer in the market value proposition. For this stage companies' publicly available data will be used, such as companies' working systems, requirements, offerings' level, prices, marketing campaigns etc. Here, marketing information should be collected by using publicly available secondary data.

<u>Stage 2: Analyzing BOS practitioner's effect on the Armenian industry</u>

Based on the Armenian BOS practitioner's example and similar international examples, the new methodology will be proposed which will include local market characteristics. The methodology will help other Armenian companies create new demand and uncontested market space by satisfying the existing demand which has been underestimated or not discovered by other Armenian market players.

The Crowdfunding Formula's Strategy Analysis through Blue Ocean Analytical Tools, Frameworks and Principles.

The Industry. The Main Sources of Financing a Business

For the small startups and entrepreneurs who are usually high-risk enterprises with potential the main sources of financing are:

1. Personal investment
2. Equity Financing
3. Friends and family
4. Venture capital firms
5. Angel investors
6. Debt financing
7. Crowdfunding

Personal Investment

Funding a business from personal investment capital is one of the most common sources of financing. However, there are two main issues that the source encounters:

- How much capital and savings the business owner has,
- How much of his/her capital he/she is willing to put under risk.

Businesses are usually self-funded in Armenia, and the initial investment comes from the founder. Investment from other sources flow into businesses later in their existence. This proves investors and creditors that the entrepreneur is long-term committed to his project and is willing to take high risks.

Equity Financing

Equity financing is a method to raise capital by selling a company's stocks to investors and stakeholders. In return, stakeholders gain ownership interests in the company generally in proportion to the amount of investment of each shareholder which may be translated into the number of voting shares each person owns.

In order to attract shareholders and partners entrepreneurs should be able to provide solid financial planning which demonstrates both profitability and the reasonable risk of the business venture (BANTON, 2020).

Friends and family

Personal savings, securities, real estate, and other personal assets are the most obvious source of cash for equity financing. Friends and relatives may provide additional sources of funds, and the funding can be in the form of debt which should be paid back along with/without interest, equity where they get ownership in the company, and hybrid which example can be royalty where the entrepreneur shout pay the debt back via the through the percentage of the business' sales. Personal investment in the business by family and friends demonstrates a faith in, and a commitment to the business.

Debt Financing

Debt capital is the money the business borrows which has to be fully returned with interest during a specific time period. Like investors lenders do not share in business profits, however they must be repaid with interest regardless the business is generating a profit or not.

Potential lenders include the following:

- Banks
- Credit Unions
- Commercial Finance Companies …

As a small business owner/operator, the entrepreneur should familiarize himself with the lenders requirements before determining the type and the source of his debt financing (CHEN, Fixed Income Essentials, 2020).

Venture capital

Venture capital is a form of private equity and source of financing for startups that are subject to high risks but long-term high returns. Venture capital can be in monetary form, or in the form of technical and managerial expertise. Venture capital raises funds through well-off investors, investment banks and other financial institutions. Venture capital funds differ from other financial sources, such as mutual funds, with a specific feature of focusing only on the early stage investment. The firms that raise funding through venture capital have high-growth potential are exposed to high risk, and have a high opportunity to attract future investments. Along with investing in the firms, venture firms also guide the startups. Venture capitalists are in a high-stakes, high-risk business. In negotiations, they will aggressively try to make the best deal they possibly can with the startup company that they intent to invest in. Besides fast-growth prospects, they look for sound management and a high degree of financial commitment on the part of the small business owner/operator (CHEN, Investopedia, 2020).

Venture capital funds have a portfolio type that allows the funds to migrate and cover up the investments that might fail because of the high risk. Many of these funds make small bets on a number of startups believing that at least one of them will achieve high growth and at the end reward the fund will a high corresponding payout.

Venture capitalists open up a fund, raise funding from well-off investors, companies and other financial institutions, and then invest the money into a number of startups and small-to-medium enterprises.

Venture capital funds manage the capital of the investors who want to have a private equity in the startups in return to their investments.

Venture capital is an early-stage capital, and like all other funds the venture capital funds raise money before making investment. Then, the fund searches for high potential enterprises that can give high returns to its investors, which means that fund managers must view and analyze hundreds of business plans prior to selecting one or two companies for investment that correspond to the expectations of their fund's investors.

When a business wants to attracts venture capital, the first step is to submit a business plan either to a venture capital firm or an angel investor. If the venture firm is interested in the proposal, it start an investigation in the form of due diligence performance, which includes a deep investigation of a company's business form, its products, management, financial sustainability and operating history, among other things.

Venture capitalists tend to invest large dollar amounts in a few companies, so the prime research is vital before making an investment decision. The venture capitalists are either professional investors with prior investing experience as equity research analysts or have MBA degrees. Professional venture capitalists also tend to focus on some specific industries where they often had a previous experience (CHEN, Investopedia, 2020).

After analysis has been finished, the venture capitalists exchange the capital investment with a corresponding equity in the company. The funds may be provided all by once, or in rounds. The venture firm or investor than has an active role in the funded company by monitoring and guiding it until additional funds are released (CHEN, Investopedia, 2020).

After the investment is made, the investors of the venture capital fund make returns when the portfolio company exists either in the form of IPO, or a merger and acquisition, typically four to six years after initial investment. Based on the company and the industry it operates in, the venture capital firm returns are on average 30% of the gross internal rate, including the annual management fee that helps pay for the salaries and expenses of the general partner, which is around 2% (CHEN, Investopedia, 2020).

Angel Investors

For small businesses that do not need as much investment as venture capital funds provide, venture capital is mostly provided by high-net-worth individuals (HNWI) or otherwise known angel investors. Angel investors are a group of diverse people who have assembled their wealth through different sources, and they tend to be entrepreneurs themselves. They provide investment to startups and small businesses in exchange for ownership equity in the funded company. The funds that they provide tend to be one-time investment to help small businesses to overcome financial difficulties or to help company during its difficult early stages (GANTI, 2020).

The angel investors invest in the companies that have a fully-developed business plan, are well managed, and have a high possibility to be a sustainable business. They tend to invest in the industries or their similar industries where they have an expertise or at least an academic background.

Angel investments are typically high risky and do not represent more than 10% of investors portfolio. Essentially, angel investors are the opposite of venture capitalists because they invest in entrepreneur starting the business not in the viability of the business. They are interested in helping startups to take their first steps rather than a possible profit that they will get from the investment (GANTI, 2020).

Angel investors are also called informal investors, business angels, angel funders, private investors or seed investors. They also invest through online crowdfunding platforms or create angel investor networks to raise funding together. Unlike the venture capitalists who manage other investors' money and place them in strategically managed funds, angel investors use their own money.

Angel investors use defined exit strategy, acquisition or IPOs (initial public offerings) since the angel investor who seed a startup that fails in the early stages loses completely the whole investment. For an angel investor's successful the effective rate of return is on average 22%. This is a great percentage for an investor, but seems to be far too expensive for an entrepreneur who manages an early-stage business. However, in most cases cheaper sources of financing such as banks are not available for such business ventures, which makes angel investors the perfect solution for startups to have difficulties in the early-stage of their businesses (GANTI, 2020).

Crowdfunding

Crowdfunding is a source of financing for businesses that uses the small amounts of capital from a huge number of investors. Crowdfunding brings investors and entrepreneurs together through social media and crowdfunding platforms. Crowdfunding is a rapidly growing and effective way of raising funds in an entrepreneurial finance. Crowdfunding reshapes the traditional fundraising industry of owners, relatives, debt financing, and venture capitalists by expanding the opportunity of becoming an investor. It is "an open call, mostly through the Internet, for the provision of financial resources either in form of donation or in exchange for the future product or some form of reward and/or voting rights" (Belleflamme P., 2011). In the crowdfunding, investors are typically also called backers who support the campaigner (product owner) to enter the market just by pre-ordering their product. People become crowdfunding project backers when they simply like the product and want to use it in the future, or find it excitingly innovative and support its launch in the market place.

Crowdfunders believe in the 'power and wisdom of the crowd' (Surowiecki, 2004). Crowdfunding innovatively uses internet and social media to raise funding effectively through the receipt of small amounts of money from a thousand to the millions of dollars from a wide number of people. Since a lot of new businesses fail, investors face a high risk of losing their investment, hence, the crowdfunding restrictions specify who can invest in a new business and how much they are allowed to contribute: the restrictions are created to protect non-wealthy investors from risking too much amount of their savings. Crowdfunding gives investors opportunity to search and access hundreds of startup projects and invest starting even from $1.

Crowdfunding platforms on the Web (CFPs) are considered to be a "multi-sited platform" where value is created by proving finance. Multi-sided platform is defined to be an organization that creates a platform which enables the interaction between two or more types of distinct affiliated customers. Moreover, crowdfunding substantially differs from "traditional" sources of financing such as venture capital and private equity funds, angel investors, bank loans, and other (Giancarlo Giudici, 2015).

Table 4 Comparison between crowdfunding and other sources of finance for small venture projects. (Giancarlo Giudici, 2015)

	Crowdfunding	**Venture capital and private equity funds**	**Business angels**	**Stock exchanges and trading platforms**	**Bank loans**
Enabler organization	Yes	No	No	Yes	No
Direct interaction	Yes	Yes	Yes	No	Yes (w.e)
Affiliation of investor / investee	Yes	No	No (w.e)	Yes	No
Independence of the entrepreneur	Yes	No	No	No	Yes

(w.e.) = with exceptions

Being promoted by an enabling organization, CFP entirely becomes multi-sited platform. Due to the affiliation of both the crowdfunders and project initiators/campaigners, CFP allows entrepreneurs (project campaigners) collect funds directly from the crowd. Compared to any other traditional source of financing (with a few exceptions such as bank credits and loans) crowdfunding is one of the few financial sources that helps entrepreneurs raise needed funds for the business, but yet maintain independence as the investors do not gain a right to manage the entrepreneur's business.

In case of venture capital and private equity funds, as well as angel investors, entrepreneur directly gets financial support from investors yet mostly failing to keep his/her dominant power in the business maintenance. Moreover, there is no enabler organization that connects entrepreneurs and investors. Business plans are submitted to administrations which are then analyzed by the managers but they are not publicly available. Affiliations of investors into networks are common, however the main aim is to direct them to regulators and banks and to provide services and advisory to them. Exceptions can be among angel investors who join a network in order to increase funds and decrease possible risks.

Stock exchanges are considered as enabling companies by themselves, and the access to those have only brokers and listed companies with strict formal requirements, however direct interactions are restricted because of the trades that are centralized and anonymous, and in this case, entrepreneurs lose their superior power in the business maintenance as well.

Bank loans are directly granted to entrepreneurs, without any enabling organization.

International Leading crowdfunding companies: TCF is the first Armenian crowdfunding company and does not have competitors in Armenia. International companies that can somehow compete with TCF are as follow. However, because of TCF's brand name and high performance both in locally and internationally, the opportunity of these companies competing with TCF is significantly low in Armenia.

- TRoss
- The Crowdfunding Formula
- Jellop
- Enventys
- Launchbook
- Nuuk
- Joopio
- Blazon Agency
- Agency 2.0
- Green Inbox
- Vinyl2
- Matix Labs
- Dayonefunding
- Longham Group

Popular crowdfunding platforms

There are thousands of crowdfunding platforms on the internet, and all of them are unique in some features, however Kickstarter and Indiegogo have made it to the top. Nowadays Kickstarter is such a powerful platform that crowdfunding is a synonym of Kickstarter. The site has been founded in 2009, as of 2019 it is the most powerful crowdfunding portal.

Table 5 Kickstarter Stats: All Projects and Dollars (Kickstarter Stats, 2020)

Category	Launched Projects	Total backers	Total Dollars	Successful Dollars	Unsuccessful Dollars	Live Dollars	Live Projects	Success Rate
All	**490,826**	**18,153,238**	**$5.10 B**	**$4.58 B**	**$473 M**	**$47 M**	**3,190**	**37.82%**

Since it was founded, more than 490,000 projects have ever launched in Kickstarter, among which successfully funded project were 184,404, with more than $5,102,396,292 pledged to all projects. 303,232 out of 490,000 projects were unsuccessfully funded, which means those projects failed to rich their funding goal. According to Kickstarter rules, pledges to unsuccessfully funded projects are not being collected, hence $473 million from $5.10 billion was returned to project backers. Thus, more than $4.58 billion was raised only through Kickstarter (Kickstarter Stats, 2020).

Table 6 Kickstarter Stats: Backers and Pledges (Kickstarter Stats, 2020)

Total backers	Repeat backers	Total pledges
18,153,238	**6,048,844**	**63,386,887**

Kickstarter has 18,153,238 unique backers (investors) in the platform from all over the world, out of which 6,048,844 are repeat backers, who are the people who have backed two and more projects. Totally, since 2007 there more than 63 million unique investments on the Kickstarter platform.

Indiegogo was founded in 2007 and initially started as a crowdfunding platform that was only raising funds for independent films, but a year after its launch it started to accept from any other categories as well.

Indiegogo's format is less strict and it is a more flexible crowdfunding platform compared to Kickstarter since it gives its backers and project campaigners control over whether they want fixed or flexible crowdfunding model, which is the key difference between these two leading crowdfunding platforms. Kickstarter releases the collected funds (in Kickstarter known as pledges) only after the campaign reached its funding goal, hence it confirmed as a successful project. In contrast, Indiegogo allows the campaigner to receive the funds as they come, which is more preferable for campaigners since the funds could be used for financing the further fund raising, however for backers fixed funding is more attractive as it initiates trust that the product will successfully make it to the marketplace.

According to public data, since founding to 2019 Indiegogo raised more than $2 billion. And according to Similar Web which is a traffic estimator, Indiegogo has an average of 12.16 million unique visitors on its platform. Compared to Kickstarter the estimates are low, however it does not mean that Indiegogo performs worse than Kickstarter. The difference is between communities of two platforms who have diverse preferences. Regarding categories, Indiegogo is famous for its "Tech & Innovation", "Creative Works", and "Community Projects" categories, whereas in Kickstarter the categories that perform best are "Music", "Films & Video", "Games", and "Art". Indiegogo has greatly niched itself from Kickstarter, which initiates one of the main differences between them.

Armenian Startup Ecosystem and Tech industry

Armenia is one of the oldest historic counties in the world. Armenia is landlocked in Caucasus rich with natural resources, and it is difficult to reach it due to absence of ports and free roads. Because the country has hostile relations with its neighbor countries Turkey and Azerbaijan, it has no either entrance form east or west for decades. Armenia's most expensive resource its human capital, which made high-tech research and development nation's priority with the urgent objective to make connections and do business with the world and break down the erosive barriers built around the country.

Armenian Revolution of 2018 was the momentum that significantly changed the direction of country's economy and the country again became full of hope looking forward to the possible bright future. "The Armenian nation has never really been able to live for itself. It's always had someone dominating it or ruling it or manipulating it," explained the half-Armenian Reddit cofounder, Alexis Ohanian. "This could mark the start of the first time when this country and especially the young people—the ones who are the most hungry, the most driven, the most optimistic—to actually have a chance to determine for themselves the fate of the country and where it heads, and that is a part of the Armenian experiment that has not really ever happened" (Shepard, 2020).

Power of technology is one of the driving forces for Armenian economy, and the backbone of its emerging economy is IT, software development and high-tech startups. Arayik Harutyunyan, Armenia's Minister of Education, Science, Culture and Sport stated that considering the limited resources that Armenia has, high technology is one of the main ways that will help Armenia to get out of the economic blockade and import and export Armenian educational brands to the outside world (Shepard, 2020).

In 2019 Armenian tech sector grow by 33% becoming $250 million industry a year, which made tech industry the largest foreign investment in Armenia due to the world's powerful technology companies such as Google, Intel, Microsoft, IBM, Synopsys and Cisco (Shepard, 2020).

Armenian startup companies do not have many possible sources through which they can finance their businesses. The main ones resemble traditional way of financing which are banks, venture companies, and angel investors. The leading Armenian venture companies are:

- SmartGate VC
- HIVE
- Granatus Ventures

Armenian Angel networks are:

- BANA- Business Angel Network of Armenia
- FAST
- AICA

However, in 2015 the first Armenian crowdfunding company, "The Crowdfunding Formula", was funded as a startup, and soon became the world's leading crowdfunding PR & Marketing agency reshaping not only Armenian startup industry but also the changing the industry standards the other international crowdfunding companies have.

The Three Strategy Propositions of "The Crowdfunding Formula"

The Value proposition of TCF

Being founded in 2016, The Crowdfunding Formula became the first Armenian crowdfunding company, and in short period of time, according to Forbes, one of the world's leading crowdfunding companies that makes million-dollar crowdfunding campaigns. The Crowdfunding formula (TCF) is an award-winning crowdfunding marketing agency that transforms international innovative projects with huge potential into global successes, with their help creators are able to launch six and seven-figure campaigns. One of the main features that define TCF's success formula is its unique team that consists of champion-minded marketers that are individually driven to become world-class experts in their field. The team constantly is leveling up by facing daily challenges against tough international markets, analyzing consequences and results of their failures and successes, and learning in a fast-evolving innovative environment (The Crowdfunding Formula, 2020). Due to its great team and working with the best international partners, TCF raises on average $1.5 million for each campaign, which is considered a world record indicator in the crowdfunding and more money than 99.9% of the existing crowdfunding companies raise. Starting from 2017 the company was able to raise more than $25 million. For the superior value that they deliver, TCF is recognized as one of the World's Top 3 crowdfunding companies (The Crowdfunding Formula, 2020).

TCF gets creators campaign funded in under 24 hours, covered by leading media, and endorsed by top influencers, which multiplies creator's company valuation.

Here are the main projects that were crowdfunded by TCF, including the raised funds and the percentage of raise compared to initial fund goalsq which were aimed to raise (The Crowdfunding Formula):

1. BionicGYM- $3,995,835 raised, 19,979% funded
2. UVMask- $3,019,833 raised, 15,099% funded
3. Volterman- $2,954,036 raised, 6,560% funded
4. CIGA Design- 1,898,365 raised, 18,984% funded
5. Venzo 360- $1,891,757 raised, 7,567% funded
6. Hyphen - $1,742,916 raised. 8,715% funded
7. WINSTON- $1,681,201 raised, 8,406% funded
8. Pico- $1,506,231 raised, 15,062% funded
9. FUELL Flluid- $1,462,702 raised, 1,950% funded
10. Carbo- $1,225,689 raised, 2,451% funded
11. Wicked Ball- $1,067,553 raised, 5,337% funded
12. Bru- $1,059,828 raised, 3,420% funded
13. Bristly- $1,000,934 raised, 6,673% funded
14. MiniFalcon- $807,909 raised, 8,080% funded

Among all the international successful crowdfunding campaigns, Volterman and Bristly are Armenian creators' projects that started as startup ideas and have become world-known successful crowdfunding brands in less than half a year through collaboration with TCF.

According to Kickstarter, most successfully funded projects raise less than $10,000, but a growing number have reached six, seven, and even eight figures.

Table 7 Kickstarter Stats: Successfully Funded Projects (Kickstarter Stats, 2020)

Category	Successfully Funded Projects	Less than $1,000 Raised	$1,000 to $9,999 Raised	$10,000 to $19,999 Raised	$20,000 to $99,999 Raised	$100 K to $999,999 Raised	$1 M Raised
All	**184,404**	**24,098**	**99,630**	**26,474**	**26,952**	**6,788**	**462**
Art	17,469	4,818	10,124	1,485	945	92	5

Film & Video	28,069	3,316	15,740	4,400	4,167	438	8
Music	31,234	3,110	21,890	4,284	1,853	95	2
Publishing	16,706	2,413	10,310	2,258	1,595	130	0
Games	21,782	1,817	8,986	3,784	5,172	1,842	181
Fashion	8,978	1,651	4,067	1,480	1,500	274	6
Comics	9,623	1,314	6,066	1,091	1,011	140	1
Design	15,902	1,119	5,199	2,730	4,842	1,888	124
Theater	7,367	1,053	5,342	648	305	19	0
Crafts	2,892	991	1,494	223	170	14	0
Food	7,566	745	3,099	1,789	1,815	107	11
Photography	4,037	745	2,192	605	455	40	0
Technology	8,838	516	2,377	1,275	2,854	1,692	124
Journalism	1,311	249	690	167	189	16	0
Dance	2,630	241	2,054	255	79	1	0

Since Kickstarter was founded until July 2020, more than 490,000 projects have ever launched in the platform, among which successfully funded project were only 184,404. The number of campaigns that were able to raise from $100,000 to $999,999 was 6,788, and only 462 projects were able to raise $1 million and more funding in Kickstarter. This shows that:

- **37.63%** of projects launched in Kickstarter end up being **successfully funded,**
- Only **1.38%** of the project were able to raise **$100,000 to $999,999 funding,**
- And **0.094%** of the projects ever existed in Kickstarter raised **$1 million** and more.

After its founding, in a short period of time, The Crowdfunding Formula was able to be one of the few crowdfunding companies in the world whose projects were consistently in the 0.094% of the Kickstarter campaigns. Hence, the numbers state The Crowdfunding Formula indeed created a unique formula which delivered a superior value to its customers, and has reshaped the boundaries both of the Armenian startup financing industry and international crowdfunding industry itself.

Value Innovation of TCF

The founding story of TCF is a classic success story. After the co-founder of TCF, Narek Vardanyan failed his own campaign in Kickstarter, he started to dig deeper into the essence of crowdfunding to understand why his tactics did not work and analyzed the red ocean existing in crowdfunding. For his research, he interviewed crowdfunding creators, collected valuable insights about how they succeeded, what they did differently, what tactics proved to be failing, and what exact strategies helped them to reach their funding goals. The collected information served as a backbone for the research, which was processed into a unique crowdfunding book that brought into life powerful growth-hacking crowdfunding tactics and strategies. After publishing the book became the number one bestseller in the crowdfunding category on Amazon. Then Narek started to receive a lot of requirements from creators who started their campaign, asking different questions about strategies to implement in their projects, etc. And the campaigns that were followed to his advice proved to get great results one after another. Hence, the idea of creating TCF emerged and a powerful team was created that started to do the whole process of the crowdfunding project management. Their first success was Armenian crowdfunding project "Volterman" which succeeded to raise $1 million in live stage of the project in Kickstarter than was transferred to Indiegogo where it increased the funding up to $3 million during project's in-demand stage. After "Volterman" TCF concentrated on initiating tactics and strategies that resulted in having seven figure funding, and the agency equipped itself with a more structured work process, which help creators to drive traffic to the campaign pages and generate up to $3 million with the use of minimal resources.

The superior value that TCF delivers to creators lies in the unique strategy that they implement and the crowdfunding ecosystem that they have created. They highly concentrate on the preparation stage of the project before launching it into market, since it is the key thing that is common to all the big successes they had. A thorough market research, knowing your audience and the right positioning angles of the project is initial, since in crowdfunding every campaign is very specific and understanding the strategies and differences between campaigns is vital to have a successful campaign.

TCF is the only crowdfunding agency that has created an entire crowdfunding ecosystem that includes unique tools, backer communities and financial funds. These tools are not only one of the main sources of crowdfunding that bring huge traffic to the campaign page, but they are also one of the most expensive crowdfunding sources. Thus, by building its ecosystem the company does not only generate profits by providing its services worldwide, but it also provides up to 30% discount to the creators whose campaign's whole crowdfunding project is managed by TCF. TCF's ecosystem consists of:

- ***JungleProof:*** TCF has created JungleProof, which is specially designed for product-market validation test. The tool is free and available for all the creators and campaigners. So, a 3-page website is being created for the product, which is launched via ads in order to:
    - Learn whether the audience is interested in the product: JungleProof tracks the page visitors' behavior to find out whether they are interested in the product or not.
    - Then it tests whether they will actually BUY the product, hence it tests the price validation: By tracking users visits on the page and their actions such as subscribing, pressing the "Buy

Now" button and validating the price, JungleProof tracks the **add-to-cart** to **purchase** ratio and determines the correlation between user **behavior** and **purchase**. Through real market projection JungleProof forecasts the percentage of backers with a certain behavior that the campaign will gain on Kickstarter/Indiegogo platform.

- Then, due to insightful analytics about the product's future performance in the market based on industry averages and benchmarks, TCF along with creators do corresponding changes in the product's price and features to make it more fit to the market, hence avoids having the campaign failed because of backer's criticism. By gaining the reviews and changing the product's features to more fit to backers' interests and needs, the tool help to shape the product's audience in advance, and obtain their products first ambassadors.

- ***Perkfection:*** TCF highly focuses on rewards during the product's live and in demand stages, since this is the unique opportunity for people to be the first users of innovative products while with considerable low prices and profitable bargains. TCF always keeps the reward//per quantities low to create buzz around the perk and create urgency. And to keep the quantities low and add them when they reach their limits, TCF created a special tool, Perkfection, which automatically increases the number of rewards by 2-3 when they reach 1-2, helping to keep the quantities always low. Perkfection is a paid crowdfunding tool which is publicly available to any campaigner.
- ***Milenium5*****:** Milenium5 is TCF's team of professionals that make awesome crowdfunding videos for creators. They create crowdfunding campaign videos that give unique expression to creators' ideas, inducing strong emotional connection with the product and spark action. Team is publicly available for all the creators who do crowdfunding (Milenium5, 2020).
- "***Tech I Want***" and "***Steve & Elon***": TCF submits their projects to backer communities through platforms that deliver product listing and newsletter services to their strong unique backer communities. Those platforms list the best current Kickstarter and Indiegogo campaigns according to relevant product categories and send newsletter to their backer communities. Promoting creator's product through the platforms can greatly contribute to fundraising. Tech I Want and Steve & Elon are one of the best platforms that deliver crowdfunding promotion services that are world widely proven to be effective.
- ***CrossProm***: TCF has created CrossProm which is the number 1 cross-promotional platform. The company intensively uses cross-promotions since it is one of the most effective sources to bring relevant traffic which has high conversion rates. By finding other relevant on-going crowdfunding campaigns through the platform, TCF cooperates with them and the campaigns start to promote each other on their campaign pages. This method works effectively since the cross promotions are included in campaigns' updates which go directly to backers' inbox. Backer inbox has high open rates since after backing the product they are waiting for fresh information about the product. Moreover, the conversion rates are extremely high since the crowdfunding campaign backers are the early adopters and customers who seek innovation.
- **Sprint Crowdfunders' Fund:** TCF is a trusted partner of Sprint fund, which is a financial funding created exceptionally for crowdfunding. The fund support campaigners to raise more money for their campaigns with the help of world-class experts and marketing funds, before the campaigner gains authority to take and use the campaign's total raised funds. Indiegogo lets the campaigners directly to use the raised money before the campaign end, however Kickstarter transfers the raised funds to creators only after the campaign is successfully ended. Thus, Sprint fund support the creators by providing them debt capital to pay for crowdfunding ongoing expenses such as lead-generation and marketing expenses, etc (Sprint Crowdfunder's Fund, 2020).

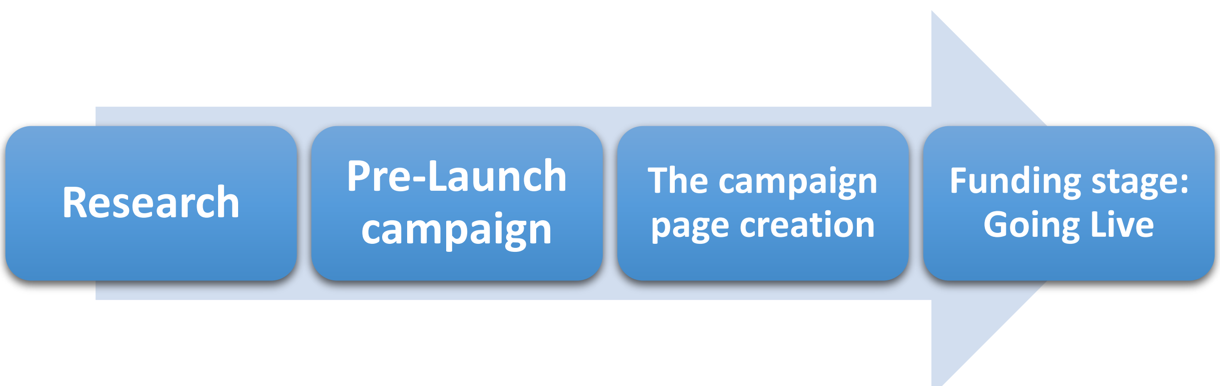
TCF has created specific crowdfunding methods that help them to reach at least 3,000% more funding than initially project aim for, and with minimal costs. Moreover, compared to being funded by banks, ventures, angle investors, or managing crowdfunding of their camping by either themselves or other crowdfunding agencies, TCF delivers its creators superior value by:

- Preparing a successful Kickstarter campaign
- Collecting an audience loves the product
- Creating the campaign page that attracts visitors like honey
- Building an army of powerful journalists and influencers that create buss around the product
- Creating awesome Facebook and Google ads

TCF has created unique methodologies and crowdfunding strategies that deliver its creators high value while decreasing crowdfunding costs. By combining its crowdfunding ecosystem tools and unique crowdfunding strategies, TCF has created a unique mechanism to make sure the customer receives value they expect to receive, more particularly with their unique process. The process has four main stages corresponding to the processes Kickstarter campaign is passing through, which are research, pre-launch, the campaign page creators and funding stage.

The more detailed working process of TCF includes (Vardanyan, 2020)***:***

Figure 5. TCF Work Stages (Vardanyan, 2020)



1. ***Research***

   1.1. ***Product research:*** The initial step is testing the whether the product has a good market fit. In order to gain precise objective idea about product's potential in the market, TCF gets a prior market validation from the product's potential backers. For that very essence, TCF has created JungleProof, which is a free tool specially designed for product-market validation test.

   1.2. Research on competitors' strategies

   - Since one of the best methods to analyze competitor products performance is analyzing their funding curves, TCF uses Biggercake and Backertracker camping trackers for research. Analyzing the curves helps them determine which of the crowdfunding platforms work well for the particular product.
   - Researching similar products in Amazon and eBay is also an important step. TCF mostly focuses on looking for products that are not just slightly better than their competitors in Amazon, but significantly better. This research gives the team tons of precious insights about what their potential customers except from the product.

- In order to understand how PR-friendly the product is, TCF team researches the coverages of similar Kickstarter campaigns. TCF uses MediaToolKit.com media monitoring tool which helps to find all the press mentions of the competitors in.
- Examining competitors' ads is also an essential research step in TCF. The best insights are gained through Facebook's "Ad Library".

2. Pre-Launch campaign

Many creators just take and submit their projects on either Kickstarter or Indiegogo, and generally raise $25,000 in 2 months, however TCF raises almost $50,000 in only a day. TCF's secret is the preparation stage, when the team works for months before launching the campaign. The pre-launch stage separately consists of 3 main stages.

- Collecting and warming up subscribers: Collecting and warming up subscribers: the process is managed through email marketing. The main stages are creating a landing page, driving traffic to the landing page and sending emails. TCF creates super cool landing pages to collect subscribers, and to track the results easily landing page is integrated with Google Analytics and Facebook Pixel, while Pixel allows to run ads on subscribers' Facebook accounts as well. The email list is TCF's biggest asset, which is also used to bring the relevant traffic to its campaign page. With email marketing tool, ConvertKit, TCF easily customizes and embeds forms to campaign's website to turn casual readers into subscribers.
- Messenger Marketing, aka Chatbots: TCF is highly focused on customer support, and to provide them the best support its sales department uses ManyChat, through which TCF's team are able to have a separate segment of people who want to get notified about the Kickstarter campaign launch by automatically tagging people during the pre-launch stage.
- Video creation and photo-shootings: Video creation is one of the key ingredients in TCF's success. The commercial videos created by **Milenium5** stand out in all the crowdfunding platforms, and sure there is well determined work pattern behind the magnificent results.
- Collecting the PR database: TCF sets the campaign off for future by collecting database about relevant journalists and influencers.

3. The campaign page creation

In crowdfunding campaign's page on Kickstarter or Indiegogo is company's business card, as it is the connecting bridge between the product and the potential backers. To ensure high conversion rate, the information in campaign page should be effectively organized. At TCF the initial order of the page sections is carefully planned in advance, however each product dictates its own logic. For instance, in case of Fuell, ebike which was designed by legendary Harley-Davidson engineer Erik Buell, they started the page by emphasizing the team that created the bike. Whereas, in case of Mochi, which was a complex product, the page started with sections explaining what is the product's features and how it works. Hence, the ultimate goal is to explain the product in the simplest and most understandable manner to help the potential reader get a clear idea about the product after reading it. To make the best out of the page and reaches high conversion rate, TCF's team follows the below mentioned work process on behalf of campaign page creation:

3.1. Marketing elements

- Campaign goal: the campaign goal should be set wisely, since it is one of the most important moments in crowdfunding. The secret is that people tend to invest only in the projects that has been funded successfully by exceeding its goal at least 10 times. The campaigner in the end wants to reach his goal but there is no need to let the backers know what his actual goal is. So what TCF team do, they set initial goal about $25,000 and reach $2.5 million making the campaign more attractive for potential backers. Moreover, setting the goal small gives another opportunity to boost traffic organically, they set the goal $25K and get funded more than 10 times in the first day of live stage, and get advertised by Kickstarter automatically.

- Campaign page personalization
- Focusing on the benefits
- Caparison chart
- Testimonials and media sections
- Customer testimonials
- Team story
- Satisfaction guarantee and guaranteed delivery badges
- Google analytics and Facebook pixel
- Sense of urgency

3.2. Design elements

- Visuals
- Texts
- Support and Promotional Buttons

3.3. ***Perks/Rewards:*** TCF highly focuses on rewards during the product's live and in demand stages, since this is the unique opportunity for people to be the first users of innovative products while with considerable low prices and profitable bargains. TCF always keeps the reward per quantities low to create buzz around the perk and create urgency, for which TCF has created and uses Perkfection

4. Funding stage: Going Live

4.1. ***Affiliate marketing***: Right after launching the campaign on Kickstarter/Indiegogo, TCF launches a Kickbooster campaign. Kickbooster is an affiliate marketing tool for Kickstarter and Indiegogo which TCF use to run and manage their affiliate marketing program all in one platform. TCF push their media partners, social media influencers, affiliate marketers to promote their product and earn commissions through the platform.

4.2. 8 Communities TCF use to boost Kickstarter Campaign

TCF submits their projects to backer communities through platforms that deliver product listing and newsletter services to their strong unique backer communities. Those platforms list the best current Kickstarter and Indiegogo campaigns according to relevant product categories and send newsletter to their backer communities, and promoting creator's product through the platforms can greatly contribute to fundraising. TCF works with the best crowdfunding promotion services that are world widely proven to be effective. Those platforms are: Backerkit, Tech I Want, Product Hype, Backerland, BackersHub, BackerCity, BackerClub, Gadget Flow. Moreover, Tech I Want has been created by TCF, and has its own unique backer community.

4.3. 7 main Crowdfunding Promotion channels TCF use

4.3.1. Facebook Ads

4.3.2. Media coverage / Outreach campaign

4.3.3. Influencer marketing for Instagram, YouTube, and Facebook

4.3.4. Social Media Marketing
4.3.5.Facebook Messenger Marketing
4.3.6.Direct Sales
4.3.7.*Cross Promotions*

Hence, due to the detailed and precise crowdfunding methodologies, TCF shows magnificent successful results and was able to enter the market of leading crowdfunding companies and be in the top three best crowdfunding companies after a year of being founded. The thoroughly planned crowdfunding management delivers a superior value to the market. However, because of its unique form of industry TCF is engaged both in the B2B and B2C marketing. The value proposition that TCF delivers has two recipients:

1. **Creators of innovative projects:** creators are the people who came up with the innovative ideas to create a product, and they cooperate with TCF to do the campaigns' total crowdfunding management.
2. **Creators' customers:** they are the direct consumers of the product, who are both crowdfunding friendly and non-crowdfunding friendly consumers that belong to the same target market the product is created for.

Value proposition delivered to creators

- **TCF solves the market consumption problem even before the product is physically available in the market**: by successfully ending every campaign and creating 7 number campaigns, TCF raises more than enough funds covering manufacturing costs to successfully enter and have a strong position in the market. Since TCF focuses on raising funds through pre-orders the creators end the campaign having thousands of buyers who are also the first ambassadors of the product.
- **TCF helps the creators launch their product in the market with no market uncertainty and high market validation**: During the prelaunch stage of crowdfunding, TCF intensively researches the market, finds the most relevant audience for the product, gains deep customer insights and feedbacks, collects and thoroughly analyzes the product and changes some product features if needed to give the customers the product that they need and want.
- **Due to TCF's crowdfunding management creators' products enter the market already as famous brands**. The sophisticated marketing campaign ensures that creator's product gains high market awareness that is advocated by leading media journalists, famous social media influencers, Kickstarter and Indiegogo's official platforms itself and a huge army of customers.
- **With TCF the creator does not only enter the local market, but captures the whole international market and becomes a worldwide known brand**. While researching for relevant audience, TCF targets not only the audience of creator's local market but the whole international leading product markets. For instance, in case of Pico, one of the latest projects of TCF, more than 40,000 units were sold internationally.
- **Due to the product brand awareness raised by TCF, creator ends the campaign with a number of cooperation suggestions from market.** Since the product proves to have high market validation, high consumption and brand awareness, a lot of distributers come with suggestions to cooperate with the brand.
- **Among international crowdfunding companies, TCF is the only crowdfunding agency that teams up with the creators.** TCF has a powerful team where every member is a growth hacker. TCF shares

its people culture with creators and works with them along all the way of crowdfunding. While other crowdfunding companies show automatic approach to creators' projects, TCF treats every project uniquely and devotes months to prepare the best crowdfunding strategy for each product campaign.

- **TCF is the only agency that manages the whole scope of crowdfunding including free wok on product development.** Crowdfunding agencies take the products and start working on the marketing campaign and fundraising directly, whereas TCF takes the project with 80% ready prototype and through market research develops the most relevant product for the potential backers.
- **Sprint Crowdfunders' Fund:** Sprint fund support the creators by providing them debt capital to pay for crowdfunding ongoing expenses such as lead-generation and marketing expenses, etc. The advantages of being funded by Sprint is a lot, but the main ones are:
    - That campaigners get the debt capital with less interest,
    - They can ask for the exact amount they need per week to cover their crowdfunding weekly costs, and the interests are calculated for the total amount provided for the entire process, thus the mechanism saves creators from paying more interest
    - Decision making time to prove funding is from 1 to 3 days
    - The debt can be covered right after the campaign is successfully ended from the raised funds.

Value proposition delivered to product consumers

- **Unique opportunity to be the number one:** Crowdfunding users are early adopters. TCF precisely targeting the relevant audience finds them and gives them the opportunity to be one of the first users of the product while suggesting the best bargain conditions.
- **Opportunity to invest free funds in what they love:** Being early adopters, crowdfunding backer community consists of innovation seekers who are always ready to invest in something new. Through targeting them right TCF offers the innovation lovers to invest in the future of the world. By backing the creators, they influence the future innovations and help the market to become full of more sophisticated products.
- **Quality control:** By involving in the product development stage, TCF collects customer feedbacks and insights, offering backers the unique flexibility to change product features such as product quality, color, size, its complementary products, etc.
- **Exclusive rewards:** trough crowdfunding stage TCF holds a number of profitable promotional campaigns for the backers. They are able to get the fresh new tech and innovative products with unprecedented low prices. Backers are offered up to 60% discounts, gifts, free samples, commissions in the shape of discounts or the products itself, add-ons, which are complementary product of the campaign or the creators' previous crowdfunding campaign product, with exclusive

Cost Structure

TCF's strategy has changed the cost structure as well. Compared to other means of fundraising such as venture capitalists and angel investors TCF does not invest its own funds or other investors' funds which are from 6 to 7 figure numbers into startups with a huge amount of risk. By collecting funds from thousands of people, TCF does not only decrease the amount of risk each backer/investor bears individually, but also increases the opportunity of the startup to successfully launch in the market. Due to its unique work process TCF does not take part in the campaigns' crowdfunding costs, the whole crowdfunding costs are covered by the creator. The campaigner covers the costs of commercial video and photo creation, lead generation and other marketing costs, along with from 18% to 25% TCF commission from the campaign's raised funds after the campaign ends.

TCF's unique crowdfunding ecosystem includes crowdfunding tools, backer communities and financing source, that are not only one of the main sources of crowdfunding that bring huge traffic to the campaign page, but they are also one of the most expensive sources in crowdfunding. Thus, by building its ecosystem the company does not only generate profits by providing its services worldwide, but it also provides up to 30% discount to the creators whose campaigns' whole crowdfunding project is managed by TCF. Since the tools and platforms are managed by TCF, they bring more targeted and highly convertible traffic to the campaign's page with relatively less costs. This makes cooperating with TCF more appealing and profitable for creators.

Moreover, due to unique methodologies and well-prepared work process TCF plans resources in a way that enable to have constant sales during the whole period of funding. Moreover, over time the costs are reduced more due to economies of sales as the value innovation generates high sales volume. Most of the time, conversions on Kickstarter or Indiegogo campaigns take U-shaped curve, because campaigners usually use all the resources in the beginning and start to raise more funds that could be used for promotion along the funding stage. That is why their funding curves in most cases have the following shape:

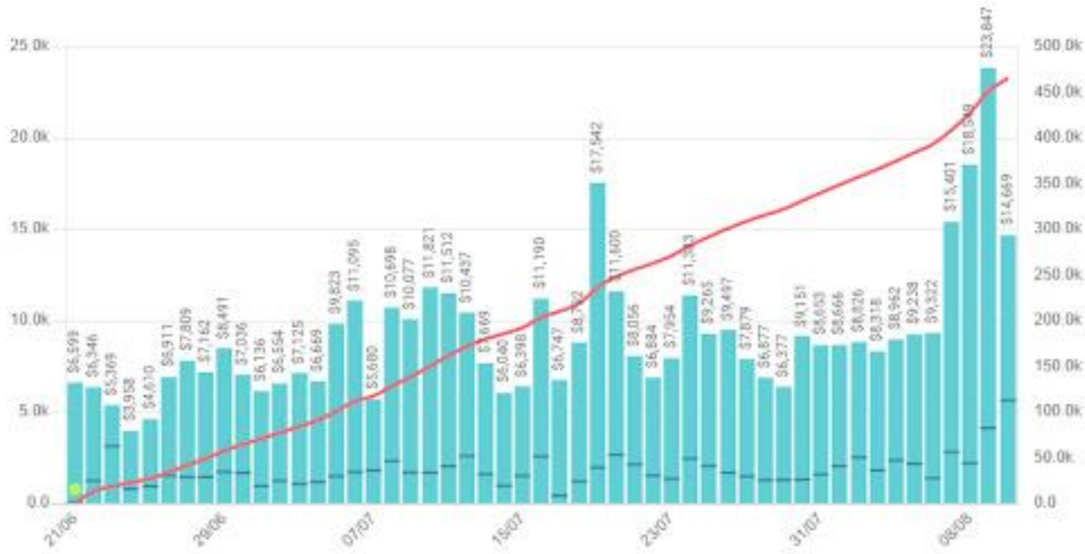
Figure 6. BiggerCake's Example of Inconsistent Campaign Fundraising Management

(BiggerCake, 2020)

However, by planning and distributing resources well, and working on average with 8 ROI, TCF's campaigns result in the constant growth of conversions during the entire period of funding, having on average the following shape of curve:

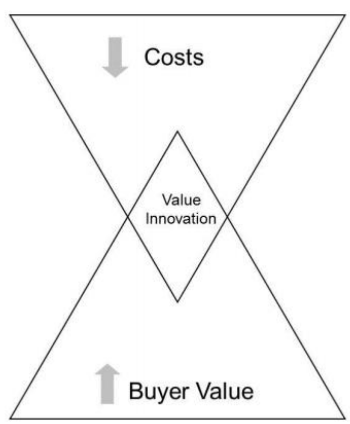
Figure 7. BiggerCake's Example of Consistent Campaign Fundraising Management

(BiggerCake, 2020)



TCF's strategy created value innovation by positively affecting both company's cost structure and the value that is offered to its customers. Cost reduction is achieved by eliminating and reducing all the factors that are key competitive characteristics in the industry. Value proposition is increased by raising the factors that industry is taking for granted and creating the factors that have been never offered by the competitors. Over time the costs are reduced more due to economies of sales as the value innovation generates high ROI and continuously results on having more backers during the period of funding.

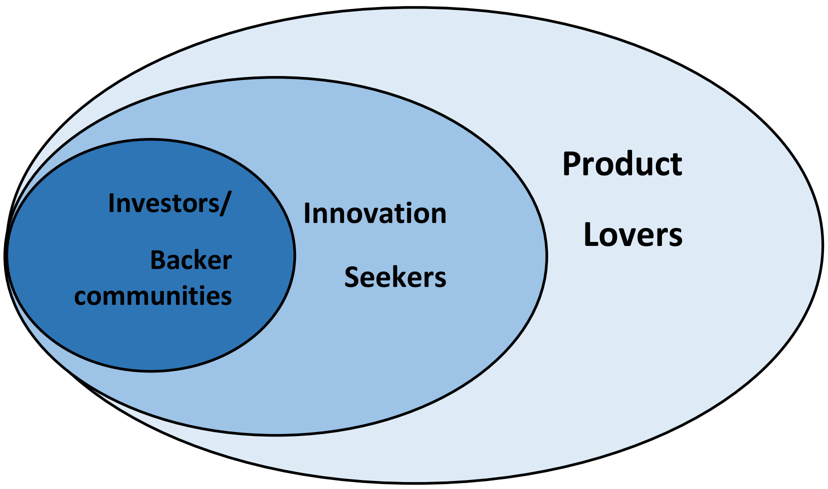
Figure 8. Value Innovation (Mauborgne, 2004)



The Three Tiers of Noncustomers

TCF's value innovation resulted in lifting value not only for existing customer, but also those who were previously unsatisfied with the market offering, or rejected it or even never considered the offering as a mean to satisfy their needs. TCF has also converted the huge universe of noncustomers into real demand and expand the market, by gaining insights into who their potential customers and noncustomers are and how to unlock them. Based on their relative distance from the market the noncustomers are divided into three tires.

Figure 9. The Three Tiers of Noncustomers



1. The first tire of the noncustomers of TCF are crowdfunding friendly investors. They are the customers who even do not take the product and just back the campaign in order to support their launch to the marketplace. By creating compelling crowdfunding campaign on Kickstarter and Indiegogo platforms, emphasizing the competitive advantages of the product, the benefits it offers, and focusing on inspiring creator storytelling about how and why the product is created, TCF targets and converts the tire of backer communities.
2. The second tire of investors are crowdfunding friendly innovation seekers. This group of customers are not as eager to invest as the first tire of customers. They are innovation lovers and early adopters who want to be among the first users of future cool products. They will invest in the campaign eagerly if they are convinced that the product is innovation itself and provides a mass of benefits that other similar products fail to deliver. By highlighting the products innovative solutions, its great differences such as design solution awards, guaranties, power features, new solutions the products deliver, the benefits themselves, hence displaying the product from the best light possible, TCF targets the early adopters with high conversion rates.
3. The third tire of the customers is farthest from the industry, who have never thought of the market's offering as an option. In case of TCF the third tire of customers who are non-crowdfunding friendly, however they like the product and are in the relevant customer audience of the product. TCF manages to reach this group of customers due to its powerful marketing campaigns. By having effective promotional campaigns in social media and press media, TCF has the product advocated by well-known media journalists, YouTube, Facebook and Instagram strong influencers and even if the person has never considered pre-ordering the product through crowdfunding but likes the

product itself, having it covered by trustworthy sources has considerably increased the opportunity of converting them into crowdfunding backers.

Creators Feedback on Working with TCF

(The Crowdfunding Formula, 2020)

To highlight that the "Blue Ocean" that TCF has created delivers high value to its customers, the testimonials of some of their main customers are mentioned below.

"We got TCF onboard during our campaign for the PlatoWork neurostimulator, and really appreciate all the hard work they put down to help boosting our campaign – lifting it from "promising" to super successful". – **Balder Onarheim, CEO at Plato Science**

"I worked with TCF to take our brand to the next level. They helped us launch an updated version of our product and we broke records! They are a team of extremely talented and dedicated people, who have great attention to detail passion for what they do". – **Petros Dertsakyan, CEO at Bristly**

"The three must-have things you need to raise #1M+ on crowdfunding:

- A great product,
- A compelling value proposition,
- And TCF". – **Richard Strokes, CEO and Founder at Winston Privacy**

"TCF gave Bionic Gym clear and leading direction… this helped us blast through our goals, turbocharge our campaign, and catapult us to the most successful Health & Fitness product ever". – **Dr. Louis Crowe, Founder of Bionic Gym, raised $4mln.**

"The FUELL Fluid e-bike presented a unique challenge- selling a $4,000 e-bike in a crowdfunding campaign, something that had never been done before. TCF designed an attractive campaign and boosted our credibility, placing us in top media publications worldwide. After a few weeks of intense campaigning, with a dedicated team around the clock, over $1.4M was raised and the campaign was a huge success". – **Francois x Terny, CEO and co-founder Fuell Inc.**

"The entire TCF team was very helpful throughout our HYPHEN campaign and post-campaign period. Through targeted efforts, data-driven methods and precise reporting, we were able to surpass our ROAS goals. We would recommend TCF to any company that wants to boost their crowdfunding campaign". – **Lorenzo Filiberto & Carlo Edoardo, CEO & COO at Ferraris Group**

"TCF is a very professional team in marketing our Wicked Ball. We greatly appreciate their hard work and are happy with their marketing results. I strongly recommend you sect Crowdfunding Formula as your long-term business partner. You will make the right choice". – **Hannah Huang, COO, Wicked Ball**

The People Proposition of TCF

Company's people proposition is what motivates those working for the company to execute the strategy and people proposition is what determines the quality of strategy execution. While value and profit proposition can be imitated, imitating people proposition is especially hard.

TCF shares its crowdfunding campaign management strategy with everyone who might be interested in raising funds through crowdfunding. TCF has created "The Crowdfunding Formula Blog" where visitors can gain unique insights about how to create 6 and 7 figure campaign. TCF shares with all the crowdfunding secrets they use such as:

- Strategies TCF uses continually which include "How to research Kickstarter like a PRO", "Successful Media Coverage for Crowdfunding Campaigns", "How to Find Instagram Influencers and Tips to Contact Them", "Advanced Facebook Advertising Tips" (The Crowdfunding Formula, 2020), etc.
- Case Studies covering not only all the TCF's successful campaigns, but also the international ones (The Crowdfunding Formula, 2020)
- Crowdfunding 101: explains the methodologies and business tactics TCF uses to have million-dollar campaigns, and provides detailed guidelines showing how to use them. They include methodologies such us "131 Kickstarter Campaign Tips for Successful Crowdfunding in 2020", "Ultimate Guide for Crowdfunding PR in 2019 – 5 Steps to Success", "Kickstarter vs Indiegogo: Which One to Choose?" (The Crowdfunding Formula, 2020), etc.
- "Know-Hows" that every successful crowdfunder should know (Know-How, 2020).

Even if TCF shares the strategies they implement that results on creating their strong value proposition with other crowdfunding companies, startups, individual crowdfunders and everyone else that is interested totally free of charge it is still extremely hard to have results that is near to TCF's success rates. And the reason behind that phenomenon is the people proposition. TCF's success lies not only in the methodologies that they use, the people that execute those strategies are the ones behind that huge success. TCF has very unique people culture that is responsible for the magic they create in crowdfunding.

TCF's **vision** is to create an environment where each impactful idea from exceptional people achieves ultimate success through crowdfunding. Their **mission** is to take the responsibility of inventor's ultimate success by teaming up and tailoring a winning formula.

TCF has created values that every team member puts in the first place. TCF's unique **values** are:

- Collaboration
- Result-driven
- Growth hacking
- Leadership
- Champion minded

TCF's Leadership Principles are:

- Customer Obsession
- Ownership
- Invent and Simplify
- Are Right, A lot
- Learn and Be Curious
- Hire and Develop Best
- Insist on the Highest Standards
- Think Big
- Bias for Action
- Frugality
- Earn Trust
- Dive Deep
- Have Backbone; Disagree and Commit
- Deliver Results

TCF's Management

TCF's management model is flat. A flat organization refers to an organization structure with few or no levels of management between management and staff level employees. The flat organization supervises employees less while promoting their increased involvement in the decision-making process.

TCF's Project management model

- TCF don't have dedicated teams
- For each project TCF form a team
- A team member can be involved in other projects as well
- Each team member is involved in decision making process

TCF Team

TCF's team define themselves as:

- An ecosystem builder
- Leading crowdfunding agency
- Dedicated team of experts & growth hackers

In TCF there are no employers and employees, they call themselves a big team. TCF thinks as a team since talent wins games, but teamwork and intelligence win championships.

- Team members value constant learning,
- they adore growth,
- they value failure,
- TCF team members are not tolerating mediocracy and nepotism,
- They value ambitions and willingness to be the N 1

Every TCF team member has the same prime values such as:

- Leadership: in TCF every team member is leader since they believe that "Leaders create leader"

- Collaboration
- Growth hacking
- Result driven
- Champion-minded

TCF's culture is failure oriented, every team member values failure as they think of it as a proof that a person is growing: "We fail because we are in learning process". In TCF failure is an opportunity to grow. Hence, the company has created special culture of failure.

For TCF there are three types of failures:

- Preventable failures in preventable work process: Many failures in this group can be considered as "bad". These mainly include deviations from the established large-scale processes or provisions from delivering services daily. With proper onboarding, mentoring and support, team members can better follow processes.
- Complex failures: These are inevitable failures in complex systems. A large part of such failures comes from the natural uncertainty of work. For example, in case of very fast growth team can find themselves in many unpredictable situations. Serious failures can be prevented by applying best practices և risk management, including a comprehensive analysis of similar situations. Minor process failures are inevitable. Considering them "bad" would be a misunderstanding of the operation of complex systems. To avoid continuous failure, TCF works on quickly identifying and correcting small mistakes.
- Smart failures: The failures of this group are "good" because they provide new and very valuable knowledge that can help TCF outperform other market players and ensure growth. These failures occur during testing. When the answers are not known from the beginning, since this situation has never existed, it is unlikely to be repeated in the future. Discovering a new treatment, or starting a radical new business, creating an innovative product, trying out customer feedback in the newest market - are tasks that imply "smart failures".

Motivational factors among TCF team members

To always keep TCF team members motivational spirit high, TCF cooperates with "Lucky Carrot" and gives every team member 5 online carrots every month. Then team members' grants those carrots to those members who they think did some magnificent work and had a productive input at work process. They can reward another with from 1 to 5 carrots depending on how astonished they are by other colleagues work input along with a gratitude quote mentioning why they are grateful for them. Eventually every team member has a "Carrot balance" that they can exchange with a number of gifts and shopping cards they desire. This simple but pleasant gesture of gratitude always boosts team members' motivation and strengthens the team spirit emphasizing the very fact they all support each other since a team member's success is the whole team's success.

Monetary values and KPIs

By the start of the week each department forecasts the results they will have, at the end of the week the actual results are compared with forecasted ones. The percentage of matching is determined by dividing the actual results by the forecasted ones.

Department	Measurement Unit	Forecast	Actual of Week # of Month #	Matching %

The KPIs are calculated weekly, but the collected bonuses are granted to team members each month. The KPIs are calculated according to the weekly raised funds. TCF team members gain 5% commission of total funds collected each week. The total Raised fund of each week is multiplied by 5%, than the amount is divided by the number of departments.

Total Raised in Week # of Month #	$100,000
Total Team Bonus	$100,000*0.05
Bonus per Team for Week #	($100,000*0.05)/ number of departments
75% Unlocked	($100,000*0.07)/ number of departments

However, if the average of all the departments matching % is 75% and more, the commission rate is increased to 7%.

The Profit Proposition of TCF

Profit proposition is the money that company makes from value propositions. TCF's main sources of the income are:

- Full crowdfunding campaigns: TCF's commission rate is 25%, thus the 25% of the funds each campaign raises belongs to TCF
- Cross-promotions
- Jungle Proof
- ProductHunt
- Ads

TCF's main costs are:

- Bank charges
- Depreciation and Amortization
- Total Legal and other professional fees
- Management compensation
- Partnership Consultation fees
- Marketing, Advertising/Promotional
- Advertising expenses

- Marketing Expenses
- PR and Communication expenses
- Recruiting expenses
- general and administrative expenses
- Office Expenses
- Payroll Expenses: bonuses, income tax expense, salary expenses, social security payment
- Repair and maintenance
- Supplies and materials
- Taxes and other Duties
- Travel and representation costs

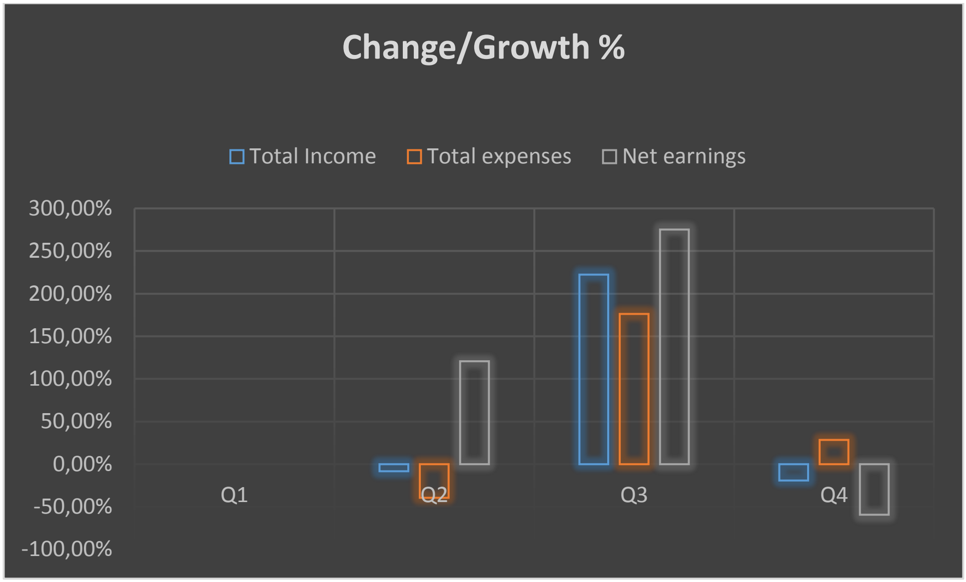
TCF has created strong crowdfunding ecosystem, and invest heavily in their digital products and tools to deliver superior value to startups and backer communities. Those projects are:

- Steve & Elon
- Perkfection,
- JungleProof,
- Milenium 5,
- Tech I Want,
- CrossProm,
- Global AM,

However, no matter the huge investments and operational, TCF's value proposition results in sustainable profitability.

Trend Analysis of 2019	Q1	Q2	Q3	Q4
Total Income	100.00%	91.55%	295.04%	237.95%
Total expenses	100.00%	60.44%	166.94%	214.41%
Net earnings	100.00%	219.70%	822.89%	334.93%

Figure 10. Trend Analysis of 2019

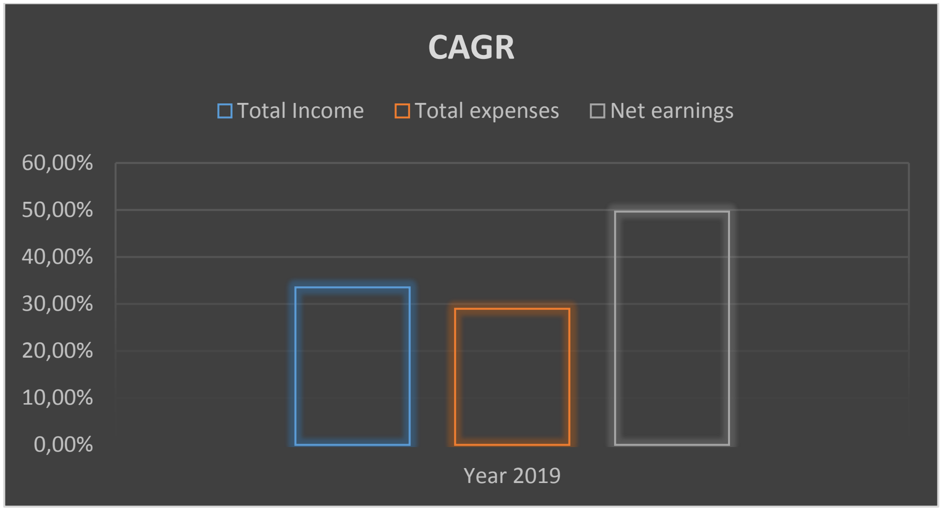


Change/Growth %	Q1	Q2	Q3	Q4
Total Income	0.00%	-8.45%	222.29%	-19.35%
Total expenses	0.00%	-39.56%	176.19%	28.44%
Net earnings	0.00%	120.72%	275.30%	-59.31%
Operating Leverage		-14.28x	1.24x	3.06x

According the horizontal financial financial analysis both the revenue and the expenses were quartarly decreasing and increasing, howerer net earnings were positive and sustainable.

CAGR	Year 2019
Total Income	33.50%
Total expenses	28.94%
Net earnings	49.61%

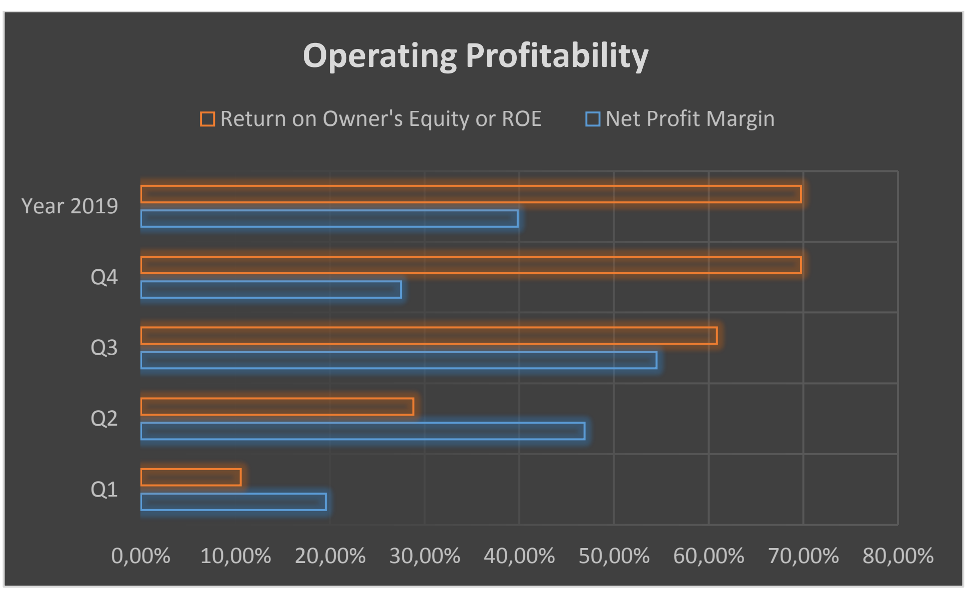
Figure 11. CAGR



Moreover, the compound annual growth rate analysis of 2019, shows that net earnings had 49.61% annual growth rate of an investment starting from 2017.

Operating Profitability	Q1	Q2	Q3	Q4	Year 2019
Net Profit Margin	19.53%	46.87%	54.47%	27.49%	39.83%
Return on Owner's Equity or ROE	10.56%	28.80%	60.88%	69.76%	69.76%

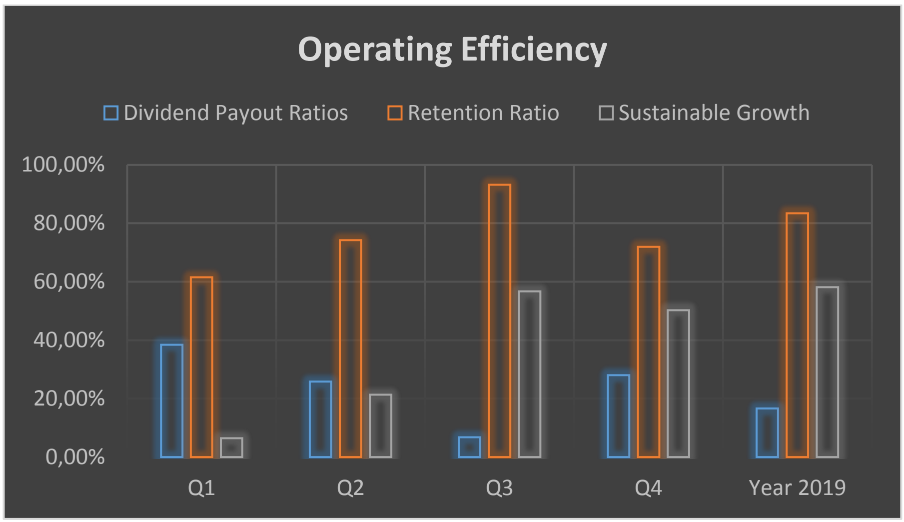
Figure 12. Operating Profitability



In 2019, TCF's net profit margin was 39.83%, which means that 39.83% of collected revenue of the company translated into profits. Having 69.76% of ROE indicates that TCF has effectively used company's assets to create profits.

Operating Efficiency	Q1	Q2	Q3	Q4	Year 2019
Dividend Payout Ratios	38.41%	25.81%	6.82%	28.02%	16.59%
Retention Ratio	61.59%	74.19%	93.18%	71.98%	83.41%
Sustainable Growth	6.50%	21.36%	56.72%	50.21%	58.19%

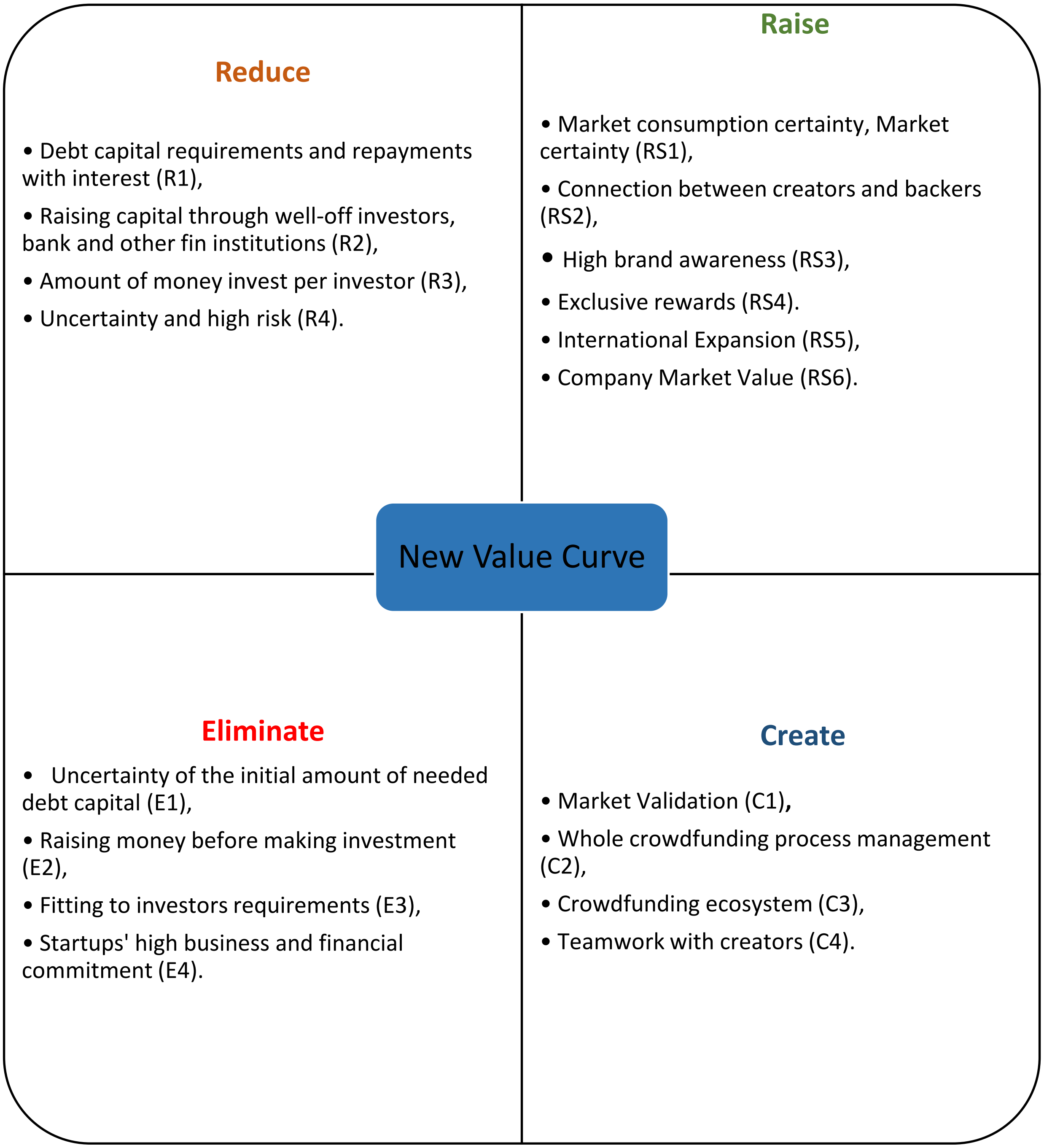
Figure 13. Operating Efficiency



Dividends payout ratio shows that in 2019 16.59% of earnings were paid to shareholders in dividends. Thus, 83.41% of its earnings have been retained. This shows that the company has still a lot of future growing plans and has used its earnings for growth projects. In 2019 TCF had a sustainable growth rate of 58.19% which means that the company could safely grow at a rate of 58.19% in 2020 using its current resources and revenue, without inquiring any additional debt, and any growth higher that that would require external financing.

The Four Actions Framework of TCF

Figure 14. The Four Actions Framework of TCF



Reduce

- **Debt capital requirements and repayments with interest (R1):** in the startup financing industry, startups often take debt capital which must be fully repaid with high interest most of the time, over a specific time period. Moreover, a small business owner should familiarize himself with the lender's requirements before determining the type and the source of his debt financing which proves sustainable profitability. However, TCF solved these issues with cooperating with Sprint Crowdfunders' Fund, making the debt financing more available when needed. First of all, TCF reduced the high requirements as the investors are crowdfunders they do not have high requirements and the working conditions are well prepared for campaigners. Then, they reduced both the interest rates the time required for making financing decisions by proving the funding in less than 2 days**.**
- **Uncertainty and high risk (R2):** in the traditional market financing startups means making high risk investment, whether it is debt financing, venture or angles investment. However, TCF has reduced the market uncertainty to the level of facing nearly no risk through its working process during preparation and pre-launch stages. Due to the research, creating custom audiences, and market testing with JungleProof, TCF launches a product which quality and features that are already qualified by its target market, thus facing no risk of market consumption.
- **Raising capital through well-off investors, bank and other fin institutions (R3):** The venture firms raise the money from several financial institutions and well-off investors going through a huge paper work with every investor. TCF highly reduced that stage by just providing cooperation with Sprint (if the creator does not have enough budget to cover marketing costs). Investors in the case of crowdfunding are backers who pro-order or just support the campaign simply when they like it, thus TCF just sells the product reducing the scope of work.
- **Amount of money invested per investor (R4):** Since a lot of new businesses fail, investors face a high risk of losing their investment, hence, the crowdfunding restrictions specify who can invest in a new business and how much they are allowed to contribute: the restrictions are created to protect non-wealthy investors from risking too much amount of their savings. Crowdfunding allows investors to select from the hundreds of projects and invest as little as $10.

Eliminate

- **Uncertainty of the initial amount of needed debt capital (E1):** Working with Sprint fund, TCF has eliminated the uncertainty of the exact amount needed during the campaign since campaigners can ask for the exact amount, they need per week to cover their crowdfunding weekly costs.
- **Raising money before making investment (E2):** Venture capital angel investments are an early-stage capital, and like all other funds they raise money before making investment. Then, the fund searches for a high potential enterprise that can give high returns to its investors. TCF eliminated that stage entirely. They search for cool startup idea, then by improving it, they make it sustainable and attractive for backers like honey.
- **Fitting to leaders' requirements (E3):** In order to get financed startups should fit into investors high requirements and prove to be already sustainable. However, TCF has nearly eliminated the stage, by

just requiring the creator to provide the innovative idea with an 80% ready prototype. They make the business successful and sustainability themselves. Moreover, in traditional market, both the venture capitalists and angel **exchange the capital investment with a corresponding equity** in the company. The funds may be provided all by once, or in rounds. Hence, **investors also monitor and guide the business management.** Venture firms and angel investors do not only make an investment in the firms but also provide guidance. Since they are in a high-stakes, high-risk business, in negotiations, they will aggressively try to make the best deal they possibly can with the startup company that they intent to invest in. In contrast, TCF raises all campaign funds for the campaigners, while keeping giving campaigners 100% control over their own businesses. Also, TCF teams up with their creators and put their all energy to transfer creators' ideas into reality.

- **Startups' high business and financial commitment: (E4)** in the traditional market the funds search for high potential enterprises that can give high returns to its investors, which means that fund managers must view and analyze hundreds of business plans prior to selecting one or two companies for investment that correspond to the expectations of their fund's investors. When a business wants to attracts venture capital, the first step is to submit a business plan either to a venture capital firm or an angel investor. If the venture firm is interested in the proposal, it start an investigation in the form of due diligence performance, which includes a deep investigation of a company's business form, its products, management, financial sustainability and operating history, among other things. TCF eliminated that stage totally, since they require no business plan or any other proof of business sustainability, they take creators business idea and transfer it into sustainable business. Moreover, startups endure high financial commitment, since besides fast-growth prospects, traditional funding firms look for sound management and a high degree of financial commitment on the part of the small business owner/operator. TCF has removed that responsibility from creators, all the management and financial commitment obligations are fulfilled by TCF team. Finally, startups must return the invested capital. After the investment is made, angel investors and the investors of the venture capital fund make returns when the portfolio company exists either in the form of IPO, or a merger and acquisition. Based on the company and the industry it operates in, the venture capital firm returns are on average 30% of the gross internal rate, and nearly 20% in case of angel investors. TCF has eliminated this stage, since the backers either support the campaign without asking for anything in return or just pre-order the product.

Raise

- **Market consumption certainty (RS1):** TCF solves the market consumption problem even before the product is physically available in the market: by successfully ending every campaign and creating 7 number campaigns, TCF raises more than enough funds covering manufacturing costs to successfully enter and have a strong position in the market. Since TCF focuses on raising funds through pre-orders the creators end the campaign having thousands of buyers who are also the first ambassadors of the product.
- **Connection between creators and backers (RS2):** Crowdfunding users are early adopters. TCF precisely targeting the relevant audience finds them and gives them the opportunity to be one of the first users of the product while suggesting the best bargain conditions. Moreover, being early adopters, crowdfunding backer community consists of innovation seekers who are always ready to invest in something new. Through targeting them right TCF offers the innovation lovers to invest in

the future of the world. By backing the creators, they influence the future innovations and help the market to become full of more sophisticated products.

- **High brand awareness (RS3):** Due to TCF's crowdfunding management creators' product enter the market already as famous brands. The sophisticated marketing campaign ensures that creator's product gains high market awareness that is advocated by leading media journalists, famous social media influencers, Kickstarter and Indiegog's official platforms itself and a huge army of customers.
- **Exclusive rewards (RS4):** trough crowdfunding stage TCF holds a number of profitable promotional campaigns for the backers. They are able to get the fresh new tech and innovative products with unprecedented low prices. Backers are offered up to 50% discounts, gifts, free samples, commissions in the shape of discounts or the products itself, add-ons, which are complementary product of the campaign or the creators' previous crowdfunding campaign product, with exclusive.
- **International Expansion (RS5)**: With TCF the creator does not only enter the local market, but captures the whole international market and becomes a worldwide known brand. While researching for relevant audience, TCF targets not only the audience of creator's local market but the whole international leading product markets. For instance, in case of Pico, one of the latest projects of TCF, more than 40,000 units were sold internationally. Cooperation with worldwide distributors and wholesalers of a specific market expands the market even further. Due to the product brand awareness raised by TCF, creator ends the campaign with a number of cooperation suggestions from market. Since the product proves to have high market validation, high consumption and brand awareness, a lot of distributers come with suggestions to cooperate with the brand.
- **Company Market Value (RS6):** Due to TCF's crowdfunding management, a creator's product raises on average 1.5 million dollars funding, which eventually increases creator's company market value. Through crowdfunding creators' products not only become world famous brands but they also enter the market with relatively low market risk, which attracts company future investors. According to TCF management after crowdfunding their creators' companies raise on average 10 times more investments than the initial funding amounts raised through crowdfunding.

Create

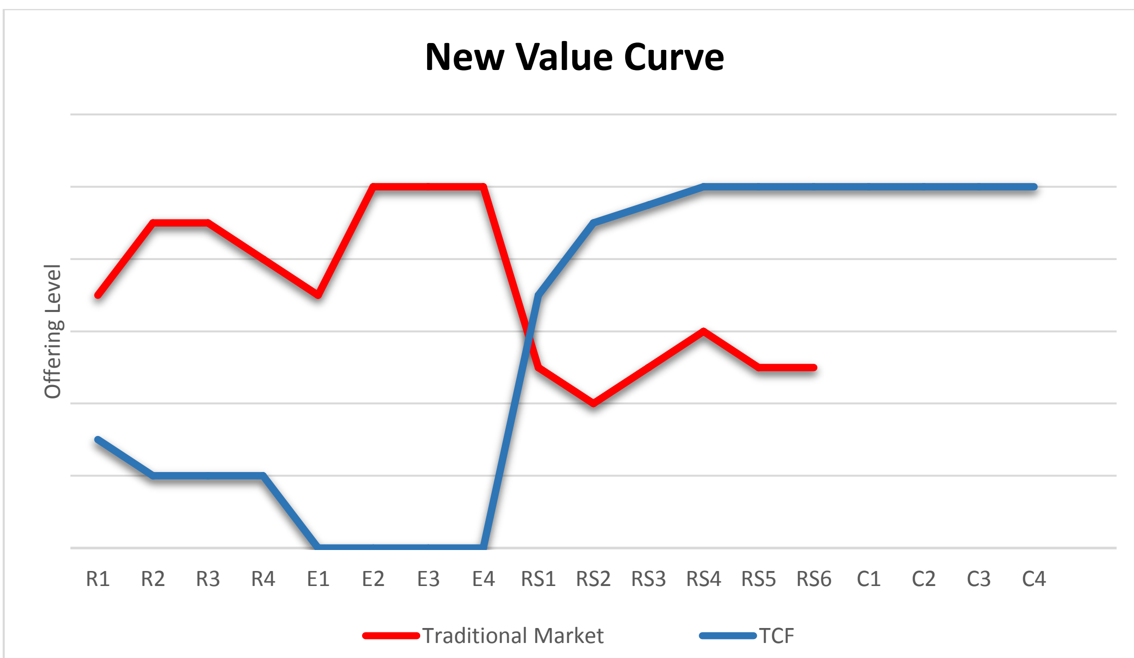
- **Market Validation (C1):** TCF helps the creators launch their product in the market with no market uncertainty and high market validation: During the prelaunch stage of crowdfunding, TCF intensively researches the market, finds the most relevant audience for the product, gains deep customer insights and feedbacks, collects and thoroughly analyzes the product and changes some product features if needed to give the customers the product that they need and want. Moreover, there is high customer quality control. By involving is product development stage, TCF collects customer feedbacks and insights, offering backers the unique flexibility to change product features such as product quality, color, size, its complementary products, etc.
- **Whole crowdfunding process management, including product development (C2):** TCF is the only agency that manages the whole scope of crowdfunding including free wok on product development. Crowdfunding agencies take the products and start working on the marketing campaign and fundraising directly, whereas TCF takes the project with 80% ready prototype and through market research develops the most relevant product for the potential backers.
- **Crowdfunding ecosystem (C3):** with the projects such as Steve & Elon, Perkfection, JungleProof, Milenium5, Tech I Want, CrossProm, Sprint crowdfunders' fund, TCF has generated the world's crowdfunding ecosystem. Due to it the company does not only generate profits by providing its

services worldwide, but it also provides up to 30% discount to the creators whose campaign's whole crowdfunding project is managed by TCF and delivers high quality service.

- **Teamwork with creators (C4):** Among international crowdfunding companies, and the whole traditional funding industry, TCF is the only crowdfunding agency that teams up with the creators. TCF has a powerful team where every member is a growth hacker. TCF share its people culture with creators and works with them along all the way of crowdfunding. While other crowdfunding companies show automatic approach to creators' projects, TCF treats every project uniquely and devotes months to prepare the best crowdfunding strategy for each product campaign.

The Strategy Canvas of TCF

Figure 15, Strategy Canvas: New Value Curve



The horizontal axis the range of factors the industry currently competes on and invests in. The vertical axis captures the offering level the buyers receive across all key competition factors. TCF has analyzed the current state of play in the industry, and understand the factors the industry invests in and competes on in product, service, and delivery, and what customers get from their offerings in existing market. By eliminating and reducing the factors that the industry competitors take for granted, the factors that do not add value but demand high investment, TCF has reconstructed cost structure and gained advantage vis-à-vis competition. In contrast, by raising and creating industry factors give insight, TCF has lifted buyer value and create new demand. As a result, TCF has created a new value curve, which has reconstructed the industry (the market features are measured subjectively).

Conclusion

Due to its detailed and precise crowdfunding methodologies, TCF has created a thorough crowdfunding management plan through which the company delivers a superior value to the market and shows significantly successful results. Being an organization with innovative strategic mind-set and sensitivity to future opportunities, TCF has been highly successful in adapting to the reconstructionist approach.

Under the reconstructionist strategy approach TCF has aligned all of its three propositions with the strategic choice of pursuing both differentiation and low cost. This alignment helped the organization to break the value-cost trade-off, break the industry structure, thus it helps to pursue strategy that shapes the structure. This alignment also led the company to reach high and sustainable performance. While one or two of the strategy propositions can be intimated by other organization, all three and especially TCF's people proposition is hard to intimate. TCF has unique people culture that is responsible for the magic they create in crowdfunding. Even if TCF shares the strategies they implement that results in creating their strong value proposition with other crowdfunding companies, startups, individual crowdfunders and everyone else that is interested, it is still extremely hard to have results that is near to TCF's success rates. And the reason behind that phenomenon is the people proposition. TCF's success lies not only in the methodologies that they use, the people that execute those strategies are the ones behind that huge success.

Analyzing TCF's strategy with the use of value innovation, three tires of non-customers, four actions framework and strategy canvas, it was clear that by eliminating and reducing the factors that do not add value but demand high investment in the industry, TCF has reconstructed cost structure and gained advantage vis-à-vis competition. In contrast, by raising and creating industry factors give insight, TCF has lifted buyer value and create new demand. Moreover, TCF has opened an uncontested market space since the company's value innovation resulted in lifting value not only for existing customers, but also for those who were previously unsatisfied with the market offering, or rejected it or even never considered the offering as a mean to satisfy their needs.

The Blue Ocean Strategy reconstructionist move, and its tools and frameworks has led TCF to reshape the industry while aligning the three strategy propositions around both differentiation and low cost. Their reconstructionist strategic move has positively affected the Armenian industry and increased its welfare.

- **Improving the financial situation in Armenia**: Working mainly with international companies and creators, TCF attracts free funds from international markets to the Armenian market space. Working with Armenian companies, local organizations mainly result in having currently available finances to circulate in the market space without increasing. However, TCF raises funds for creators' campaigns from all over the world charging 25 percent commission from each campaign, which brings new funds from the world to Armenian economy, hence results in increasing Armenian financial means.
- **Delivering superior value not only to international creators, but also local creators**: TCF not only collects million-dollar funds for the startups, but it also helps the creators to gain market validation even before manufacturing the product, have high brand awareness and become famous brand in the international market, cooperate with worldwide known distributors, increase their company

market value, and more. Those great opportunities are available for Armenian startups as well. Bristly and Volterman are Armenian startups that successfully raised $1,000,934 and $2,954,036, and captured the whole international market within a few months. By offering highly profitable cooperating terms, TCF helps Armenian creators and Armenia to get out of the economic blockade and import and export Armenian educational brands to the outside world, which in the long term will significantly change the direction of the country's economy for the better.

- **Reshaping market boundaries of Armenian market space**: By considering local and international main sources of financing startup business, TCF has created an uncontested market space due its reconstructionist strategic move. TCF broke the value-cost trade of while both pursuing differentiation and low cost. Armenian market is mainly consisted of companies that have the structuralist strategic approach, which only enhances the red oceans existing in the local market space. In order to open a new uncontested market space, to deliver a superior value and enter international market, Armenian companies need to reconsider their strategic directions like TCF did. To break the value-cost trade-off and strengthen the local economy Armenian companies need to create strong value, people and profit propositions. To create a **value innovation,** companies need to lift the value that is delivered, while simultaneously decreasing the costs. Value innovation can be created by using **the four actions framework**. Firstly, companies need to analyze the industry eliminate and reduce the factors that the industry competitors take for granted, those factors do not add value but demand high investment. This approach helps entrepreneurs gain insights on how to reconstruct cost structure and gain advantage vis-à-vis competition. In contrast, the second to questions of raise and create give insight into how to lift buyer value and create new demand. Thus, eliminating and creating factors prompt companies to make existing competition irrelevant and get revealing new look at old perceived truths. As a result, companies create a new value curve which reshapes the industry. Further, the created market demand can be even expanded with the use of tools of **the three tiers of non-customers,** which will help the entrepreneurs to discover new demand and make the business more successful and sustainable. However, in order to be sure that the created market space will not result in new red oceans, organizations should have strong people proposition which is the hardest strategic proposition to imitate. As the TCF's example shows, the strong people proposition is created when entrepreneurs not just hire employees but team up with them, when they honor and motivate each other both spiritually and monetary, and hack the growth together to be one of the best specialists in the international market space since a team member's success is the whole team's success.

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