

UpCraft
Club

UpCraftClub

fundamentally changing the way digital goods are found and sold

UpCraft Club has pioneered a patent-pending process allowing brick and mortar retailers to receive revenue from the sale of a digital good. Because of the founder's deep industry connections and experience, the technology/process is being introduced in the emerging digital sewing pattern market. UpCraft Club has created a product that sewists want, digital pattern designers need, and that fabric stores as well as industry distributors are salivating over.

Revenue comes from the sale of individual patterns both online as well as through a patent-pending process allowing brick and mortar shops to sell the digital products. The average pattern sold is \$10 and customers can also choose to get additional benefits through a recurring membership that costs \$10 per month. The company launched on January 21, 2015 and had over 2000 users register on the site within the first month. UpCraft Club currently has over 14,000 registered users and growing revenue! The company has customers in all 50 states and in 80 different countries around the world.

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Market Summary

The home sewing industry has long been dominated by American paper pattern companies like Simplicity and McCall's who still rely on paper pattern sales in only a few brick and mortar store chains instead of using available technology. The home sewist consumer spending has grown to include the digital (PDF) pattern phenomena. Globally, the sewing market is growing 7.5% a year and sewing machine sales are expected to reach 30 million units a year by 2020. In order to use a sewing machine, the sewist must have fabric, notions (like thread)...and sewing patterns. Consumers are choosing digital patterns in increasing numbers with one study showing that only 16% of current customers prefer paper patterns over digital. A solution for modern sewists to purchase digital patterns is lacking in the industry today and opportunity abounds for the first in this space. We believe that the industry numbers will flip and by 2018, digital patterns will account for more than half of the pattern market, with UpCraft Club leading the change as the primary source for digital patterns worldwide.

Because of a significant decrease in the cost and increase in the accessibility of software programs like Adobe Illustrator and InDesign, it is now possible for anyone with some basic knowledge and a computer to become a pattern designer. In the past 3 years the number of indie pattern designers has exploded and there are currently over 100,000 digital sewing patterns available on the web, with more being released every day. When including digital knitting and crocheting patterns that number more than doubles to over 200,000 patterns scattered across the internet.

Customers find the market very fragmented because most indie designers have a few designs and their individual shops are spread all over the web. Customers also have a hard time trusting the quality of PDF patterns being sold because the majority of indie designers do not have any formal training in pattern-making.

UpCraft Club exists to improve the quality of patterns as well as the skills of sewists making items from them. We published the first set of industry standards for the sewing pattern industry and certify patterns for quality (through a process similar to the Good Housekeeping seal of approval). UpCraft Club is a trusted source for indie patterns. We are also the bridge between consumers (who now prefer digital patterns) and the brick and mortar stores where they purchase their sewing supplies. The patent-pending process UpCraft Club has developed will lead a dramatic shift in the sewing industry.



Business Model Summary

This is a summary of the goals and focus of UpCraft Club's business model:

- **Digital Sewing Patterns:** High quality digital sewing patterns are curated from across the web and sold in the UpCraft Club online store. Any PDF sewing enthusiast is invited to purchase patterns and/or become a Member. Worldwide. UpCraft Club in effect 'wholesale' purchases the pattern from the indie designer at the point of each sale. So no up-front money is needed to secure the patterns and the site keeps about 50% of the digital sale revenue. The patterns available on UpCraftClub.com are printed at home by the customer and work on both US letter sized paper and A4 paper which allows the same patterns to be purchased anywhere in the world.
- **Membership:** Membership is an automatic payment of \$10 per month. Benefits of membership include: a \$10 coupon code toward anything in the shop each month, 20% off all other patterns or online classes, a Membership Card that allows the member to become part of JoAnn Fabrics' VIP Program and receive 10% off their purchases at JoAnn Fabrics, and 'first look' opportunities during Pattern Launches. (Pattern Launches are 2-4 days of exclusive rights to a new pattern before it is released. Only UpCraft Club customers can purchase these special patterns. This is a lead generating and member retention tool.)
- **Brick and Mortar Stores:** UpCraft Club has created a double-sided 'rack card' that is cheap to produce and can be displayed in brick and mortar stores to show customers the digital pattern they can purchase. Fabric stores want to sell fabric and often lose money on, or break even on, the sale of a paper sewing pattern. Roughly 90% of customers purchasing a pattern buy all the fabric and notions from the recommended charts on the back of the paper pattern. This is why fabric stores devote large amounts of space to the sale of patterns (often 100 square feet or more). The UpCraft Club card shows the fabric requirements and then a unique link to the pattern that, when used by a purchasing customer online, allows the store to receive a percentage of the sale. (The process of compensating a physical retailer from the sale of a digital good is covered under UpCraft Club's patent application.)



Retailers love this because they have been cut out of the digital sale until now. Distributors love this as well for the same reason. And indie pattern designers want this because they don't have to go through the expense of printing their patterns on paper (and watching their margins shrink) in order to get physical store distribution. Customers also love it because they prefer digital patterns and now have access to the fabric requirements for their favorite digital designs while in the fabric store. The customers can also discover new designs that have never been available in paper form.

- **Physical Product Distribution:** UpCraft Club will work directly with large chain stores like JoAnn Fabrics, Hancock Fabrics, Hobby Lobby, Michael's, WalMart, Target, etc. to sell the pattern product cards. The cards will be sold for double the cost of printing and the store will keep 25% of the revenue. UpCraft Club will keep 50% of revenue and the designer gets the rest. For the independent fabric stores, UpCraft Club is partnering with the largest distributor to fabric and craft in the US and Canada. They want our product to be the featured pattern product to 10,000 retailers they already work with, beginning this fall. This relationship can be expanded internationally as well. The Distributor will print all the cards and deliver them to the stores. All UpCraft Club has to do is create the unique links for each store and host the digital ecommerce platform (which we already do). UpCraft Club has also acquired a list of US fabric stores along with their revenue and contact information so we can begin setting up our own distribution and eventually not need an outside distributor.
- **Virtual distribution:** As UpCraft Club's technology is built out we will allow online stores, bloggers, and pattern designers to embed portions of the UpCraft Club store into their sites. This is similar to Amazon.com's Amazon Affiliates program. (Note: Amazon.com does not sell digital hobby patterns currently.) Stores like Hancock Fabrics and JoAnn Fabrics are examples of retailers that may be a good fit initially for this technology. None of the brick and mortar chain stores (like JoAnn Fabrics, Hancock Fabrics, Michael's, and Hobby Lobby) sell digital patterns through their websites.
- **Future Expansion:** General crafting/knitting/crocheting/woodworking/other digital hobby patterns would be areas of opportunity for expansion as UpCraft Club grows. Each of these hobbies have highly fragmented sources of patterns in digital formats with materials that need to be purchased in brick and mortar stores. Online learning courses can also be sold using UpCraft Club's process. UpCraft Club will also begin creating a line of proprietary patterns in 2016 that will be fully owned by the company. These unique patterns will be sold alongside the patterns created by indie designers and will result in higher margins for the site.

Competitive Analysis

There is very little innovation and new technology being championed in the home sewing industry. Some examples of competitors include:

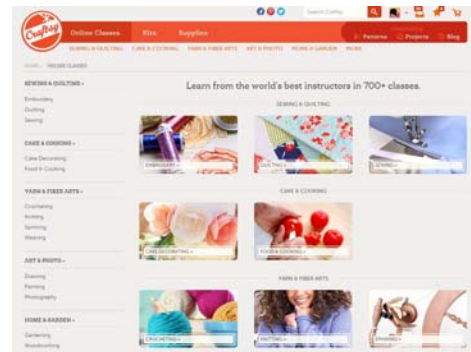
Traditional Pattern Companies: There are 3 main paper pattern companies currently selling through big box craft stores: McCall's, Simplicity, and Burda. Each of these companies own several sewing pattern brands under their umbrellas. Simplicity and McCall's have been selling patterns for 150 years and the format of their patterns is largely unchanged from the beginning of the industry. Customers find these paper patterns by visiting a fabric store, looking through a phonebook sized catalog and then going to a file cabinet to retrieve their chosen pattern (if it happens to be in stock). Paper patterns typically have a retail price between \$15 and \$25.



How UpCraft Club is different: All three of the traditional paper companies sell patterns through their websites. However only one (the German company Burda) sells digital versions of some of their patterns. Simplicity and McCall's, the current leaders in the pattern market, have no pdf patterns available for customers and a select few patterns are available online using a very outdated software program.

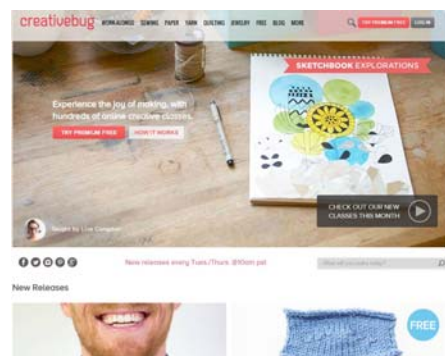
The paper pattern companies will often distribute a popular indie design under their brand in the stores, but do not offer the digital copies of those patterns. UpCraft Club sells and distributes only the digital patterns. Customers prefer these for several reasons including: there's no physical shelf space needed for storage, customers can print just the pattern pieces they need, the patterns are easily reusable in digital format, and the instructions include color images and pictures with some even having videos embedded to clearly demonstrate a technique. The styles of the digital patterns are often more up-to-date and modern compared to paper patterns. Traditional paper pattern companies are natural partners for UpCraft Club since we can digitize the patterns and sell digital copies both online and through the brick and mortar stores. This will become a necessity to the paper pattern makers as digital designs continue to grow in popularity and eat away at their market share.

Craftsy: This Denver-based startup has raised more than \$100 million and has more than 6.5 million users. They are an online learning platform for quilters, garment sewists, knitters, cake decorators, woodworkers, and more. Digital patterns are also sold on the site but they are loss leaders and Craftsy loses money every time a digital pattern is sold. (They give 100% of the sale to the designer and don't even take out payment processing fees.) Craftsy also sells fabric and craft supplies. They have some strong strategic partners like JoAnn Fabrics, but in recent months many of the Craftsy promoters (bloggers and large online influencers) are moving away from the company because of a change in affiliate commissions offered by the company effective June 1. This is a huge market opportunity for UpCraft Club!



How UpCraft Club is different: Craftsy built a robust online learning platform for videos. Their average course is over 4 hours long and costs \$49. UpCraft Club also offers some video classes but they are all 30 minutes or less and \$10. Craftsy has tested some 'video lounges' in brick and mortar retailers like JoAnn Fabrics, but patterns are never the focus and a huge investment is required by the retailer to build out the physical space. UpCraft Club's product is inexpensive to stores and focused only on patterns. Due to Craftsy's cost structure with their patterns, they cannot copy this strategy. They could, however, license UpCraft Club's patent-pending process to sell their digital classes in stores. As Craftsy grows in fabric and materials sales, they are becoming more of a competitive threat to the stores (like JoAnn Fabrics) that they have been partners with in the past.

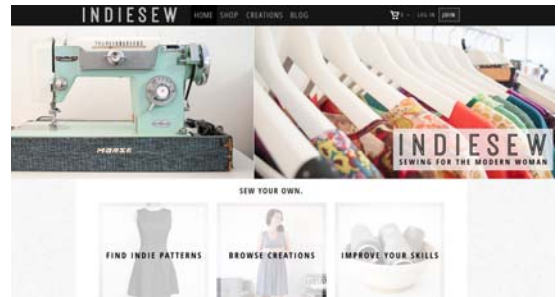
Creativebug: A membership-based craft technique video website. Creativebug was founded in San Francisco by a former media executive and offers hundreds of short video classes to members. Membership is about \$5 a month and members can view as many classes as they want. One year after starting, the company was purchased by an e-search



company for a reported amount of \$10 million. Their ownership changed hands again recently to another company in the digital media space.

How UpCraft Club is different: Creativebug does not sell digital patterns. Some of their online classes are taught by paper pattern companies like Simplicity. This is inconvenient for the Creativebug user because they can watch a technique class instantly, but have to then wait 4-5 days for a paper pattern to be mailed to them. Creativebug would be a great target for UpCraft Club's 'embedded store' technology.

[IndieSew](#): A Denver-area startup, IndieSew was created by 2 MBA students and launched in 2014. They only sell digital women's clothing and accessory patterns and in June of 2015 also began selling fabric. There are a few other pattern consignment shops like IndieSew that are narrow in focus such as Liberty Jane (selling only doll clothing patterns), and Bag of the Month Club which is a membership site selling a different bag sewing pattern each month.



How UpCraft Club is different: IndieSew limits the patterns sold to only digital women's clothing patterns and the founders have not had any desire to expand into other types of patterns. At one point they wanted to put iPads in fabric stores to help customers purchase digital patterns but don't seem to be moving in that direction. They have recently launched an online fabric shop in addition to their patterns which is seen as competition in independent fabric stores and will create a barrier for IndieSew to sell their patterns through shops. With no proprietary patterns, UpCraft Club can sell most (if not all) of the same patterns found on IndieSew.

Most pattern consignment shops online today were created by stay-at-home moms so they can earn extra income...but they were not set up to scale. UpCraft Club is uniquely positioned to lead and organize the fragmented digital sewing pattern market.

Management

UpCraft Club is an Iowa LLC. Elizabeth Caven is the founder and currently owns 100% with planned equity distribution to be defined for future employees and investors.

Elizabeth is an experienced business owner having scaled a company from 0 customers to having multi-millions in sales and 14 employees and then achieving a successful exit through sale. She began sewing as a hobby several years ago and her skills grew quickly when she discovered the world of digital sewing patterns and became connected to indie designers online. In 2013 Elizabeth began contributing to one of the largest sewing blogs on the web (The Sewing Rabbit) and after showing an example of one of her designs, requests started pouring in for her to create a similar sewing pattern. Elizabeth has since published 8 sewing patterns under her own brand (CharmingDoodle) and through a collaborative company featuring 5-7 designers from around the world called Willow & Co. Elizabeth recognized the fragmented nature of the online sewing market and saw the need for a new method of connecting customers with the hobby patterns they seek...and UpCraft Club was born.

Currently all work is being done by Elizabeth herself or through independent contract arrangements. UpCraft Club is beginning the search for 3 full time employees (in addition to Elizabeth) who will work help scale the company while still relying on independent contractors, most of whom are stay-at-home moms. Currently, there are 2 coders and more than 25 women working as independent contractors behind the scenes at UpCraft Club, being paid on deliverables such as blog posts or pattern evaluations/certifications. The three full time positions will be: CTO who codes and coordinates the efforts of needed tech contractors, Brand Positioning/Marketing who will oversee the content creation and pattern design contractors, and Sales to work with growth hacker, affiliates, and brands including the national chain stores.

Marketing

UpCraft Club's target market is English speaking women who sew, ages 27-67. They own at least one sewing machine and two digital devices (such as a computer, cell phone, or tablet) and have at least one social media account. Because of the digital nature of the patterns, the target market is not limited by geographic region or type of digital device owned by the customer.

The average customer of UpCraft Club is a 41 year old woman who sews as a hobby, and has a facebook and/or Instagram account. Half of our Members tell us they mostly prefer to sew children's clothes, with the other half preferring women's clothing, bags, or quilts.

Marketing efforts consist of affiliate promotion, paid sponsorships of sewing contests and well-known blogs, and retargeting on facebook and online ads. Affiliates provide the largest opportunity for word of mouth and bring the most traffic to the website. For example, two well-known sewing bloggers (with a combined 1.7 million pageviews per month on their blogs) promote UpCraft Club. Each blogger placed free and paid patterns on UpCraftClub.com and promote them which results in up to 100 new registered users per day coming to UpCraft Club plus customers and new paying members.

Our blog features more than 20 sewists with great photography and writing skills who create content for UpCraft Club's blog. They create sewing tutorials to bring search traffic and also share pattern reviews from items made with UpCraft Club's patterns. Fresh content gives customers a reason to check the site often and increase awareness of the brand. The blog content and images are cross-promoted on social media platforms (primarily Instagram, facebook, and Pinterest) as well as in e-newsletters.

Marketing efforts to fabric stores will begin in January of 2016 and there is already a waiting list for shops who want the products. UpCraft Club is partnering with our distributor to train their sales people to sell the UpCraft Club products and will co-create the marketing materials the stores will receive. The cost of the materials as well as participation in a trade show market booth is being paid for by the distributor. UpCraft Club will participate in several industry and customer trade shows in 2016 and will help with brand awareness and getting the rack card products into an increasing number of retailers.

Impacting the Lives of Women

UpCraft Club is making a clear and measurable impact on the lives of women around the world. Over 87% of UpCraft Club's customers are women. The high quality patterns found through UpCraft Club allow these women to create things they can be proud of. They create gorgeous quilts that will be enjoyed by generations to come. They can make clothes that fit them well and increase their confidence. They are also connected to a large community of women who support each other and share similar passions and interests.

Currently 100% of UpCraft Club's designers and affiliates are women. The majority of these women are working mothers or stay at home moms who are able to bring in additional income for their families because of UpCraft Club's unique distribution system. 93% of UpCraft Club's team is also made up of women. They also are earning money for their families while creating a nurturing and supportive environment for growth and leadership.

Summary

UpCraft Club is positioned to become the leader in digital hobby pattern sales. Beginning in the sewing industry, the customer base includes over 14,000 registered users in 80 different countries and recurring revenue increasing monthly. Customers are sticky once they begin paying because of the unique value proposition UpCraft Club offers. The crafting market as a whole is a \$100 billion dollar industry worldwide and growing and the digital products offered in the industry are fragmented and spread across the web. UpCraft Club's marketplace brings the pieces together so customers can find what they're looking for and the patent-pending process created by UpCraft Club allows a new channel of mass distribution for digital products. UpCraft Club is poised to dominate in the digital hobby space. One of the most exciting parts is helping women, the largest demographic in sewing, earn additional income for their families by selling more of their designs while helping connect customers (mostly women) with the digital sewing tools they want.

UpCraft Club, Inc. Year Summary Statements

Income Statement

	2015	2016	2017	2018	2019
Gross Merchandise Value					
Online Sales	\$14,870	\$208,450	\$465,150	\$703,750	\$1,087,450
Brick & Mortar Sales	\$18,650	\$2,436,000	\$7,879,750	\$11,738,500	\$15,592,500
Total Gross Merchandise Value	\$33,520	\$2,644,450	\$8,344,900	\$12,442,250	\$16,679,950
Revenue:					
Online Sales Revenue	\$5,140	\$107,822	\$225,389	\$353,503	\$543,785
Membership Revenue	\$20,010	\$386,818	\$1,053,767	\$1,512,664	\$1,934,721
Brick and Mortar Store Revenue	\$6,940	\$913,391	\$2,953,029	\$4,412,598	\$5,866,088
Total Revenue:	\$32,090	\$1,408,031	\$4,232,185	\$6,278,764	\$8,344,593
Cost of Goods:					
Cost of Reoccurring Revenue	\$7,752	\$136,085	\$347,824	\$489,701	\$625,619
Total Cost of Goods:	\$7,752	\$136,085	\$347,824	\$489,701	\$625,619
Gross Profit	\$24,338	\$1,271,946	\$3,884,361	\$5,789,063	\$7,718,975
Gross Profit Margin	75.8%	90.3%	91.8%	92.2%	92.5%
Marketing and Sales:					
CC Fees	\$2,520	\$116,602	\$356,437	\$527,410	\$700,614
Marketing	\$54,500	\$184,400	\$264,400	\$318,000	\$468,000
Total Marketing and Sales:	\$57,020	\$301,002	\$620,837	\$845,410	\$1,168,614
General & Admin expenses					
Reoccurring Expenses					
Payroll	\$13,300	\$121,100	\$208,650	\$306,503	\$392,448
Payroll Taxes & Benefits	\$0	\$8,664	\$22,994	\$38,363	\$53,500
Facilities and Equipment Rental:	\$0	\$0	\$36,000	\$36,000	\$36,000
Maintenance and Repairs	\$0	\$0	\$0	\$0	\$0
Utilities, Phone, Postage	\$300	\$5,400	\$9,600	\$9,600	\$9,600
Insurance	\$0	\$5,700	\$9,600	\$9,600	\$9,600
Supplies	\$200	\$1,200	\$1,200	\$1,200	\$1,200
Freight	\$0	\$0	\$0	\$0	\$0
Auto, Travel & Entertainment	\$6,800	\$25,300	\$25,000	\$28,000	\$28,000
Legal and Accounting	\$5,616	\$5,560	\$6,660	\$6,660	\$6,660
Other Outside Services	\$60	\$600	\$600	\$600	\$600
Misc, Taxes & Fees	\$0	\$0	\$0	\$0	\$0
Depreciation	\$0	\$0	\$0	\$0	\$0
Other G&A expenses	\$4,996	\$6,476	\$5,226	\$5,226	\$5,226
Start-up Expenses	\$0	\$0	\$0	\$0	\$0
Total General & Admin expenses	\$31,272	\$180,000	\$325,530	\$441,751	\$542,834
Operating Profit	-\$63,954	\$790,944	\$2,937,995	\$4,501,901	\$6,007,527
Operating Profit Margin	-199%	56%	69%	72%	72%
Non Operating Costs:					
Interest	\$0	\$0	\$0	\$0	\$0