

Rock Paper Scissors Art Kits Business Plan InnovateHER 2016



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1. EXECUTIVE SUMMARY

Rock Paper Scissors will be a Limited Liability Corporation operating in Brooklyn, New York. We are an environmentally conscious ecommerce business that sells creative and engaging art kits for children ages 4-11 with a focus on using materials which are upcycled, found in nature, or sourced from artisans. Our kits contain supplies and instructions for carefully curated art projects related to a variety of educational and imaginative play-based themes. We offer a monthly subscription service in addition to individual art kits. After an initial focus on local target market, we will scale up the business nationally.

With an annual revenue of 1.2 billion dollars, craft kits are emerging as one of the fastest growing segments of the toy industry. The consumable aspects of the kits leave the customer coming back for more and have resulted in higher than average profit margins for toy retailers and manufacturers. Rock Paper Scissors' unique aesthetic, devotion to authentic art processes, and ingenuity in delivering an eco-friendly and nature-centered experience to consumers will give us a competitive edge over the key players in the craft kit industry. Using an ecommerce sales channel hosted by Squarespace, Rock Paper Scissors will reach a broad customer base with minimal overhead costs. In addition, we are tapping into the ever growing subscription-based business model that has the potential to increase a company's value up to eight times that of a comparable business with very little recurring revenue.¹ These consumer and industry trends will allow us to achieve our goal of generating over 600 sales per month by the end of the first twelve months in business and generating \$333,000 in revenue with a net profit of close to \$90,000 in year two.

Rock Paper Scissors was founded by, Jennifer Donlin, an early childhood teacher, and Alexis Winter, a designer and stylist. As mothers with backgrounds in education and design, we share a passion for creating developmentally enriching and creative activities for our children as we face the challenges of raising them in a youth culture that emphasizes screen-based entertainment. We have seen a significant difference in our children's behavior when we spend more time engaging with them in playful and creative ways: they have longer attention spans, greater tolerance for frustration, more effective use of problem solving strategies, and calmer, happier moods. As parents, we also benefit from sharing these moments of creativity as it has a positive effect on the way we relate and respond to them, creating a more satisfying family dynamic. At the same time arts programs in schools are dwindling due to inadequate funding and a lack of awareness of the powerful benefits the arts have on a child's development. Our struggle to fill this void and find authentic hands-on ways to engage our children with limited time and resources led to the creation of Rock Paper Scissors. Through our products and services, we are committed to helping families spend more quality time together while nurturing children's creativity. Furthermore, we are passionate about bringing arts education to underserved communities through outreach, workshops, and kit gifting, because we believe that when every child is given the chance to thrive, it has a positive impact on our world.

¹ <http://www.entrepreneur.com/article/243573>

2. THE COMPANY

2.1. The Opportunity

Rock Paper Scissors has a measurable impact on women and their families by increasing family bonding and creative development. As part of the growing international trend toward sustainably conscious consumerism, the skills and talents of artisans and craftsmen are increasingly held in high regard as many are turning away from mass-produced goods in favor of handcrafted products. The Maker Movement², which "is the umbrella term for independent inventors, designers, and tinkerers," is a niche established enough to have its own magazine, *Make*, as well as a series of international "Maker Faires" that draw up to 280,000 attendees each year. With a reported 135 million U.S. adults identifying as makers, the Maker Movement, contributes \$29 billion to the world economy each year. As this trend continues to grow, American parents have strong desire to refocus their emphasis on the arts in order to nurture their children's creativity and combat the effects of a screen-oriented youth culture. The American Academy of Pediatrics³ discourages excessive screen time in young children due to its correlation with childhood obesity, irregular sleep patterns, behavioral and attention difficulties, and impaired academic performance. Although data collected by Mintel Academic⁴ shows that "nearly 9 in 10 parents agree there should be limits on children's screen time," the time constraints facing most families today make it difficult for parents to navigate the logistics of offering authentic and enriching alternatives to screen time. According to the *Family Leisure Trends* article, as "parents find arts and crafts important for their children and kids are likely getting less exposure to arts and crafts in the classroom, there is an opportunity for craft manufacturers and retailers to help fill this space by offering craft programs." The products and services offered by Rock Paper Scissors fill this need in the marketplace by bringing an arts education experience into our customer's homes.

2.3. Mission Statement

Founded on principles of social and environmental responsibility, Rock Paper Scissors designs arts and crafts kits for children that promote the development of the whole child and provide opportunities for families to bond and nurture their creativity.

2.4. Company Goals and Objectives

- Develop an ecologically sourced line of themed craft kits to be sold both individually and as a monthly subscription service through the Rock Paper Scissors website, as well as via local craft fairs, holiday markets, and community events.
- Develop a service for designing customized group kits for family events, such as birthday parties, and classroom projects.
- Establish partnerships with local organizations and studios for the purpose of hosting workshops for educators and families from a wide demographic

² <http://time.com/104210/maker-faire-maker-movement/>

³ <http://www.mayoclinic.org/healthy-lifestyle/childrens-health/in-depth/children-and-tv/art-20047952>

⁴ Mintel. (2015). *Family Leisure Trends - US - January 2015*.

Available from <http://www.mintel.com/>

2.3.1. Financial Objectives

Rock Paper Scissors will achieve an average of 10% growth in sales of individual kits and monthly subscriptions each month during the first year of business, and a 20% increase in sales each quarter thereafter. Sales for holiday kits will vary based on seasonal demand and will increase by 10% during months when holiday kits are available.

2.3.2. Marketing Objectives

Customer satisfaction is a priority for Rock Paper Scissors and we will measure our success in this area by presenting an online survey to our customers with the goal of receiving no less than 95% satisfaction rating. Additionally, we will achieve 50% participation in a customer referral service, offering incentives for satisfied customers to recommend our products.

2.3.3. Long Term Objectives

- *1-2 Year Goal:* By the end of year two Rock Paper Scissors conservatively estimates sales will reach 900 kits per month, generating a monthly revenue of \$33,000 with a focus on our local Brooklyn market.
- *3-5 Year Goal:* Rock Paper Scissors will pursue national marketing channels to increase sales and revenue by 20% each quarter and during year three the increase in sales will support the addition of staff members. By the end of year 5 the sales volume will require the acquisition of a larger office/workshop space.
- *10 Year Goal:* Rock Paper Scissors will increase ecommerce sales in key target markets in addition to offering art classes and hosting events in our permanent studio space.

3. SITUATION ANALYSIS

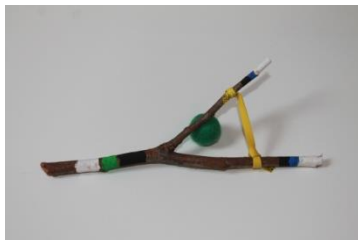
3.1. Company Analysis

3.1.1. Legal Form of Ownership

Rock Paper Scissors will operate as a Limited Liability Corporation in the State of New York and will be co-owned by Alexis Winter and Jennifer Donlin with an even 50/50 split.

3.1.2. Products

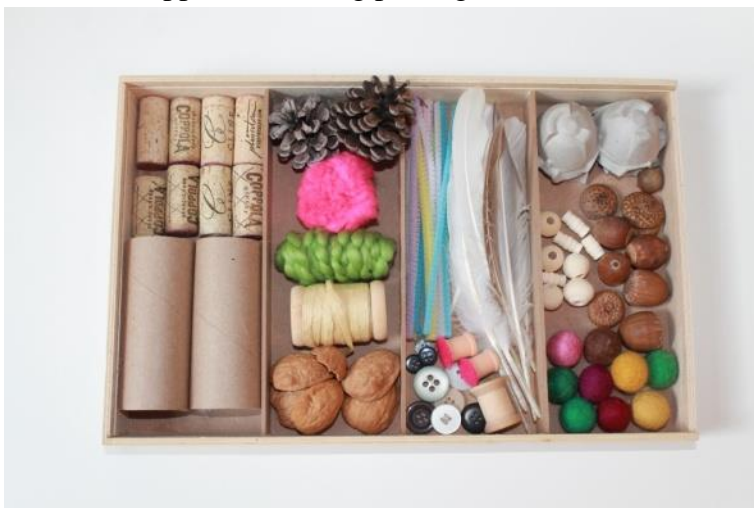
The business philosophy of Rock Paper Scissors is strongly rooted in social and environmental responsibility. This foundation is evident in our goal of bringing the Maker's Movement to underserved communities through community outreach as well as in our emphasis of using sustainably sourced, upcycled, and natural materials in our art kits. Our products are designed for children ages 4-11. By tapping into two growing markets: the home delivery business and the craft kit industry, we will stand out among our competitors by offering authentic and developmentally enriching art projects with a unique design aesthetic and an ecologically conscious approach.



Our products include:

- Individual art kits containing 4 projects with themes including fairies, heroes, vehicles, musical instruments, artist studies, and world cultures and are priced at \$36-\$54 plus shipping.
- Monthly subscription kits containing 4 seasonally inspired art projects that are automatically delivered to subscribers on the first of each month, priced at \$36 each with shipping included.
- Holiday themed kits offered seasonally, priced at \$36 each.
- Art supply kits priced at \$30 each and refill supply add-ons with prices ranging from \$2 to \$15.
- Customized group kits (for birthday parties, classroom projects, etc.), ranging in price from \$12-\$24 per child.

The materials provided in our kits are varied and include wood, cardboard, paper, fabric, felt, yarn, ribbon, felted balls, pom poms, sticks, pinecones, acorns, washi tape, and feathers. Additionally we will supply standard art supplies including paint, glue, chalk, markers, oil pastels, and crayons.



3.1.3. Products

Company Location and Facilities

When revenue reaches \$9,000 per month, as is projected after the first month of launching the website in June 2016, Rock Paper Scissors will acquire a lease for a private space at the Gowanus, Brooklyn branch of COWORK|RS⁵. The facility offers private offices of up to 700 square feet with wi-fi, reception services included for \$1000 per month. The space will be used to manage the business, store supplies, and assemble and package kits. The co-working facility provides utilities including internet service, and amenities such as delivery reception and a kitchen space.

Prior to the acquisition of office/workshop space, we, the co-owners will manage the business in our homes and utilize the 500 square foot basement space in the apartment building in which we both reside. If the growth rate of the business is slower or faster than expected, we will adjust the timeline of acquiring the office space accordingly.

3.1.4. Founders and Executive Team

As Creative Director and Director of Social Marketing and Media for Rock Paper Scissors, Alexis Winter will design the content and aesthetic of the craft kits, manage the public relations of the company, and pursue marketing channels. Alexis's experience in the crafting and design industry, coupled with her impeccable aesthetic and fluidity in navigating networking opportunities and social media outlets make her a valuable asset to the growth and success of Rock Paper Scissors. Alexis has worked as lead designer for the green card company "Two Branching Out," with designs featured on Snapfish and HP. She has worked as lead stylist on numerous shoots for HGTV, Scripps Networks, and Ulive.com. Alexis recently worked closely with a leading HGTV designer to create a series of craft tutorials and children's tablescapes, the most popular called "A Thanksgiving Table They'll Want to Sit At," garnering over 500,000 views.

As Director of Operations and Product Development Manager for Rock Paper Scissors, Jennifer Donlin will manage the administrative aspects of running the business and contribute to the development and design of the craft kits. Her strong organizational skills and her knowledge of child development make her an asset to the business. Jennifer has a Master's Degree in Special Education and has worked in early childhood and elementary school settings for 8 years. She was inspired by the impact creative expression had on her students' social and academic growth and developed a passion for designing art experiences that support all academic and developmental domains. Additionally, Jennifer has owned an Etsy shop since 2013, selling handmade toys and costumes for children on the most prominent ecommerce marketplace for artisans and craftsmen.

Both founders of Rock Paper Scissors grew up with an appreciation for creative expression instilled in them by their families; Alexis's mother was an artist, designer, and entrepreneur, and Jennifer's grandmother was an artisan and owner of a craft supply shop. We are both grateful for the ways in which our artistic foundations have shaped our lifestyles and our approach to parenting.

⁵ <http://www.cowork.rs/spaces/>

We have seen firsthand that making art and crafting are valuable ways to relieve stress and bond with our children and we have high standards for the aesthetic and authenticity of the creative projects we choose for our families.

3.1.5. Professional Support and Advisors

- Erica Coleman, Legal Program Director at Start Small Think Big
- Craig Bergmann, Legal Associate of Fried, Frank, Harris, Shriver, & Jacobson LLP
- Chuka Ugwu-Oju, Legal Associate at Morgan Lewis & Bockius LLP
- Delia Awusi, WBC Director, Business Outreach Center Inc.
- Courtney Ebner and Avi Kravitz, Co-Owners of local toy boutique, Norman and Jules
- Joanna Tallantire, BID Outreach, former owner of birthday party kit business
- Christophe Le Gorju, Industrial Account Manager, Business Outreach Center Inc.

3.1.6. Employee Recruitment and Compensation

Prior to the launch of Rock Paper Scissors, the co-owners will share the responsibilities of managing the business and designing and assembling the kits. When monthly revenue reaches \$1,000, as is predicted by month 6, we will hire a part-time employee to assist with administrative duties, customer service, ordering supplies, preparing materials, assembling kits, and shipping orders. We will then hire an additional employee when sales exceed 1,500 units per month, which is projected to occur in the third year of business. We will look to employ other mothers who are seeking a non-traditional work schedule in order to be available for their children. We will offer our employees flexible scheduling options during the hours their children are in school as well as the opportunity to work from home.

During months three through twelve of the first year in business, the Owner's Draw will be 50% (25% each) of the net profits, with 50% of the net profits remaining in the business to further its growth. Beginning in the second fiscal year, and every year thereafter, the Owner's Draw will increase to 66% (33% each) of the net profits with 34% of the net profits remaining in the business.

Based on the New York City Living Wage Guidelines, the beginning hourly wage for part-time employees will be \$20 per hour with 10 days of paid sick leave and 10 days of paid vacation per year. As mothers we understand the challenges of balancing the responsibilities of family life with the demands of a workplace. By offering flexible work schedules and generous paid leave policies, we are communicating to our employees that we understand that taking care of their family should not interfere with their ability to earn a living. We are committed to operating a socially responsible business that compensates our employees fairly.

3.1.7. Contingency Strategy

The owners of Rock Paper Scissors share an understanding of the fluidity of our roles and responsibilities of running the business. Should illness or a family emergency arise, the other partner is prepared to shoulder more of the responsibility during that time. For extended circumstances, Rock Paper Scissors will increase the hours for part-time workers or hire temporary staff as needed, deducting money from the total Owner's Draw to cover the cost.

In the event one of the business partners wants to leave the business, the remaining partner will buy out the other's share of the business.

If the sales of the business are not as high as expected, we will invest additional funds into wider marketing channels. We will create financial incentives for enrolling in our monthly subscription service that will provide discounts for longer subscription commitments. In addition, we will increase our physical presence by reaching out to retailers in our community and sell our products wholesale to local shops.

3.2. Context

Political: In our schools today we are seeing the emphasis move away from the arts in favor of a more traditional academic curriculum. The U.S. Department of Education's *Arts in Education*⁶ program saw a 37% cut in funding from 2010 to 2015. The Center for Arts Education⁷ explains that "though many city schools provide a world-class arts education, others provide little if any at all. Budget constraints, space considerations, and an emphasis on high-stakes testing have made it increasingly difficult for even those principals who understand the value of arts education to provide the instruction required under state education law." For example, "Philadelphia schools helped to bridge a \$304 million budget shortfall in 2013 by eliminating art and music programs."⁸ Furthermore, this issue began in the 1960's with educational legislation that put an emphasis for funding on math and reading scores. The result is that the individuals who are now parents and teachers were educated in an era that did not emphasize proficiency in the arts and might not have inclinations toward engaging children creatively. Our crafts kits are designed to nurture the creative expression and fill the void left by inadequate arts education experiences for children and their caregivers.

Social: There is overwhelming evidence that demonstrates the positive impact art has on a child's development. The vast list of benefits includes developing creativity and imagination, problems solving skills, language and non-verbal communication, critical thinking skills, visual spatial skills, fine motor skills, and increasing confidence, self-esteem, perseverance, and cultural awareness. A study from Stanford⁹ found that children from underserved communities who participated in non-school-based arts programs were three to four times more likely to earn academic achievement and attendance awards, three to four times more likely to participate in math or science fairs, and eight times more likely to earn a community service award. It's important to note that these art programs are non-school based, indicating that the arts programs offered in schools are not adequate in furthering the social and academic development of these children. Rock Paper Scissors will fill that need in our community by using a portion of our profits to bring the Maker Movement to educators and students in under resourced schools through workshops and outreach. We understand that "arts education is no longer just about finger

⁶ <http://www.americansforthearts.org/by-program/reports-and-data/legislation-policy/legislative-issue-center/arts-education-policy-and-funding>

⁷ <http://centerforartsed.org/resources/key-issues-arts-education>

⁸ Mintel. (2015). *Arts and Crafts Consumer - US - January 2015*.

Available from <http://www.mintel.com/>

⁹ http://childdevelopmentinfo.com/learning/multiple_intelligences/the-importance-of-the-creative-arts-for-children-and-teens/

painting," rather, it is about giving children the "hands-on skills they will need to compete in today's marketplace, one that increasingly values creativity, working together, and a capacity to bring big projects to life."¹⁰

Economic: The *Arts and Crafts Consumer* report explains that "after surging during the recession, arts and crafts participation has remained relatively steady over the five years from 2009-14 at about one quarter of the population participating." There was a renewed interest in arts and crafts as "the economic downturn spurred a variety of attitudinal and behavioral shifts; a 'back to basics' mentality along with frugality and a focus on self-improvement were among the consumer trends observed." The report notes that these "recession activities" have shown staying power even after economic growth returned and consumer confidence increased. In addition, this study found that families from "higher household income brackets (100K+) are more likely to have engaged in crafts in a non-school related activity than those from households earning less." Rock Paper Scissors will benefit from the renewed national interest in crafting while bringing arts enrichment opportunities to the underserved segments of the population by creating a kit gifting program for low income families.

Technology: Operating as an ecommerce business will allow us to reach a wider customer base with lower overhead costs than a brick and mortar company. We will utilize social media outlets and online communities such as Pinterest, Facebook, and Instagram for advertising and building our brand. *Arts and Crafts Consumer* notes that "Pinterest has been a fruitful platform for arts and crafts experts and retailers. The arts and crafts retailers have robust Pinterest profiles as a part of their marketing strategies [as it allows them] to better understand the interests and aspirations of consumers."

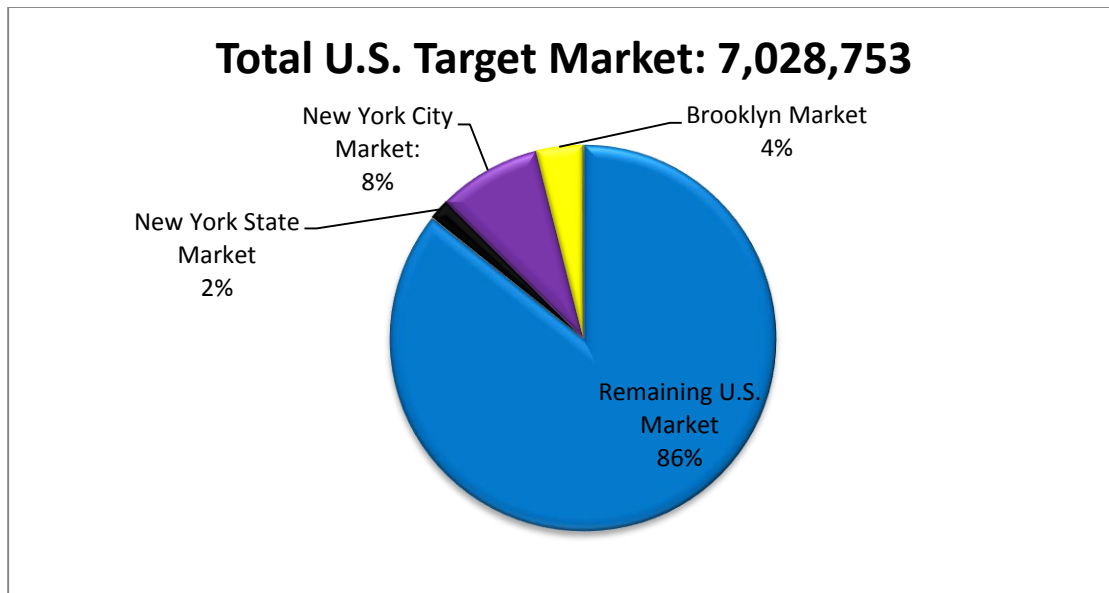
3.3. Market Analysis

Rock Paper Scissors designs products and services for children ages 4-11. Our target audience is primarily comprised of middle to upper middle class families. They are educated, progressive, and ethnically diverse with a median household income between 56,000 to 78,000¹¹. They shop at the Gap and Whole Foods and drive Audis and Volkswagens. They listen to NPR and frequent museums, read National Geographic, and vacation in natural settings such as Maine and upstate New York.

Mintel's *Family Leisure Trends* report stated "more than 80 million households or about two thirds of all households in the US" are families with children, with a total of 32 million children ages 4-11. With over 7 million families in our primary target market, the majority of our target market resides in urban areas while 28% live in rural and suburban settings.

¹⁰ <http://centerforartsed.org/action-center>

¹¹ SimplyMap (2015) Nielsen Prizm, retrieved November 21, 2015 from SimplyMap database



3.4. Industry Analysis and Trends

A Wall Street Journal¹² article from April 2014 declared that “craft kits are emerging at the center of the traditional toy industry’s plans for future growth.” They report that according to the NDP group, arts and crafts kits are the second fastest growing sector of the toy industry with a 14% increase in sales in 2013 and a revenue totaling \$1.2 billion dollars. For parents, the appeal of the self-contained kits is a “productive form of independent play” without the use of electronics. Toy companies love the consumable aspects of craft kits because once the project is completed it’s used up and the consumer has to go back for more, unlike traditional toys which have longevity and can be passed down from child to child, and even family to family. Unlike most of the consumable craft kits on the market today, our kits primarily incorporate eco-friendly materials that are either already upcycled, are recyclable, or come from nature and are biodegradable. Retailers and manufacturers have benefited from the craft kit trend, as a toy industry analyst estimates that these companies are collecting a 50% profit margin on these products, compared to the 30% to 45% earned on most other toys. In the wake of the success of leading craft kit manufacturers such as Melissa and Doug, big players in the toy industry, including Play-Doh, Crayola, and Hasbro are adding craft kits to their product lines. In July 2013, the industry's leading glue manufacturer, Elmer's, "released a TV ad titled "Lets Bond" which encourages families to bond over art projects. Elmer's ad shows parents (mostly mothers) doing projects with children as opposed to children working alone or with other children."¹³

This demonstrates the industry's awareness of growing market for family crafting products.

Additionally, the need to maximize one’s consumer experience with minimal investment of time is evident in the burgeoning home delivery industry. The range of home delivery and monthly subscription businesses is astonishing: snacks, beauty products, high-end fashion, even a

¹² <http://www.wsj.com/articles/SB10001424052702304512504579491760552111276>

¹³ Mintel. (2015). *Arts and Crafts Consumer - US - January 2015*.

Available from <http://www.mintel.com/>

razor-of-the-month club. Entrepreneur.com explains that as "consumer buying habits are trending toward more simple and hassle-free shopping experiences, more and more companies are jumping into the subscription space and seeing incredible growth." They report the following benefits to customers and companies:

- simplicity in making purchasing decisions
- removes the hassle of searching website or visiting a store
- flat rate subscription pricing help customers stay within budget
- companies can predict revenue through recurring sales
- companies can more easily predict cash flow and manage inventory

It is clear there is a strong desire to keep abreast of current trends and new products without spending too much time online and in lines. The *Family Leisure Trends* report describes that as "Americans' obsession with work/life balance is apparent... companies can assist consumers in their never ending quest to save time. It states that parents "will likely be drawn to products and services that promote convenience and time saving abilities" while stressing that the end result should not feel halfhearted or inauthentic. The business model and product design of Rock Paper Scissors is aligned with these consumer trends.

3.4.1. Competition Strengths and Weaknesses

Rock Paper Scissors has designed a product line that emphasizes the artistic process and carries an unparalleled aesthetic. Our kits allow children and caregivers to produce products that are both beautiful and functional. Rather than creating another sub-par, prescribed art piece to tack up on the refrigerator, our customers will end up with lovely toys that will inspire imaginative play and social interaction.

The mass produced kits available on the market today alleviate the chore of collecting supplies while providing a clear goal that the child can execute independently, however, the vast majority of these products are cookie cutter projects with little or no room for true artistic expression and creative development. The "paint-by numbers" format that dominates the vast majority of craft kits available on the market today is fine for a busy mom looking for a screen-free solution to free up some of her time so she can get things done around the house. However, our customer is looking for something more. The demographic we serve understands that authentic artistic expression is an essential part of a child's development and wants to engage their children in projects that have developmental value. After seeing what the competition has to offer, we at Rock Paper Scissors have found that creating truly enriching and inspiring projects for children is sadly becoming a lost art.

One of the leading ecommerce craft kit businesses is Kiwi Crate, which also provides monthly subscriptions. Upon looking inside their crates, we were instantly disappointed by the cookie-cutter projects, unappealing aesthetic, and outdated themes. Another company with a vision that is more comparable to ours is Green Kid Crafts, which provides a low-cost monthly project subscription service as well as a variety of individual kits. However, their main emphasis is in the STEM (science, technology, engineering, and math) areas with art being a secondary component of their product line. One of the most prominent companies producing craft kits on the market today is Melissa and Doug. Although they do not provide a subscription service, they are a major

player in the craft industry with an extensive line of kits available through online retailers and toy stores across the nation. However, their mass market design, excessive packaging, and prescribed, closed-ended projects leave much to be desired.

In addition to an aesthetic that parents can be proud to display in their homes, our commitment to sustainability sets us apart from our competition. The ecological nightmare that ensues upon opening one of the many craft boxes on the market today makes us cringe. As the kits are designed to survive the perils of mass production and distribution, there is always a pile of packaging to contend with. The nature of the self-contained craft kit requires it to provide all the supplies necessary to complete the project, leading to a great collection of tiny plastic glue tubes and those infamous rows of tiny plastic paint pots. A craft project that takes 30 minutes to complete and results in a pile of plastic and cardboard to discard does not align with the values of our target market. To address this issue, standard supplies such as glue and paint will not be included in each individual kit. Our customers will be able to replenish their home supply of these materials by purchasing add-on supplies through the Rock Paper Scissors website.

SWOT Analysis	
<p><i>Internal Strengths</i></p> <ul style="list-style-type: none"> • High quality products with a hand-crafted aesthetic • Focus on natural materials and up-cycling • Co-owners are mothers to children in target market • Early childhood education and craft design experience • Affordable pricing • Environmentally and socially conscious • Consumable 	<p><i>Internal Weaknesses</i></p> <ul style="list-style-type: none"> • First-time business owners • Challenges in rate of production and maintaining inventory • Technological challenges related to ecommerce format
<p><i>External Opportunities</i></p> <ul style="list-style-type: none"> • Growing niche market of consumers supporting the Maker's Movement • Increasing demand for green products • Competitors offer uninspiring kits with excessive packaging • Growing trend in monthly subscription services 	<p><i>External Threats</i></p> <ul style="list-style-type: none"> • Companies that mass produce similar products with lower price points • Loyalty to established craft kit businesses • Social media outlets motivating consumers to "Do It Yourself"

Competitive Analysis

<i>Benefit to Consumers</i>	<i>Rock Paper Scissors</i>	<i>Green Kid Crafts</i>	<i>Kiwi Crate</i>	<i>Melissa and Doug</i>
Natural, recycled, and sustainable materials.	✓			
Reduces wasteful material in content and packaging.	✓	✓		
Authentic art processes.	✓			
Educational value.	✓	✓	✓	
Produce durable toys that facilitate creative play.	✓			
Superior aesthetic value.	✓			
Large corporation that outsources production to maximize profits.			✓	✓
Monthly subscription service.	✓	✓	✓	
Sold in stores nationwide.				✓
Customizable art kit service for birthday parties and educators.	✓			
Interactive website for educating consumers and sharing inspirations.	✓			
Expands arts education opportunities for children in underserved communities.	✓			
Pricing	\$30- \$54 (4+ projects)	\$19.95- \$74.95 (4+ projects)	\$16.95- \$19.95 (3-4 projects)	\$4.99-\$19.99 (1 project)

4. OPERATIONS

4.1. Sourcing

As a business that designs kits, our products are essentially a conglomeration of supplies and materials that will be sourced from a wide array of suppliers in the arts and crafts industry. One art project can require as many as a dozen different supplies from a wide range of sources, and this is a significant hindrance for many parents who want to offer crafting activities to their children. We do all the legwork, allowing parents to relax and enjoy some stress-free quality time with their children. Our sources for materials will include:

- Local artisans and Etsy sellers
- Art Supply Companies including Creatology and Sargent's
- Objects gathered from nature and recycled or repurposed items

4.2. Assembly, Production, and Scalability

For our individual kits we will create an itemized list of the components of each kit, and order the supplies needed to assemble kits based on customer demand.

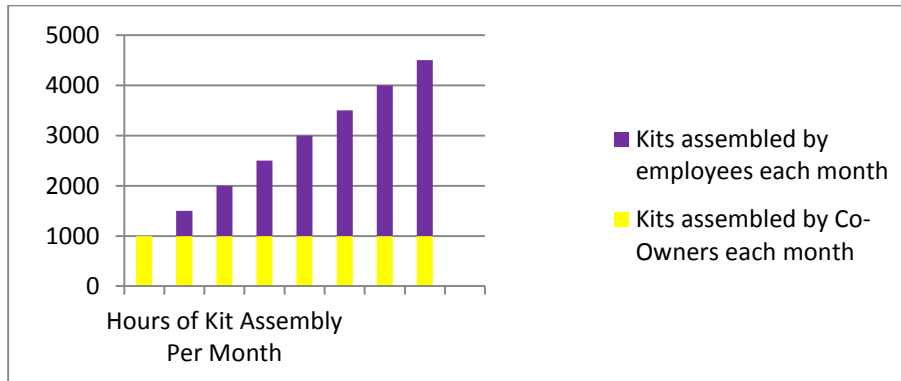
The production timeline for the monthly subscription service is as follows:

- Orders placed by the first of each month will be scheduled for delivery on the first of the following month. Customers will have the option to order month-by-month or sign up for an automatic shipment.
- Materials needed to assemble kits will be received by the 15th of each month.
- Kits will be assembled and shipped by the 25th of each month.

The production capability of the co-owners is 1,000 kits per month (500 kits each). An employee working 20 hours a week can produce 500 kits per month. Breakdown of time required per 100 kits:

- 4 hours procuring materials
- 2 hours prepping and organizing materials
- 8 hours assembling kits
- 1 hour labeling and shipping
- 1 hour of customer service

Rock Paper Scissors Production Capability:



During the first two years the production will be managed by the owners and one staff member. At the beginning of the third year we project that the sales volume will exceed 1,500 units sold per month and we will hire an additional employee. As the volume of orders increases by 500 kits per month, we will take on an additional part time employee or change a current part-time employee to full-time status. When the volume of orders reaches 3,000 orders per month Rock Paper Scissors will require a larger office/workshop space and will move to a location with a minimum of 1,000 square feet.

5. MARKETING MIX

5.1. Products

The products and services offered by Rock Paper Scissors provide the following benefits to our customers:

- Authentic art experiences which are open-ended, encourage exploration and choice, and promote the development of the whole child.
- Opportunities for parents to engage in playful and creative activities with their children.
- Screen-free activities for engaging children that bridge the gap left by the lack of arts education programs in schools today.
- Opportunities to bring the Maker's Movement to under-served communities through workshops and a kit gifting program.
- Practical solutions that reduce the environmental impact of the packaging and content of our kits.
- A platform for educating the consumer about the importance of art in a child's development.

5.2. Place

Through our ecommerce website, Rock Paper Scissors will provide an online community that will share inspirations for creating an artful lifestyle.

5.3. Price

Our pricing strategy is based on a 200% mark-up of the cost of supplies. Based on an analysis of the projected percentage of sales for each type of kit from a range of price points, as well as factoring in the sale of general supplies added on to kit orders, the average revenue generated from each sale is determined to be \$36. For individual and holiday kits, the cost of supplies is one third of the price of the kit (i.e. we spend \$12 on supplies and charge the consumer \$36 plus shipping). Shipping for individual and holiday kits varies based on the contents of the kit as well as the addition of add-on supplies to the order and will be an added charge for the customer. Shipping is included in the price of the monthly subscription kits which are priced at \$36 per month. The cost of supplies for the monthly kits will average \$11 each which is marked up to \$33 and added to the shipping cost which averages \$3.00 per kit, to arrive at the \$36 price point.

5.4. Customers

Our customer profile:

- Middle to upper-middle class
- Shop at gourmet markets and high-end children's boutiques
- Support companies that are socially responsible and ecologically conscious
- Appreciate the value of early childhood experiences that encourage exploration, play, and nurture creativity

The customers of Rock Paper Scissors believe that where they spend their money is an expression of their personal value system. They are willing to pay more for handcrafted items because it represents their support of the Maker Movement that values ethically sourced products. The families in our target market are paying an average of \$30 for one drop-in art class for their children and exorbitant tuition rates to enroll their children in Waldorf, Reggio Emilia, and Montessori

schools, whose philosophies are aligned with ours, thus proving that our products will be marketable within our target demographic.

5.5. Promotion

5.5.1. Promotion and Advertising Strategy

Promoting:

- In January 2016, 6 months prior to launching the website, we will begin a crowd funding campaign through Indiegogo¹⁴ to generate a buzz around our upcoming products and services in order to reach our goal of selling 250 kits in the first month our website is live
- Purchasing advertising space in local publications such as The Brooklyn Reader, Park Slope Reader, and Sweet Paul Magazine
- Purchasing an advertising package on Facebook
- Offering promotional discounts for each referral a customer makes through word of mouth
- Distributing promotional cards to local businesses and community spaces
- Offering promotional gifts to customers such as tote bags printed with our logo

Networking:

- Creating referral programs with other crafters, bloggers, and artisans
- Attending craft fairs
- Establishing relationships with local arts education studios

Public Relations:

- Creating press kits and sending them to a select list of influential crafting and lifestyle bloggers with followings ranging from 55,000 to 271,000
- Hosting arts education workshops

5.5.2. Imaging and Packaging

Rock Paper Scissors is committed to maintaining an eco-friendly and socially responsible business model.

Our environmental impact:

- Recycled and biodegradable packaging
- Sustainably sourced and natural materials
- Pursuing B Corp¹⁵ certification which will demonstrate that we have met "rigorous standards of social and environmental performance, accountability, and transparency"
- Joining 1% For the Planet¹⁶ in year two, an alliance of businesses that donate portions of their profits to non-profit organizations working toward environmental and sustainability goals

Our social impact:

¹⁴ <https://www.indiegogo.com/>

¹⁵ <https://www.bcorporation.net/>

¹⁶ <http://onepercentfortheplanet.org/?gclid=CLvZ--Pdu8kCFU6QHwodTLMCSA>

- Forming partnerships with ArtStart¹⁷ and Teaching Beyond the Square¹⁸, organizations that provide arts education workshops to teachers and children in underserved communities
- Kit gifting program for children from low-income families

Our products will be delivered to our customers through the United States Postal Service. To minimize the impact our packaging has on the environment, we have chosen to purchase our packaging from Ecoenclose¹⁹, a green company that offers earth-friendly shipping products including boxes and plastic bags made from 100% recycled materials, biodegradable alternatives to bubble wrap, and eco-friendly packing tape made with renewable plant-based adhesive. We will use Plan It Green²⁰, a company that uses soy-based inks and 100% recycled and tree-free papers for printing instructional and promotional materials.

5.6. Sales Channels and Distribution

Our products and services will be distributed through:

- Direct Retail through the Rock Paper Scissors ecommerce website
- Direct Retail at craft fairs and markets
- Hosting local craft parties and workshops

6. FINANCIAL PROJECTIONS

6.1. Start-Up Funding and Expenses

Sources of Cash	
Personal Cash (\$1,000 from each Co-Owner)	\$2,000
Contributions from Friends and Family (Crowdfunding through Indiegogo)	\$2,000
Grants and Investments	\$40,000
Total Cash Raised	\$44,000

¹⁷<http://www.art-start.org/>

¹⁸ <http://www.teachingbeyondthesquare.org/>

¹⁹ <https://www.ecoenclose.com/>

²⁰ <http://planitgreenprinting.com/>

Start-up Costs			
One-Time Expenses		Set-Up Expenses (On-going)	
Advertising (Pre-launch)	\$5,000	Accountant	\$250
Furniture/Storage	1,000	Annual Website Fee	300
Equipment/Supplies	10,000	Annual Business Insurance	\$1,000
Business Registration Applications (LLC, Trademark, Copyright)	1,300	Beginning Product Inventory for 1st Three Months of Sales (Covers cost of Supplies, packaging, and credit card fees)	\$13,000
Website Design	1,200	Subtotal of Set-Up Expenses	\$14,550
Logo Design and Branding	750	Subtotal of One-Time and Set-Up Expenses	\$34,300
Utility Set-up (Phone)	500	Unanticipated Costs (10% of Subtotal)	3,430
Subtotal	\$19,750	Total Start-Up Costs	\$37,730
Total Cash Balance (Working Capital): \$6,270			

6.2. Year One Cash Flow

Notes and Assumptions

- Ecommerce website will launch July 1, 2016.
- Revenue for July and August: 75% Individual kits, 25% Monthly Subscription.
- Revenue for September - December: 60% Individual Kits, 30% Monthly Subscription, 10% Holiday Kits.
- Revenue from each category of kits increases by 10% each month.
- Cost of Supplies for kits calculated at 33% of the total sales.
- Packaging cost based on calculating shipping needs for each kind of kit with large boxes at \$2.12 each and small boxes at \$1.39 each, in addition to bags for loose materials. The average cost per unit for packaging was 5% of the total price of the total sales.
- Credit card fees are calculated based on Squarespace's ecommerce formula of \$0.30 per sale and 2.9% of the sale. For our average price point of \$36 per sale, the credit card fee was an average of 3.7% of the total sales.
- Bank Service fees are \$0 as the business qualifies for a free business checking account with Chase bank.
- Accountant fees are based on a \$250 quarterly rate for filing estimated taxes and a \$700 fee for processing the tax return for an LLC.
- Employee wages are based on paying one part time employee \$20/hr for a 20 hr work week with 2 weeks paid vacation and 2 weeks paid sick leave beginning in month 6.
- The Owner's Draw from July-December is 50% of the net profit (25% for each owner).

INNOVATEHER YEAR 1 CASH FLOW STATEMENT

ROCK PAPER SCISSORS ART KITS: 2016

Rock Paper Scissors	May	June	July	August	September	October	November	December	YEAR 1	%
InnovateHER 2016 Year One Cash Flow Statement										
BEGINNING CASH BALANCE	44,000	22,500	22,300	24,459	26,378	28,809	31,716	33,692	44,000	
SALES & REVENUES (kits average \$36 each)										
Individual Craft Kits	0	0	6,750	7,425	8,167	8,984	9,883	10,871	52,080	69.4%
Monthly Subscription Craft Kits	0	0	2,250	2,475	2,723	2,995	3,294	3,624	17,361	23.1%
Holiday Craft Kits	0	0	0	0	1,210	1,331	1,464	1,610	5,615	8.1%
TOTAL SALES	0	0	9,000	9,900	12,100	13,310	14,641	16,105	75,056	100.0%
COST OF GOODS SOLD										
Supplies for Kits	0	0	3,000	3,300	4,034	4,437	4,880	5,368	25,019	79.3%
Packaging	0	0	450	495	605	667	732	805	3,754	11.9%
Credit Card Fees			333	367	448	492	542	596	2,778	8.8%
TOTAL COST OF SALES	0	0	3,783	4,162	5,087	5,596	6,154	6,769	31,551	100.0%
GROSS PROFIT	0	0	5,217	5,738	7,013	7,714	8,487	9,336	43,505	
GENERAL & ADMINISTRATION										
One Time Costs (See Start-Up Worksheet)	19,750	0	0	0	0	0	0	0	19,750	53.8%
Bank Service Fees	0	0	0	0	0	0	0	0	0	0.0%
Advertising	0	0	300	300	300	300	300	300	1,800	4.9%
Business Insurance	1,000	0	0	0	0	0	0	0	1,000	2.7%
Accountant Fees	250	0	0	0	250	0	0	250	750	2.0%
Squarespace Annual Fee	300	0	0	0	0	0	0	0	300	0.8%
Phone and Internet Service	200	200	200	200	200	200	200	200	1,600	4.4%
Rent for Office/Workshop Space	0	0	0	1,000	1,000	1,000	1,000	1,000	5,000	13.6%
Employee Wages	0	0	0	0	0	0	2,000	2,000	4,000	10.9%
Office Supplies/Equipment	0	0	150	150	150	150	200	200	1,000	2.7%
Website Design and Maintenance	0	0	250	250	250	250	250	250	1,500	4.1%
TOTAL GENERAL & ADMINISTRATIVE	21,500	200	900	1,900	2,150	1,900	3,950	4,200	36,700	100.0%
CASH PROFIT	(21,500)	(200)	4,317	3,838	4,863	5,814	4,537	5,136	6,805	
PRE-TAX PROFIT	(21,500)	(200)	4,317	3,838	4,863	5,814	4,537	5,136	6,805	
Cumulative loss		(21,700)	(17,383)	(13,545)	(8,683)	(2,869)	1,669			
Less: Business Taxes @ 35%	0	0	0	0	0	0	584	1,798	2,382	
NET PROFIT	(21,500)	(200)	4,317	3,838	4,863	5,814	3,953	3,338	4,423	
Less: Owner's Draw	0	0	2,159	1,919	2,431	2,907	1,977	1,669	13,062	
NET CASH FLOW	(21,500)	(200)	2,159	1,919	2,431	2,907	1,977	1,669	(8,638)	
Break-Even Sales	21,500	200	6,842	7,981	9,668	10,403	12,665	14,436	83,694	
ENDING CASH BALANCE	22,500	22,300	24,459	26,378	28,809	31,716	33,692	35,362	35,362	ending cash balance yr 1
Seasonality	0.0%	0.0%	12.0%	13.2%	16.1%	17.7%	19.5%	21.5%	100.0%	

6.3. Year Two Cash Flow

Notes and Assumptions

- Revenue increases by 10% each month from January- April.
- Sales of holiday kits in January decrease by 10% from the preceding month and do not increase in the following month due to the seasonal decrease in demand.
- Revenue for Individual Kits and Monthly Subscription Kits increases 20% each quarter from May-Dec.

- Holiday kits are not available May-July and resume in September with a 20% increase each quarter.
- The last quarter of the calendar year is a partial quarter with only two months of revenue and expenses.
- The Owner's Draw from January- April is 50% of the net profit (25% for each owner.) The Owner's Draw from May-December is 66% of the net profit (33% for each owner.)

INNOVATEHER YEAR2 CASH FLOW STATEMENT									
ROCK PAPER SCISSORS ART KITS: 2017									
	January	February	March	April	May-July	Aug-Oct	Nov-Dec	YEAR 2	%
BEGINNING CASH BALANCE	35,362	37,335	39,589	41,973	44,972	51,435	60,921	35,362	
SALES & REVENUES									
Individual Craft Kits	11,958	13,154	14,470	15,917	57,301	68,761	55,000	236,561	71.0%
Monthly Subscription Craft Kits	3,986	4,385	4,823	5,305	19,098	22,918	18,333	78,848	23.7%
Holiday Kits	1,450	1,450	1,595	1,755	0	6,318	5,054	17,622	2.8%
TOTAL SALES	17,394	18,989	20,888	22,977	76,399	97,997	78,387	333,031	100.0%
COST OF GOODS SOLD									
Supplies for Kits	5,797	6,329	6,962	7,658	25,464	32,662	26,126	110,998	79.3%
Packaging	870	950	1,044	1,149	3,820	4,900	3,919	16,652	11.9%
Credit Card Fees	644	703	773	850	2,827	3,626	2,900	12,323	8.8%
TOTAL COST OF SALES	7,311	7,982	8,779	9,657	32,111	41,188	32,945	139,973	100.0%
GROSS PROFIT	10,083	11,007	12,109	13,320	44,288	56,809	45,442	193,058	
GENERAL & ADMINISTRATION									
Bank Service Fees	0	0	0	0	0	0	0	0	0.0%
Advertising	300	300	300	300	1,500	1,500	1,000	5,200	9.6%
Business Insurance	0	0	0	0	1,000	0	0	1,000	1.9%
Accountant Fees	0	0	700	0	250	250	250	1,450	2.7%
Squarespace Annual Fee	0	0	0	0	300	0	0	300	0.6%
Phone and Internet Service	200	200	200	200	600	600	400	2,400	4.5%
Rent for Office/Workshop Space	1,000	1,000	1,000	1,000	3,000	3,000	2,000	12,000	22.3%
Employee Wages	2,000	2,000	2,000	2,000	6,000	6,000	4,000	24,000	44.5%
Office Supplies/Equipment	200	250	250	250	750	750	500	2,950	5.5%
Website Design and Maintenance	250	250	250	250	750	750	500	3,000	5.6%
Hosting Free Workshops					600	600	400	1,600	3.0%
TOTAL GENERAL & ADMINISTRATIVE	3,950	4,000	4,700	4,000	14,750	13,450	9,050	53,900	100.0%
CASH PROFIT	6,133	7,007	7,409	9,320	29,538	43,359	36,392	139,158	
1% for the Planet Contribution	61	70	74	93	295	434	364	1,392	
PRE-TAX PROFIT	6,072	6,937	7,335	9,227	29,243	42,925	36,028	137,767	
Less: Business Taxes @ 35%	2,125	2,428	2,567	3,229	10,235	15,024	12,610	48,218	
NET PROFIT	3,947	4,509	4,768	5,998	19,008	27,901	23,418	89,549	
Less: Owner's Draw	1,973	2,255	2,384	2,999	12,545	18,415	15,456	56,026	
NET CASH FLOW	1,973	2,255	2,384	2,999	6,463	9,486	7,962	33,522	
Break-Even Sales	15,360	16,664	18,430	19,885	69,641	88,076	70,061	298,118	
ENDING CASH BALANCE	37,335	39,589	41,973	44,972	51,435	60,921	68,883	68,884	
Seasonality	22.8%	24.9%	27.3%	30.1%	22.9%	29.4%	23.5%	75.9%	