Product Development
Starts from Crowdsourcing:
The Business of Xinmade.com

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Abstract:
This paper discusses about using Crowdsourcing in the traditional New Product Development (NPD) process. A concept to provide a Product Service System (PSS) that utilizes crowdsourcing is demonstrated through a business plan for a newly formed business called Xinmade.com. Based on the development of Xinmade.com, reflections on applying Crowdsourcing in PSS are summarized. The conclusion is that crowdsourcing can be a valuable component in emerging PSS business models and could contribute to more sustainable solutions, while at the same time there are many other factors that must be considered to ensure business success.

Keywords: New Product Development; Crowdsourcing; Product Service System; Sustainability; Innovation; Business plan
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Summary

The world’s economic environment is under a high risk, because the natural environment is being destroyed and natural resources are reducing rapidly. In fact, the situation is becoming worse and worse, which is caused by human over consumption. In order to contribute to turn the world to sustainability and satisfy human need continually, this paper will demonstrate a practice of applying of PSS design to improve the product development system in a sustainable way.

The author has built up a new Product Service System (PSS)—Xinmade.com, combining Crowdsourcing with the traditional product development system. The subsequent chapters will clearly introduce what is the service and how to develop products to satisfy the customers better. At the same time the author tries to prove the model is feasible on a business track and provides a series of strategies and executive plans against the anticipated risk in businesses. Lastly, a financial plan shows the business feasibility.

Xinmade is an innovative incubator, by which individuals are helped to success as an innovator or entrepreneur. All the participants can enjoy the creative experience and share the commercial benefit. Xinmade provides more service instead only product development compared with the traditional business model. If Xinmade can get business success, it will continually affect individual’s behaviour to contribute to social sustainability.

Through practice, the author gains the conclusion that Crowdsourcing is a new method for problem solving, which is good for innovation. Crowdsourcing has more capabilities beyond people’s imagination. As it is new, more exploratory efforts are needed on Crowdsourcing and Sustainable PSS Innovation.
Glossary

**New Product Development (NPD):** The term is used to describe the complete process of bringing new products to the market.

**Crowdsourcing:** A process that involves outsourcing tasks to a distributed group of people. This process occurs both online and offline.

**Breakeven:** Break-even point is a term used in business. This is the point at which your business is making the right amount of sales to give you enough profit to cover your overheads. These overheads include rent, rates, heating and lighting.

**Niche Market:** A segment of the market which focuses on specific products.

**Gantt Chart:** A type of bar chart developed by Henry Gantt, which illustrates a project schedule.

**Intellectual Property Right (IPR):** A term referring to a number of distinct types of creations of the mind for which a set of exclusive rights are recognized under the corresponding fields of law.

**Product-Service System (PSS):** A function-oriented business model developed in academia, which is aimed at providing sustainability for both consumption and production.

**Social Networking Service or Social Networking Site (SNS):** A website with multiple users where one user can publish content himself/herself and connect with others to share personal or professional interests.

**Web 2.0:** A loosely defined intersection of web application features that facilitate participatory information sharing, interoperability, user-centered design, and collaboration on the World Wide Web.

**Non Governmental Organization (NGO):** A legally constituted organization created by natural or legal persons that operates independently from government.
# Table of Contents

Acknowledgements........................................................................................................... ii
Summary ............................................................................................................................... iii
Glossary ............................................................................................................................... iv

1 Sustainability challenge in product development.................................................. 1
   1.1 Sustainability........................................................................................................... 1
   1.2 Over-Production causes unsustainability............................................................ 3
   1.3 Improve product development system to get sustainability ......................... 3
   1.4 New Product Development (NPD) process problems............................... 4

2 Possible solution............................................................................................................. 5
   2.1 Product service system (PSS) contributes to Sustainability ....................... 5
   2.2 Web2.0 supply opportunities .......................................................................... 6
   2.3 Crowdsourcing would be a solution................................................................. 7
   2.4 Advantage of Crowdsourcing .......................................................................... 8
   2.5 Weak Point of Crowdsourcing .......................................................................... 9
   2.6 Categories of Crowdsourcing ........................................................................... 9
   2.7 Typical case studies........................................................................................... 10

3 Xinmade.com ............................................................................................................... 12
   3.1 Customer Problems & Pain statement............................................................... 12
   3.2 Business model introduction .......................................................................... 14
   3.3 Feature and Benefit .......................................................................................... 15
   3.4 How does it work?............................................................................................. 17

4 Contribution to sustainability .................................................................................... 19
   4.1 Contribution to innovation................................................................................ 19
   4.2 Contribute to PSS .............................................................................................. 19
   4.3 Contribution to Sustainability .......................................................................... 20

5 Market .......................................................................................................................... 21
   5.1 Market analysis .................................................................................................. 21
   5.2 Marketing strategy ............................................................................................ 23

6 Implementation plan .................................................................................................... 25
   6.1 Xinmade’s system ............................................................................................ 25
   6.2 Implementation plan .......................................................................................... 26
   6.3 Organization ...................................................................................................... 27

7 Risks ............................................................................................................................. 29

8 Financial planning ....................................................................................................... 31

9 Proposal for investor .................................................................................................. 33

10 Conclusion ................................................................................................................... 34

References ......................................................................................................................... 36

Appendices......................................................................................................................... 39
List of Figures and Tables

Figure 1.1. Funnel Metaphor ................................................................. 1
Figure 1.2. Relationship of the three elements ........................................ 2
Figure 1.3. Scheme of sustainable development ........................................ 2
Figure 1.4. New Product Development process issues ............................... 4
Figure 2.1. The evolution of Product and Service Systems .......................... 5
Figure 2.2. The percentage of online users ............................................. 6
Figure 2.3. Crowdsourcing improves the product development system ...... 8
Figure 3.1. Xinmade business model ....................................................... 14
Figure 3.2. Xinmade process flow map .................................................... 17
Figure 6.1. Xinmade’s business system .................................................. 25
Figure 6.2. Xinmade’s Gantt Chart ......................................................... 27
Figure 6.3. Xinmade’s employees ........................................................... 28
Figure 8.1. Xinmade’s cash flow ............................................................. 31
1 Sustainability challenge in product development

1.1 Sustainability

A funnel metaphor can clearly illustrate the urgency in front of humans. Over-consumption of resources and destruction of the environment will limit human development capability in the future, for instance, no fossil oil any more, global warming impact human health. The boundary of society (black line in Figure 1.1) will become more and more narrow even disappear (dotted line in Figure 1.1) with time if human do not change the behaviours. Turning it to sustainable society is an urgent task worldwide. The best scenario is to keep boundary in the same tendency or expand the boundary again in future.

![Funnel Metaphor](Figure 1.1. Funnel Metaphor (Karl-Henrik Robert et al. 2010, 14))

What is sustainability? The definition from the Unit Nations’ Bruntland commission: “Sustainable development is development that meets the needs of the present without compromising the ability of future generation to meet their own needs.” (Brundtland commission, 1987)
The United Nations General Assembly states that this requires the reconciliation of environmental, social equity and economic demands—the "three pillars" of sustainability. See the diagram below. Environment (or named biosphere) covers all the social activities. Any environment issues absolutely affect the society. The same relationship happens between economy and society.

![Figure 1.2. Relationship of the three elements](image)

The Figure 1.2 indicates the relationship of the three pillars of sustainability and suggests that both economy and society are constrained by environmental limits (Scott Cato, M. 2009).

In order to get sustainability, it is necessary for all the three pillars to be involved at the same time and affect each other. Scheme of sustainable development: at the confluence of three constituent parts (Adams, W.M. 2006).

![Figure 1.3. Scheme of sustainable development](image)
The Earth Charter argued for “a sustainable global society founded on respect for nature, universal human rights, economic justice, and a culture of peace.”(The Earth Charter Initiative. 2000)

Although there is more than one definition on sustainability, according to definitions above, the aim of sustainability is to satisfy the human need both for current and future generations.

1.2 Over-Production causes unsustainability

The underlying driver of direct human impacts on the environment is human consumption. (Michaelis, L. & Lorek 2004) In another words, in order to satisfy human, increasing consumption and blindly expanding production cause a series of unsustainable problems.

It is a conflict between the increasing consumption and reducing the environment destruction. This impact is reduced by not only consuming less but also by making the full cycle of production, using and disposing more sustainable. Consumption of goods and services can be analysed and managed at all scales through the chain of consumption, starting with the effects of individual lifestyle choices and spending patterns, through to the resource demands of specific goods and services, the impacts of economic sectors, through national economies to the global economy (Jackson, T. & Michaelis, L. 2003).

1.3 Improve product development system to get sustainability

The product development process is the particularly critical intervention point for society’s transition towards sustainability. Both of the positive and negative impacts are largely determined by decisions made during the product development. At the same time, businesses are responsible for an enormous number of social-ecological impacts that are caused during the resource extraction, production, distribution, using, and disposal of various products. (Karl-Henrik Robert et al. 2010, 224)
In the author’s opinion, in order to change the world to sustainability, there are three factors human can deal with in the product develop system:

1. Build the entire cycle of production.
2. Improve the early product definition.
3. Use business methods to affect human consumption.

### 1.4 New Product Development (NPD) process problems

NPD process happens similarly as a loop in most companies. Companies try to connect customers by market research and service after sales. The customers as the service objectives are not involved in the development process. The gap still exists.

![New Product Development process issues](image)

**Figure 1.4. New Product Development process issues**

Ogawa argues that the most important phase of New Product Development process is to understand the needs and product requirements in the best way possible (Ogawa, Susum Piller, Frank T). However, the studies show that ‘newly launched products suffering from notoriously high failure rates, often reaching 50% or greater. The main culprit has been a faulty understanding of customer needs (Ogawa and Piller 2006, 1).’ Although the companies own teams of experts, numerous data, and production experience, they cannot fully satisfy the customers need. The investment spent on the failure cases (above 50% totally) is a kind of resource waste.
2 Possible solution

2.1 Product service system (PSS) contributes to Sustainability

**Product**: a tangible commodity manufactured to be sold, which can satisfy the customer needs.

**Service**: an activity (work) done for customers with an economic value and often done on a commercial basis. It is contrasted with product.

**System**: a collection of elements involved in the entire process, also including their relations.

![Figure 2.1. The evolution of Product and Service Systems](image)

From the figure 2.1, it is clear to know how PSS is formed. PSS is a kind of method to consider the product and service at the same time in one system. There are different viewpoints in the academic world of PSS. In general,

- PSS is kind of new business model.
- PSS is a new strategy for the company to enhance competitiveness.
- PSS focuses more on customer satisfaction and value offering.
PSS has the sustainability potential.

Although scholars focus on different angles of PSS, they do not deny other research results, which compose the entire picture of PSS.

PSS can be used as a business strategy and inspire new business models. PSS is more customer value oriented, it more directly focuses on the customer needs, and at the same time more service will take place of over-production, so PSS has a potential contribution to sustainability.

2.2 Web2.0 supply opportunities

Internet is a revolution for humans to connect each other and share information. Based on Internet World Stats till December 31, 2011, there are near 3 billion people using Internet while there are near 7 billion people living in the world which means almost 32% percent of the world population using Internet. Also, Statistics show that from 2000 to 2011, there was 528.1% growth in Internet users. Based on The Harris Poll on December 23, 2009, American average users spend 13 hours a week online. This exponential growth of the usage of Internet across the world has been mainly because of the development of Web 2.0 technologies (Zhou 2010).

Figure 2.2. The percentage of online users
Web 2.0 enhances the human capability of participating group activities and improving the efficiency of human interactive. As Brabham describes the Internet—specifically given the recent Web 2.0 trend toward massive user-generated online content—is the vehicle for distributed, mass, pleasurable production (Brabham, D. C. 2008, 75). Moreover, Afuha (2003) argues that the Internet is an open, cost-effective and ubiquitous network which companies can use that to tap into the network of consumers to create value for them (Afuha, A. 2003). Internet and Web 2.0 supply enough opportunities in time and space for crowds to work on the same task. Internet and Web 2.0 are useful tools that will play an important role to change traditional human behaviours.

### 2.3 Crowdsourcing would be a solution

With the Internet and Web 2.0 developed, Crowdsourcing, one new business model happened. The term of “Crowdsourcing” was first introduced by Jeff Howe and Mark Robinson in the June 2006 issue of Wired magazine (Howe, 2006f). It is defined that a new web-based business model that harnesses the creative solutions of a distributed network of individuals through what amounts to an open call for proposals.

Daren C. Brabham gave a more explicit definition on Crowdsourcing: It is a model capable of aggregating talent, leveraging ingenuity while reducing the costs and time formerly needed to solve problems. At the same time he emphasized that Crowdsourcing is enabled only through the technology of the web, which is a creative mode of user interactivity, not merely a medium between messages and people (Daren C. Brabham, 2008).

Crowdsourcing is based on the Internet and opens a door to customers to interaction on the various problems or processes. If companies like to involve customers in the process, the two separated processes will be more closed than before.
In this case, the company will know their customer better. It does not mean Crowdsourcing can solve all problems, but it is sure that Crowdsourcing is a complementary method to improve the current product development system.

Market research is no longer difficult, because customers are in the development process and they will share their information actively. The customers will fully take part in the New Product Development process. Obviously the accumulated crowd wisdom will generate more powerful alliance with the team of experts inside the company.

2.4 Advantage of Crowdsourcing

Crowdsourcing involves crowd wisdom. Crowd wisdom is smarter on problem solving compared to the individual talent. Surowiecki has explained that under the right circumstances, groups are remarkably intelligent, and are often smarter than the smartest people in them. This ‘wisdom of crowds’ is derived not from averaging solutions, but from aggregating them (Surowiecki, J 2004).
‘No one knows everything, everyone knows something, and all knowledge resides in humanity’, digitization and communication technologies must become central in this coordination of far-flung genius (Lévy, 1997 [1995]: 13–14, Ch. 3). Collection of distributed intellect is another advantage of Crowdsourcing.

Crowdsourcing offers more possibilities for individuals in the crowd a chance at entrepreneurship, or at the very least an outlet for creative energy (Lakhani et al. 2007). From the current successful business system, the individuals also can gain some benefit through their efforts, such as skill, fun, or profit.

### 2.5 Weak Point of Crowdsourcing

Crowdsourcing is a new business model, which is still under development. It is easy to involve the crowd to participate in one task for a short time, but the entire time which individuals spend on one task will be longer than the time spent inside a company on the same problem solving. So one should be careful about the efficiency of using Crowdsourcing.

There is no mature principle for use of Crowdsourcing. It is hard to guide crowds to complete a goal. The motive of the crowd is too complex which needs interdisciplinary knowledge to be dug out.

### 2.6 Categories of Crowdsourcing

1. **CLOUD LABOR**
Cloud Labor is leveraging a distributed virtual labor pool, available on-demand to fulfill a range of tasks from simple to complex. Crowdsourcing is used to connect labor demand and supply. Virtual workers perform activities that range from simple to specialized tasks.

2. **CROWD CREATIVITY**
Crowd creativity is the tapping of creative talent pools to design and develop original art, media or content. Crowdsourcing is used to tap into online communities of thousands’ creativity to develop original products
and concepts, including photography, advertising, film, video production, graphic design, apparel, consumer goods, and branding concepts.

3. CROWDFUNDING
Crowdfunding is financial contributions from online investors, sponsors or donors to fund for-profit or non-profit initiatives or enterprises. Crowdfunding is an approach to raising capital for new projects and businesses by soliciting contributions from a large number of stakeholders following three types of crowd funding models: (1) Donations, Philanthropy and Sponsorship where there is no expected financial return, (2) Lending and (3) Investment in exchange for equity, profit or revenue sharing.

4. DISTRIBUTED KNOWLEDGE
Distributed knowledge involves the development of knowledge assets or information resources from a distributed pool of contributors. Crowdsourcing is used to develop, aggregate, and share knowledge and information through open Q&A, user-generated knowledge systems, news, citizen journalism, and forecasting.

5. OPEN INNOVATION
Open innovation is the use of sources outside of the entity or group to generate, develop and implement ideas. In a world of widely distributed knowledge, where the boundaries between a firm and its environment have become more permeable, companies cannot afford to rely entirely on their own research and ideas to maintain a competitive advantage.

6. TOOLS
Applications, platforms and tools that support collaboration, communication and sharing among distributed groups of people (Crowdsourcing 2012).

2.7 Typical case studies
Threadless
One T-shirt Company started in 2000, which is based on the online community to generate nice illustrations. Anyone can submit their
illustrations or pick other’s art works. Threadless produces T-shirts as the customers’ order and the artists get certain rate of profit from the sales. This is a very successful business case. (Threadless 2012)

**Quirky**
Since launched in 2009, Quirky has rapidly changed the way the world’s viewpoint about product development. They bring two new products to market each week, by enabling a fluid conversation between a global community and Quirky’s product design staffs. The ideas are from the crowd, and Quirky share the profit with the participators depended on the contribution. (Quirky 2012)

**Kickstarter**
Kickstarter is a typical crowd-funding platform. The ideas or projects showed on the platform attract crowds who like the idea to invest money. The investment can be used for realize the initiator’s dream. If the project is successful, the sponsors will get rewards as the initiator promised. (Kickstarter 2012)
3 Xinmade.com

Commercial success is a crucial element in the implementation of the plan and strategy, so a feasible business plan is the first step to test the practice. This chapter will give a business plan for Xinmade.com.

3.1 Customer Problems & Pain statement

Idea Initiator: No matter whom you are, designer, engineer, student, office worker or housewife, you repeat similar behaviours every day, so you are the expert of your daily life. Many individuals are sensitive to recognize their real need through observing their own behaviours, and some of them have great passion to come up with good ideas to solve the problems of their lives.

In fact, it is easy for individuals to generate great quantity of smart ideas of product innovation, but it is a long journey for the ideas becoming real products. So the reality now is that ideas only appear in people’s minds and most of them are given up very soon because the individuals:

1. Do not know how to improve the ideas.
2. Lack of technical skill to develop ideas to products
3. Only have limited time to spend on the ideas.
4. Lack of the relevant resource, such as factory.
5. Do not know how to manage R&D and production process.
6. Do not know how to market products.
7. Lack of seed capital.

It is hard for individuals to take all the challenges by themselves, which will cost one person several years and millions of funds. Even so, the success is not guaranteed for them finally, not even for the professionals, as the market is too complex and changing fast. It is understandable that the individuals give up the ideas because the risk will impact their normal lives.
In fact there are still many individuals who never stop trying innovation although most people know the risk, because creativity is humans’ natural feature. If professionals can help the idea initiators at the beginning, including financial help, great ideas will be easier to be transferred to real products. The products that solve the same problems or satisfy the same requirements for more people would be more valuable for humans and the society.

**Customers:** it is hard for customers to find one exact same product as what they need. Although there are tons of products in markets, most time the individual customers have to pick one looks “better” instead. Then they will throw away it after using several times or use the product with complaints all along.

**Middle class with savings:** they have stable incomes and good life. At the same time they have great amount of savings (less than 1 million SEK) in the bank. How can they deal with it? The interest of deposits in the bank is very low; the bank always charges a lot for financial management and the savings are not that enough for a real business investment. They could be lucky to get chance to invest a newly created project, but, it is high risk to put the savings in a project without any investment knowledge. And after that they probably do not have time to take care of their investment.

**Companies and manufacturers:** they need to continually produce new products in low cost to survive. How many they should produce and what they should produce are always the issues that bother companies and manufacturers. Focusing on the changing customers need is efficacious to avoid over-production that is very dangerous for them. But customers needs change so fast that they prefer more personalized stuff which makes it hard for manufacturers to find the direction and follow the speed of the change. Although companies and manufacturers with necessary resources employ many professionals and invest enormous money on the R&D, they cannot avoid the high proportion of failure.

**Retailers:** they get profit from selling hot products. The unpopular products will occupy more resources with low earnings that are the biggest risk for them. They know their customers better because they serve directly the
customers. But how can they find the right products in time to catch the best selling season is what need to be thought about.

### 3.2 Business model introduction

![The Business Model Canvas](image)

**Figure 3.1. Xinmade business model**

**Value Propositions:** Xinmade.com is a platform to help the individuals to transform their great ideas to real products and successful sales on market. The early funding also comes from crowds and the benefit obtained will be shared with all the participators and the companies.

**Customer Segments:** Xinmade.com serves the individual who has the passion to generate ideas and to realize the innovation.

**Customer Relationship:** Xinmade would be the project assistant to help the Idea Initiators develop their ideas, also be a real co-creator working with them.
Channels: Website is the main access of Xinmade.com for the users to co-work and share. SNS and Emails are another two ways to contact the customers and spread information in the market.

Key Activities: Xinmade gives assessment to each idea, supplies financial support, necessary resource and project management. Individuals own the freedom of the innovation.

Key Resources: Xinmade supplies all kinds of applications for the users to share, communicate, and co-work on projects. Experienced professionals (designers, engineers, project managers and etc.) and the crowd registered members are the key resources of Xinmade.

Key Partners: In order to supply the best service, Xinmade has partners of manufacturers, investors, distributors, lawyers and universities. Based on the stable relationship Xinmade will create more opportunities for the partners.

Revenue Stream: Products selling and project consulting for companies are the main income for Xinmade.

Cost Structure: Because of the service Xinmade promised, the cost will include setting up the company, building and maintaining the website, salary for the employees, and cost for the lawyer consulting.

3.3 Feature and Benefit

For participators, Xinmade supplies

1. Opportunity to get the crowd development,
2. Professional consulting,
3. Project management service,
4. Patent protection,
5. Seed financial support and sustainable funding,
6. Designer and engineer support,
7. Good manufacturing to produce the products,
8. Online shop and stable distribution channel to sell the products.

For manufacturers, Xinmade supplies
1. The right to produce the unique products.
2. Continual orders.

**For distributors, Xinmade supplies:**

1. Find more popular innovation products to sell in the easiest way.
2. Directly get fresh products from factories in the first time.
3. A reasonable price, no trade agency divides profit.

**For middle class (individual investors), Xinmade supplies:**

1. Opportunity to generate new profit with the idle money.
2. Easy to invest, no professional knowledge is needed; no fixed extra time is needed.
3. Good payback with controllable risk.
4. Accomplishment and interest in the innovation process.

**For Customers (product buyers), Xinmade supplies:**

1. Get real user-oriented products.
2. Try the innovative products in a reasonable price in the first time.
3. Have fun in participating in the innovation process.

Sharing the profit is the basic principle of Xinmade. Initiators will get 20% of the profit and crowd participators and investors even the presale buyers together will get 10% of profit. What is more, Xinmade will share 5% revenue for each stakeholder during the future commercial sales. In the commercial sales phrase, distributors will be the main stakeholders, who will get 50% of the profit.
3.4 How does it work?

First Xinmade will have a website to serve the individual customers. The registered user has the right to submit ideas for free. The entire process from submitting ideas to getting the profit is designed as eight stages, see the flow map above:

1. Submitting: The idea initiator publishes ideas on Xinmade.com. Following simple guides, they just need to answer questions that are related to their ideas. Sketches, pictures and etc. are preferable, which can be uploaded as attachments to convince the peers and the experts in the subsequent stages.
2. Peer Evaluation: participators give comments to the initiator. Good ideas are delivered to next stages; otherwise the idea initiator can improve those ideas and submit again.

3. Judgement & Expert Help: The ideas selected from the last stage will be assessed by all relevant experts on Xinmade.com. That insures the proposal ideas are feasible to be produced with a reasonable cost. The experts will give assessment back to the initiator and the initiator can continually improve it and submit again.

4. Design & Engineering: Through the strict assessment, good ideas are built up as new projects. The project manager will start to find the right designer and engineer to work on it until the concepts are ready to be produced. Meanwhile the seed investment will be gathered from the crowd on Xinmade and Xinmade itself.

5. Presales: The concepts will be pre-sold by showing the rendering pictures or prototype photographs. Once the presales order meets the minimum production request, the product will be produced.

6. Manufacture: The products are manufactured by factories in China. The project management team will manage the whole process.

7. Sale Online & Delivery: Delivering the products to the buyers, and enlarge the sales volume through online sales and other distribution channels.

8. Cash: Revenue will be shared with all the participants at certain rates defined in advanced.

Through the eight stages the ideas are successfully transferred to commodity which can be sold on the market. Xinmade has the right and responsibility to continue selling the products on the market and share the profit.
4 Contribution to sustainability

4.1 Contribution to innovation

Xinmade is an innovation generating platform, where a lot of good innovation will be incubated. That means Xinmade itself can generate innovation. There are various participators involved in the system. None of them can fully finish the innovation process, but on Xinmade the group of participators can do it together in leisure time with low cost. The individuals without professional skills and the experts on Xinmade could generate a great many of innovation every year. The innovation, experience and commercial benefit will stimulate more and more individuals to join the innovating team.

Xinmade reduces the boundary of innovation; the innovation on Xinmade is easier than before. In fact, most idea initiator on Xinmade will not be the real innovators, but everyone can participate or finish innovation on Xinmade. Xinmade supplies various resources to help the innovation to be incubated easily, and the service process covers from rough idea in several sentences to a real product and to the end-user, for example, technical help, seed funding, project management, distribution channel and so on. In this case, the innovation is no longer difficult for individuals.

Xinmade is a user innovation oriented platform, the innovation is generated from the crowd instead of from a few experts as in the traditional way. The innovation would be more valuable and useful in the reality to the customers. In another words, the innovation generated from Xinmade has a higher rate of success.

4.2 Contribute to PSS

Xinmade supplies user oriented products which will satisfy customers better. All the products generated on Xinmade are kinds of innovation, and all the product development processes are affected and decided by the customers.

Xinmade supplies a series of service flows instead of only product. Xinmade combines the traditional industry feature, but with more focus on supplying the service. Xinmade is a kind of PSS driven by participators.
who can achieve more value from participation. For instance, they can experience the creativity, obtain more fun, and decide the product as they like, even get financial support and commercial return.

Xinmade makes the innovation process happen in one system. Xinmade process is designed to involve many persons, such as the idea owner, the participator, the skilled person, the investor and so on. Each role thinks about the product from their personal view. More elements will be considered in the system. For example sustainability will be one crucial element during the assessment of the ideas.

4.3 Contribution to Sustainability

Xinmade is not only benefit to capital, but also contributes to sustainability.

First, Xinmade will encourage the idea initiators and the participators to think about the sustainability when they submit ideas by giving a product definition, comments and improvement suggestion. For example, it is suggested to think of reducing, reusing, recycling and using the eco-material etc. all the participators will point out the problem and help the idea initiator to think about the improvement.

Second, the ideas which have more contribution to sustainability will get higher score and have priority to be produced. If the team in Xinmade thinks that the product is against the sustainability requirement, Xinmade has the right to refuse to produce them. To be honest there is no single definition or standard in the world currently to judge whether the product is sustainable or not. The Xinmade way is to compare with the similar products on market. Take an idea about a paper cup as an example, if the paper cup can be used longer than existing paper cup with the same cost, Xinmade will take this idea as sustainable product.

Last, Xinmade will have a forum for the community to discuss and share the knowledge about how to contribute to sustainability. The information will influence each other during the process. That will push the stakeholders on the chain gradually to learn about sustainability and think about it as a factor of consumption need. Changing consumer needs will gradually lead the companies to focus on sustainability when they develop new products.
5 Market

5.1 Market analysis

Volumes

As a new business model, there are not enough data to calculate the sales volumes directly for Xinmade.com. Based on the business model and former researches, an assumption of the potential market can be illustrated.

The major part of the users will be Industrial Design students in China. Until 2005, there are around 250 universities in China that have bachelor degree of Industrial Design (the number is still growing, and the master degree is not included yet). The average amount of student in the program is around 60 students (2 classes total and 30 students per class). That means from 2005, more than 15,000 Industrial Design students graduated each year.

All the students ranging from newly graduated to graduation for four years are the customers of the Xinmade. If each member submits one idea per year, 75000 ideas will be generated every year.

If 1% of the ideas are practical and will be successfully developed, a total of 750 new products can be developed. Suppose the average price is 200KR and sales volume of each new product is 100,000 pieces, the whole market volume will be around 15 billion SEK.

The result is only calculated from the students of Industrial Design. In fact, there must be more students from other programs who have innovation requirement, such as students of the engineering and the entrepreneurship. Housewives, the unemployed, or retired people can be the idea suppliers. The potential sales volume will be 3 times than above at least. If Xinmade could cover 1% of the Chinese market that means a huge market around 450 million SEK per year. Actually Xinmade will cover around the world.

Segments

Considering customers need and the capability first, the students in universities and the graduation for four years, whose age are around 22-30,
are the main part of the social community members. They have the innovation passion and are familiar with the Internet, They have stable living support and spare time of 1 - 2 hours per day. 1 - 2 hours a day is nothing compared to the time spent to run a project. Moreover, they want to experience new things with accomplishment. Also their salary is far from the required funding. Furthermore, although they know something, it is difficult for them to run a project or a company by themselves. Even for the person who has professional knowledge of entrepreneurship, it is still a hard work without practising enough time. So they would be faithful participators and the real customers of Xinmade.

The main market area will be in the big cities along the east seaside of China. Considering of the regions and cities, the conclusion is that the creative products are more popular in big cities of China. The volume of sales is increasing rapidly particularly in Shanghai, Beijing, Shenzhen and the capital cities of each province in China. It shows us a very promising and easy-to-enter market. Another reason is that the transportation is low cost and more convenient.

**Competitor analysis**

Crowdsourcing is a new business model. Using Crowdsourcing to help the individuals to develop their innovation is a kind of innovation without many competitors. In China, Xinmade will be the first one, there are no competitors yet. But obviously there is a trend on the Internet, more and more individuals or companies will become aware of that and take advantage of Crowdsourcing to solve more problems to get more success.

The first company which uses Crowdsourcing to do product development is Quirky set up in 2009 NYC. Each product with innovation idea needs to be submitted by paying $10. After one week of peer voting, the Quirky team will pick the best one to develop into a real product. The idea owner will earn 10% of the profit. Other participators can share the revenue by their influence. Currently Quirky has 180000 users, each year generates 60 types of new products and the income is above 7 Million SEK. Because Quirky focuses on USA, which is a different market, and because of language limitation, they have less competition with Xinmade.

So far there are no real competitors in China yet, but several crowd funding websites have appeared in China in the last few years. Demohour.com
launched in July 2011 focuses on individuals’ dream including design, film, art, public service activities. Another competitor is called JUE, just launched in April 2012, only focuses on product which are more close to “nice”, less “function”. Both of the two websites use Crowdfunding to help the individual idea initiators. But the funding is only one element in the product development, which differentiates Xinmade with these two.

5.2 Marketing strategy

Services & Product

Xinmade.com will focus on the innovation of the product. The product should be newly innovated, unique functional and for special customers, which is a kind of Niche Market.

During first few years, Xinmade.com will focus on simple products which are related to the personal consumption or personal electronics. The more Xinmade develops, the more complex products will be gradually involved.

Price

For the entrepreneurs-cultured services, it will be totally free. If the innovation is successfully transferred to a product, the idea initiator can earn 10% of profit from the presales and 5% of profit from the commercial sales. In another words, our service will have no price, because Xinmade shares the profit of successful projects.

For the creative products, the presale is only an experiment process with benefit to the first buyers. The price of presale is reduced to cover the cost. It is the first small batch production, the price will be a bit higher than mass production. But if the product goes to market, the presale buyer will get the 5% of the profit in future sales. So the consumption is equal to investment.

Place

Xinmade is located in Sweden as the Swedish government encourages innovation business.
China is a huge and growing market as the requirement of the new products and innovation products are increasing. The prosperous E-business in China gives Xinmade the biggest opportunity.

**Promotion**

Promotion can be done in the following ways:

1. Improving the system to attract the customers to publish ideas and buy the products. Define more game rules to make the participators have more fun on Xinmade.com, for example, the active participators have the opportunity to try the new innovation product for free.

2. **Social Networking Service** will be used to gain and retain registered users, and the product promotion will be published and spread by friends to friends.

3. Working with some NGO which focus on the innovation development is another promotion method.
### 6 Implementation plan

#### 6.1 Xinmade’s system

The service flow below is clear to reflect Xinmade’s business system, according which the Xinmade team and the team activities will be set up and apply. Stage 1 and stage 2 happen on Xinmade, the main activities are executed by the individual users. Xinmade takes care of maintaining the website to ensure the user have good experience. Stage 3, stage 4 and stage 5 are the core services of Xinmade, which will be fully managed by Xinmade. Stage 6—manufacture and stage 7—distributions will be accomplished by partners.

![Image of Xinmade’s business system]

**Figure 6.1. Xinmade’s business system**

Xinmade will have online shop, which is used for testing the reaction of the customers before selling the products on the market. The main distribution channels are online shops and the offline stores, such as Amazon. Xinmade will have a stable cooperation with the distribution partners. Currently Xinmade team is discussing the cooperation with the potential retailers and the distributors.

**Universities:** Xinmade already have relationships with some universities, the graduating students will provide Xinmade great supports in R&D.

**Factories:** Manufacturing and prototype factories in China are important partners of Xinmade. So far there are already some collaborating factories in China of Xinmade and the partners’ list will be longer in the near future, which will give Xinmade more freedom of whom to work with.
**Law office:** Xinmade will cooperate with law office to apply for the patent as soon as possible to protect the idea owner’s right and benefit.

### 6.2 Implementation plan

1. The platform (website) is the important tool and media to serve the users, so it must be built up and tested in the third season of 2012. The interface and user experience of the website should be designed by professional web design team. The prototype model has been already done by Xinmade team. It takes around three months including the design and the testing phase for the design team to complete the website, so Xinmade.com is planned to be online in October of 2012.

2. Find and fix the partner resources before launching the website.

   Get the paid lawyers consulting to protect the idea done when we run the platform. The cooperation is under discussion and the agreement should be finished before the end of the 2012.

   Discuss continually with potential distributors who would like to sell the innovation products and get the agreement of the future cooperation. The first list of offline-store and online-shop partners will be fixed around October of 2012.

   Find some good ideas and at least test one of them as Xinmade’s process flow before launching the website. Xinmade team is doing this all the time and so far there are several ideas that are suitable for testing.

3. Xinmade team needs to have close relation with universities international especially those in China to market Xinmade. The formal meeting will start in the end of 2012. Xinmade also plan to spread to China by SNS after December of 2012.

4. Try to get the first investment before October 2012 to finish the platform, then employ the necessary persons and test the business system. And the second round funding is for expanding Xinmade and run the full business model. At same time develop the system to focus on more about the sustainable product development.
Milestones

- Launch the website in October of 2012.
- Start the first project on December of 2012
- Achieve 10,000 registered users on Xinmade.com until April of 2013
- Start the distribution from June of 2013
- Begin the second round financing in October of 2013

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<td>Find the right partner</td>
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<td>Marketing Xinmade</td>
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<td>Run projects on the platform</td>
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*Figure 6.2. Xinmade’s Gantt Chart*

6.3 Organization

Xinmade is an innovation generating company. Every employee here should be creative and enjoy the innovation. Sharing is necessary for the whole team. In order to supply the best service the team will be composed by people with different backgrounds.

Xinmade will build a competitive team by employing experts in different industries, including marketing people, project managers, website designers and engineers. Other positions are not that necessary in the first year as outsourcing and part time employees will be employed. For example, the lawyer is needed for contracts and applying for the intellectual property protection.
Xinmade will attract talent to join the team to help Xinmade team grow faster in next 5 years. The figure 6.3 shows the major team members. The platform will run the full business model from January of 2014.

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*Figure 6.3. Xinmade's employees*

The company will start up from Sweden and the major team will located in China. As the whole work will be based on the Internet, each division will only have a few members. Employees will work freely, with more space and time to focus on projects chosen by themselves in order that the whole team will work more efficiently.
7 Risks

Any business that generates revenue has risk. It is the same with Xinmade. Based on team assessment, the most important risks are summarized here, at the same time countermeasures thought to minimize the risk.

1. All the ideas come from the registered users. What if most of the ideas are not that good to be transferred to products? That may happen at the beginning. Xinmade will have employees to actively collect good ideas through all kind of popular websites, then keep the connection with those idea owners, and convince them to submit their ideas on Xinmade. This workload will grow with Xinmade.

2. The crowd funding cannot afford the R&D process. Before Xinmade have thousands of active users, it is truly a risk. Xinmade will guide participators to sponsor the best projects by advertisement or recommendation.

3. The products cannot be sold as anticipated. As the products on Xinmade are just innovated and freshly launched, the sales could be unsatisfied. But Xinmade will use presale instead production at first. To cooperate with more distributors to reduce the risk is another way to reduce the risk.

4. Xinmade will face new substitutes in the near future. Xinmade will remain in relationship with the participators and be adaptable to the changing customers’ needs. For instance adding more game rules on Xinmade to abstract the users’ interaction and generate the best innovation idea.

As assumed in the previous chapters, there would be a bright future for Xinmade.com. If the amount of projects on Xinmade can be finished as the plan, the breakeven will appear in the end of 2013. After that the system will work more automatically, that means no need to increase the fixed costs and the income will grow fast as users increases. Commercial benefit will be around 43 Million SEK until the end of 2016.

If the risks listed above happen, the worst scenario is that Xinmade will not realize the income as the original plan. Xinmade will strictly control the
investment and cost: the input for new products will be reduced before determined orders; the fixed cost will be kept only to maintain the scale of the team. At the same time the management team will adjust the strategy to pick new products to fit the market need and the revenue will come a half year later. As the market is still good, the revenue will still be over 20 million SEK until the end of 2015.
8 Financial planning

Start-up expenses

There are three parts of start-up expenses:

1. Around 50,000SEK to register a company in Sweden.
2. 250,000 SEK to build up the website in 2012.
3. In addition, three months salary of the key employees is necessary for 2012, because Xinmade need to find some partners and build the channel and partnership before starting the business. That is around 135,000 Kr.

So the total needed is around 435,000 Kr in 2012.

Breakeven

After starting up Xinmade, the main cost will be the salary of the employees and the main income comes from product sales. Based on the assessment, 200,000 pieces with average price of 200 SEK have to be sold in order to reach the breakeven. It is expected that in October 2013 the goal can be achieved with two successful products.

Cash Flow

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<td>Revenue</td>
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Figure 8.1. Xinmade’s cash flow
This figure 8.1 shows the Xinmade’s 15 months cash flow. The income will happen from July of 2013; in the end of 2013 the income per month can almost cover the cost.
9 Proposal for investor

Based on the cost and cash flow, Xinmade need at least 3.66 million Kr to start the business. Xinmade would like to raise 4 million SEK for the first round funding. 3.66 million Kr will be spend as the original plan and extra 1.34 million Kr will be used for the management team to deal with the urgent situations, such as lack of cash because of strategy changing.

As pay back, the investors will have 35% shares. Xinmade will take 10% of the profit as dividends each year from 2014. The first investors have the rights to quit the business after the second round funding, but have to sell all the shares back to the original founders. It is expected the investors’ shares will value 28.2 million SEK in 2016.
10 Conclusion

Xinmade is a practice of Crowdsourcing which contributes to sustainable product service system innovation. The author draws the conclusions below:

1. Xinmade integrates the traditional product development process with Crowdsourcing to do the innovation. The business plan gives a proof of the feasibility of Crowdsourcing, the new resource based on the Internet, which is more powerful than people imaged. Individuals, companies, and organizations can utilize Crowdsourcing to solve many problems with lower cost and higher efficiency.

2. Crowdsourcing is good at solving the simple things or the complex tasks that can be divided into simple ones based on the crowd wisdom. Developing complex product or high technology problems will be highly risky for Xinmade.

3. Xinmade is born from Crowdsourcing which is an active element for the innovation. If Crowdsourcing is used in a proper way, it could generate innovation ideas and be a valuable resource for the sustainable PSS.

But during the practice there are some weak points or potential risk should be pointed out.

1. The Crowd is always aimless or directionless. Each individual in the group has different motivation and different aim which always against each other, so the future practitioners should have a strong management experience and enough knowledge to design a logical system to control the cooperation process. For instance: which part is open to Crowdsourcing, and which part should be finished by professionals?

2. Crowd wisdom is easy to collect but difficult to judge. So far Xinmade has not found the proper method to value the messy results efficiently, which is the bottleneck of Crowdsourcing. In the future, hopefully scholars can do more researches on this area.
3. In terms to sustainable PSS innovation, there is no single standard to describe what sustainability is for Xinmade. In this case it is hard to say what and how much Crowdsourcing can contribute to sustainability, but no one can deny the potential contributions to sustainability.

4. During the practice, the Xinmade team has noticed that the greatest challenge of the sustainability comes from other system, such as law, policy, and culture. So Crowdsourcing is just one of the elements which can affect sustainability.

Xinmade which integrates a new PSS and Crowdsourcing is in the initial phase. There is a lot of work to do in the future. The experience and improvement will come from more practice in real cases. The author recommends a website—crowdsourcing.org which collects a lot of information and real cases for the practitioners and the scholars to do research on Crowdsourcing.
References


Appendices

Appendix A: Xinmade’s homepage
Appendix B: Survey result

The purpose of the survey is to study what Internet users’ behaviors looks like. This survey is done by Behrad Mirafshar and the author together, which affects the author developing the business plan - xinmade. If someone want to know more demonstration about the survey please reference Behrad Mirafshar thesis - Crowdsourcing: Using Open Modes of Collaboration for Product-Service System Innovation.

1. How many hours the users spend on the webpage?

2. Online user activities
3. Users' opinions of being online

4. Users' satisfaction with Crowdsourcing platform
5. Have you generated money in any Crowdsourcing platform?

![Pie chart showing 94% No and 6% Yes]

6. Users' opinion about a good rewarding system

- 79% Based on your time contribution and quality of your work
- 11% Just enough to acknowledge and appreciate my effort
- 10% As the same wage as I get in my real job
- Other
7. Types of supports that users seek for in Crowdsourcing platforms

- To get feedback on others' ideas (38%)
- To find skillful people for developing my work (39%)
- To look for fund for my ideas (23%)

8. Users' preferences to the roles in Crowdsourcing

- Submit New Ideas (25%)
- Improving others' Ideas (19%)
- Investing on good ideas (19%)
- Doing little tasks (15%)
- Marketing others' product (22%)
Appendix C: Financial Calculation

1. Table of Financial
   This table describes the cost and the income of Xinmade in the next five years.

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<tr>
<td>Totally income</td>
<td>0</td>
<td>13,125,000</td>
<td>25,500,000</td>
<td>32,062,500</td>
<td>38,625,000</td>
<td></td>
</tr>
<tr>
<td><strong>Totally profit</strong></td>
<td><strong>-462000.00</strong></td>
<td><strong>9,465,000</strong></td>
<td><strong>28,821,000</strong></td>
<td><strong>52,283,500</strong></td>
<td><strong>80,480,500</strong></td>
<td></td>
</tr>
</tbody>
</table>

2. Table of Cash Flow
   This table simulates Xinmade’s cash flow in the next five years.
3. **Table of Sharing Rate,**

This rate will be written in the contract when the users register on Xinmade and Xinmade will take the rate as a long term strategy.

<table>
<thead>
<tr>
<th>Stake Holder</th>
<th>Presales</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share rate %</td>
<td>Share rate %</td>
</tr>
<tr>
<td>Idea Owner</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Participant</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Investor</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Designer</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Buyer</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Xinmade</td>
<td>40%</td>
<td>50%</td>
</tr>
</tbody>
</table>

4. **Project’s Presales Income**

This assumption is an average level in the industry based on the author’s research.

<table>
<thead>
<tr>
<th>Cost</th>
<th>R&amp;D 50,000</th>
<th>1</th>
<th>50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost - Manufacturing</td>
<td>100</td>
<td>1,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Totally cost</td>
<td></td>
<td></td>
<td>150,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>Presale profit</td>
<td>50%</td>
<td>75,000</td>
</tr>
<tr>
<td>Xinmade</td>
<td>Presales</td>
<td>50%</td>
<td>37,500</td>
</tr>
</tbody>
</table>
5. Project’s Commercial Sales Income

This assumption is an average level in the industry based on the author’s research.

<table>
<thead>
<tr>
<th>Commercial sales</th>
<th>Revenue</th>
<th>40</th>
<th>100000</th>
<th>4,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xinmade Presales</td>
<td>75%</td>
<td>3,000,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Employee and Salary Cost

The result is calculated based on the Xinmade’s strategy, and it is the biggest part of cost of Xinmade.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manage-</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>ment team</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Marketing &amp; Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-marketing</td>
<td>2</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>R &amp; D</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Project Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designer and Engineer</td>
<td>4</td>
<td>5</td>
<td>8</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Project Assistant</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Website Development</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Web Programmer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Database Architects</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Web Designer</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lawyer</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Personnel &amp; Administration</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Totally</td>
<td>5</td>
<td>17</td>
<td>34</td>
<td>50</td>
<td>62</td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary</td>
<td>Month</td>
<td>3</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Average salary (12,000SEK)</td>
<td>162,000</td>
<td>2,448,000</td>
<td>4,824,000</td>
<td>7,200,000</td>
<td>8,928,000</td>
</tr>
</tbody>
</table>