

Graffiti
Proudly Presents
the

Sit^{up}



Company: Graffiti
Country: Israel
Year: 2014-2015
Business advisor: Ofer Paz



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1 Executive Summary

1.1 Company Name: Graffiti

1.2 Our Vision

Our company's vision is to develop a meaningful product, which will provide a solution to an existing need for wide market need, and, at the same time, will create significant revenues to the company, leading it to profitability.

Our company was founded out of passion to discover and unfold the great potential existing in each one of us. We wish our success will serve as an inspiration to everyone, specifically teenagers like us, and will motivate them to experiment and succeed.

1.3 Our Values

Entrepreneurship – Every member in the company initiates ideas and tasks that will contribute to the growth and progress of the company, and takes part in various roles and tasks.

Discovery and Learning – Our work is done out of curiosity and constant desire for discovery and learning about the business world.

Excellence and Creativity – Striving for excellence and constant improvement.

Experimentation – Discovering the great potential that exists in each one of us, and acquiring the tools we will need in the future.

Contribution to the Community – Attention to the needs of the community & social responsibility.

1.4 The Product: “Sit-Up” – A Safety Harness for Carrying Children on Your Shoulders

Most children carrying products were designed for babies. We designed a product that makes it possible to carry young children (ages 2-7) on the shoulders safely, leaving the adult's hands free. The “**Sit-Up**” is a harness that can be worn easily and comfortably. It is easily stored and carried, taking almost no space at all. The product features two Velcro straps securely fastening the child's legs, underneath the knees. It can be adjusted according to size, made of strong durable and high-quality materials providing maximum safety to the child, and peace of mind to the parents.

1.5 Summary of the Financial Results

- ❖ Company Gross Income: €4,891.00
- ❖ Company Gross revenues from product sales: €2,466.00
- ❖ Expenses (before tax): €2,012.00
- ❖ Net profit and inventory value: €2,150.00

1.6 Summary of Company Performance in the First Year

During the first year, we were exposed to the business world; we designed a complex product of high quality, on a non-compromising professional level. We are selling it at an affordable price, while maintaining profitability and this is only the beginning!

2 Summary of Activities in the First Year

2.1 The Road

We started by choosing a name for the company and appointing the CEO, we also decided on a company slogan, and appointed additional company officials such as: Operations Manager, IT Manager, Purchasing Manager, and CFO. Other roles were filled during the year, as needed. All other members of the group were divided into teams and worked on different tasks as required. We put emphasis on maximizing involvement of all members in the company's activity.

Fund Raising - Shares were sold to the members at NIS 20 (€4.60) ea., the money received served as preliminary funding for our fund raising campaign to purchase products to be sold at school and community. During the year we organized over 40 sales activities, in which we sold:

- ❖ Pizza and beverages during school breaks and parents days.
- ❖ Donuts (during the Hanukah Holiday).
- ❖ Popsicles & Candy (during school breaks).

From all the fund raising sales, we reached a net income of of €1,255.00.

Brainstorming process - In parallel, we started searching for our winning product. Many ideas were suggested; we then filtered all the ideas until we reached a decision about two probable products. We performed feasibility studies and market surveys, which led us to the final decision about the winning product: the "Sit-Up". Soon after that, we designed a logo, started planning the product, designing the packaging, colors, brochure and marketing strategy.

Sponsors - In the process of designing and producing the product, we got sponsorship from different companies, such as: Roladin, Marom-Dolphin, Mirabelle-Style, 2BDaddy. We also created business partnerships with sub-contractors, such as: Nativ Sewing Workshop, the Israeli Prison Services, Eco-Globe, Studio Effective, Nass Labels, Pizza Hollywood, Sus Ve'Agala Carpentry, Tamar Design Studio and Dalitex.

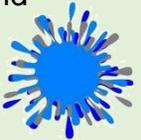
Marketing strategy & Sales - We divided our marketing strategy to online and offline marketing; we also divided our marketing budget and marketing efforts accordingly. For online marketing, we created a website, and we advertised in the local and national social media. The offline marketing was done by printing and distributing marketing materials, printing signs to be used in our sales activities, and exposure in the local printed press.

We sell our product in several channels: local kindergartens and schools, local and national markets & fairs, and in response to inquiries via our website and the social media.

Teamwork - All year long, we put emphasis on teamwork and full cooperation between all members. With the appointment of members to different roles in the company, all the others were divided and assigned to different support teams, according to their skills and capabilities, in order to assist the appointed company officers. In addition, during the phase of fund raising, each of the members acted as a salesperson, and was responsible for selling the "Sit-Up" product to specific selected market segments.

Lessons Learned - During our activity, we experienced the difficulty in raising funds, learned the meaning of planning versus execution and the complexity of designing and manufacturing a complex product, produced at more than one sew shop. We had to plan the full supply chain for a product composed of 16 different components, were exposed to multi-phase processes of purchasing, development, human engineering, locating and qualifying sub-contractors, and then acquire presentation and sales skills.

Road Bumps - We faced obstacles and problems which were part of the design and production process, but have overcome these problems through creative thinking, determination, common sense and mostly teamwork. Today we enjoy an increase in sales and market interest – which compels us to professionally prepare to receive, process and follow up on orders in large quantities, produce delivery certificates and invoices, manage collection and shipping to distant locations, stock management, and multi-level pricing.



Future Potential

- ❖ We intend to continue developing the product, adding accessories such as pockets, and integration options with other worn products, proceed to mass production, and continue to contribute to parents and children safety. Graffiti aims to produce a conveniently priced innovative product, responding to a serious global safety requirement. Our goal is to keep our customers highly satisfied, while creating revenues and profitability for the company and its shareholders.
- ❖ We intend to commercialize the product selling all 200 units already manufactured, in preparation for more orders on a large scale, first nationally, then internationally.
- ❖ We intend to promote public knowledge of the importance of safety in carrying children on your shoulders using the “Sit-Up”.

2.2 Product Development

Market Surveys – a market survey with questions was prepared and carried out to 80 randomly picked people examining the level of interest in such a product. We received an overwhelming 89% positive feedback. We discovered that there’s great interest and enthusiasm for a product that would enable parents to carry their children on their shoulders safely. Most people we spoke with were surprised and impressed by the idea and said they would be happy to buy such a product.

Product Development - After selecting "Sit-up" as our product, we realized that professional help is needed to develop a safe product while meeting professional standards. We turned to Marom-Dolphin, a company specializing in developing military textile products with worldwide customers.

Marom-Dolphin provided us with two design engineers who helped us transform our idea into reality. There were many challenges in the product development stage, it was not easy. At first, we had only a theoretical idea and we didn’t really know how the product would look. For the prototype phase competition, we prepared a prototype (that didn’t resemble the final product). We were required



to consider the safety standards, ergonomics, product design so that **Sit-Up** would be attractive as well as safe to the potential user.

The prototype was improved while taking into consideration the cost of raw materials and production methods while searching and examining potential suppliers.

The prototype was tested on friends, neighbors, family and relatives. Improvements were made to the model until the final product met our expectations.



Manufacturing Process - After defining the components and the technical specification of the harness, we needed to find suitable suppliers that will accommodate both quality and regulatory requirements, within the limits of our budget leaving us a reasonable profit margin. We chose “Nativ Sew Shop” to produce the **Sit-Up**. Nativ is a workshop for people with special needs and mental disabilities. We created a manufacturing specification detailing the production requirements for the final product and ordered the first production series of 50 units. We purchased raw materials recommended by Marom-Dolphin to ensure safety regulations are met. The first products were a great success and sold very quickly. Once we realized we have a winning product, we ordered 100 units more and when Nativ didn't keep up the pace of production, we approached another sew-shop. While preserving the principles of social responsibility as well as contribution to the community, we contacted the Israeli Prison Authorities sewing factory and ordered from them 50 more units. During the manufacturing process, we learned a lot about the processes in the real business world.



Product Design & Ergonomics - We put a lot of emphasis on the ergonomics and human engineering of the product, we produced several prototypes which were changed and improved from one to the next until we finally met the desired result. For example, the back strap fastener was eventually changed to a front fastener due to safety and comfort reasons. We exercised a policy of no compromise in the selection of raw materials knowing it will result in higher costs; we implemented padded cushioning in the rear, replacing metal snaps with Velcro straps for the ankle fasteners, used a 3D net inside the strap, logo label and Laundry labels, multicolor product variety, user instructions, safety and warranty declarations, as well as a specially designed packaging to give the customer the possibility to see and feel the product.



Safety – After thorough examination, we found that in contrast to the US & Europe, there is no known standard for infant carriers in Israel. Since safety is a crucial issue for us, we worked closely with Marom-Dolphin's design engineers to plan & manufacture the **Sit-Up**



to military standards testing the tensile strength of the straps, sewing threads and overall structural strength of each harness. We created Production Specifications for the sew-shops to reflect our uncompromising requirement for a high standard production process using our

own purchased and provided raw materials purchased from authorized suppliers. The harness passed rigorous quality control checks to ensure production was carried out in accordance with our specifications. So despite the absence of an Israeli Borough of Standards requirement, we are confident that the product is safe when following the safety instructions provided with the product.

Taken from DC Urban Moms and Dads Forum:

“
 A transplant surgeon once told me that he called children who are carried on their parents shoulders "donors", because when they fall, the head injuries are such that the kids become organ donors.

2.3 - Marketing Strategy

Marketing Premise - Our target audience is wide. The product is suitable for any parent with children aged 2 to 7 and up to 25 kg.

Building a marketing strategy – we decided to adopt the marketing circles method – starting with the first cycle and gradually expanding the circles, while districting between online marketing and traditional/offline marketing. Using this method, we first addressed the markets where we could have greater success of sales:

First Circle - Family and friends (direct sales)

Second Circle - Community - online marketing activities through the community networks and social media (we found that our hometown, Kadima-Zoran, has 15 active Facebook groups with exposure to thousands of people in our region). We also set up sales stands in community activities such as at our community center, local events, fairs, school events, local mall events etc. The combination of online activity & frontal sales has been very effective. Many people buying the product indicated that they heard about us from Facebook & forums as well as from the various events we attended.

Third Circle – General public, aimed at online marketing through national direct sales websites, forums and Facebook groups in parallel to offline marketing appealing to potential customers and business partners search according to pre-defined market segments. All members of the group participated in the marketing effort with each member assigned to a relevant market segments indentified:

- ❖ Online community social networks
- ❖ Sales stands in different localities in our community center
- ❖ Kindergartens and schools
- ❖ Community outlets & local businesses
- ❖ Markets and fairs across the country
- ❖ Social networking with national exposure: advertising on Facebook groups (mothers, fathers, travel, equipment for children, etc.)
- ❖ Internet forums: Travel, Camping, Hiking, Children, Parents and Infants
- ❖ Society for Nature Protection & National Parks Authority
- ❖ Members of clubs and Unions
- ❖ large Israeli companies via HR departments



offering special deals to the employees as well as offer it as part of employee gifts list for the holidays

- ❖ Travel agencies & geographic tours
- ❖ Press: Press Releases to tourism, leisure and parenting reporters at the national newspapers and television
- ❖ Tour Guides
- ❖ Camping and travelers stores
- ❖ Baby & infant shops



Cooperation & Alliances - we have created partnerships through which we managed to sell a nice volume of **Sit-Up** units

- ❖ Participation in community center events in our region Friday dispensaries in kindergartens
- ❖ Participation in highly attended markets: various “farmers markets” around the country.
- ❖ Sales Points – We established several sales points in our town within local businesses.
- ❖ The Ricochet & Baby-Teva store chains have expressed an interest in our product. However, at this point, due to the significant price gaps, we keep our focus on direct sales in fairs, once the direct sales campaign is over, we will make the product widely available at stores.

Competition – We conducted a thorough national and international market survey in order to check if similar products exist. We found that there was only one similar product in the entire world, a relatively complex and cumbersome American product combining a child seat, and costing \$65. We have no doubt that our product is superior and preferable in price, ease of use, compact size and fit to be worn by both genders. This was accomplished with no compromise on safety and quality.



Online Marketing – We created an online marketing platform:

- ❖ Company website - <http://ofekkon.wix.com/graffiti>
- ❖ Facebook page – Graffiti – young entrepreneurs "Gvanim"
- ❖ 2bdaddy website
- ❖ Publishing our TV appearance on YouTube (over 300 views so far)
- ❖ Article on Mako (one of the most popular TV and Internet channels in Israel)



We use the forums and the social media to raise awareness and interest towards the product as well as ongoing advertising for upcoming sales events at the shopping malls and fairs, in addition to the promotion in schools and around town.

Advertising Materials – We made an advertising photo shoot, using one of our members' father and brother as models. We designed brochures and business cards, and we put up advertising signs before every sales event.

Our participation in the event was pre-announce by the local event organizers and the social media.



Branding – We chose the name "Sit-Up" as a catchy name expressing the essence of the product and the need it is designed to answer.

Our Stand – In order to attract many customers, we designed our stand using colorful banners and a Roll-Up sign with warm green and blue colors, symbolizing nature activity, safety, and family togetherness.

Design Theme – We chose the triangle motif as a design theme that emphasizes clarity, persistence, and innovation, and also fits well with the logos of Young Entrepreneurs and of our school, Gvanim.



2.4 Sales

During the year, we organized over 40 sales operations during which we were dressed in Graffiti shirts, funded by one of our sponsors, Roladin. During the sales process, we learned how to adapt the product to the different target audiences, and we also acquired sales skills.

Pricing Policy – We created a multi-level price list to enable working with distributors and stores: (all prices are converted from NIS)

- ❖ Product cost (including materials, production, and advertising) – €9.85
- ❖ Wholesale price for distributors – €12.70
- ❖ Purchasing price for stores – €15.00
- ❖ Recommended retail price – €29.80
- ❖ Direct selling price at fairs and other sales events – €19.90
 (Once we start selling in stores, we will no longer be selling at fairs, to avoid competing with our customers)
- ❖ Price for large organizations, mass sales – €15.00



Current Sales Report

- ❖ Total number of units ordered from sub-contractors: 200
- ❖ From these – 150 units were ordered from Nativ sewing workshop, and 50 units were ordered from the "Rimonim" Prison sewing factory (at the IPA - Israel Prison Authorities)
- ❖ Orders supplied – 144 units, from Nativ sewing workshop & 13 from the IPA
- ❖ Units sold – 120
- ❖ Useable inventory – 37 units



2.5 Management and Policies

Product Quality Assurance – During the design process, in collaboration with the Marom-Dolphin, we put emphasis on safety and quality. Quality control was performed in the sewing workshops manufacturing the product. We examined the first sample, made comments, and

continuously improved the product. Additionally, we examined every unit, according to an acceptance criterion, to ensure the product conforms to the required level of quality.

Social Responsibility – It’s very important to all of us to incorporate social responsibility and attention to the community! We manufacture the product at the Nativ sewing workshop, which employs mentally handicapped people. When a need for an additional sewing workshop was identified in order to supply the demand for our product, we adhered to this principal and turned to the Israel Prison Service, who referred us to the sewing workshop at “Rimonim” prison, located close to our town.

Human Resources Management – Graffiti is structured as a flat organization, with full cooperation of all role players. At every phase, each manager worked with a team, making sure that all group members are involved in every step of the process.

The organizational structure allowed us to execute various strategies, based on the learning process of its members, their experiences, and accomplishments, difficulties during the year, and their integration in the project according to their skills. Every shareholder had the opportunity to experience every aspect of the full business cycle.



Market Growth Potential – We are confident that the “**Sit-Up**” is a mature product, ready to be sold widely as a unique, original, high quality and safe product that addressing a large and diverse customer base. We intend to continue marketing and selling the “**Sit-Up**” using the adopted circles method, constantly expanding the marketing circles. We are preparing for hundreds of orders using additional sub-contractors, making the **Sit-Up** available to every household and help in keeping children safe. In any case, we will continue to work with Nativ and the Israel Prison Service and have them manufacture the “**Sit-Up**”. We intend to study the required standards to allow us to market the **Sit-Up** internationally with interest coming from potential distributors in Spain, Germany, UK and the USA.

Customer Service, Customer Support, and Product Return Policy – Customer satisfaction is extremely important to us. We are proud to report that, thanks to our strict quality control, we have not had any faulty product returns. In any case, our policy is that in any case of customer complaint of a faulty product, it will immediately be replaced with a new one.

Role of the Group Advisors – The group was led through the entire process by Mr. Ofer Paz, an experienced businessman, who taught us a lot and helped us navigate on the right path to success, while introducing values of common sense and business principals. Ofer was accompanied by Bar and Keren, graduates of last year’s Young Entrepreneurs program, who won, together with their team, the national competition, and contributed a lot to our project by sharing their own experience.

Closing words – *Shaha Musai – General Manager:* “We have acquired knowledge, experience and confidence in our ability to create a successful business leading it to success.”



3 Financial Reports

3.1 Product Pricing – Cost price and Consumer Price

- ❖ Cost of raw materials per one unit (including packaging & labels): €3.23
- ❖ Manufacturing cost per unit: €5.08
- ❖ Cost of advertising material & booth (per unit amortized over 200 units): €1.54
- ❖ Total cost per unit: €9.85
- ❖ Selling price (currently –direct sale): €20.55
- ❖ Profit per unit: €5.04 - 52% profit margin
- ❖ Company Gross Income: €4,891.00
- ❖ Company Gross revenues from product sales: €2,466.00
- ❖ Net profit and inventory value: €2,150.00
- ❖ Share value: €126, over 270 times the initial investment.
- ❖ Break-even point: is 96 units. Once we've reached sales of 96 units, we covered all expenses for the production of 200 units in the preliminary phase.

3.2 Balance Sheet as of June 21, 2015

3.3 Profit & Loss Report

Balance sheet		Profit and Loss Account	
Current Assets:		A - Sales	€ 4,891.45
Stock - Inventory	€ 502.35	B - Purchases - Raw Materials	-€ 646.00
Debtors	€ 84.30	C - Production Wages	-€ 1,016.17
Cash at Bank	€ 845.96	D - Closing Stock	€ 502.35
Cash in Hand	€ 624.92	E - Cost of Sales (B + C - D)	-€ 1,159.82
(A) TOTAL CURRENT ASSETS	€ 2,057.53	(A - E) Gross Profit	€ 3,731.63
Less:			
Current Liabilities:	€ 0.00	F - Salaries, commissions and Bonuses	€ 0.00
Bank Overdraft	€ 0.00	G - Stationery	-€ 307.85
Loans	€ 0.00	H - Rent & Hire	€ 0.00
Creditors	€ 0.00	I - Miscellaneous Expenditure	-€ 1,255.00
Corporation Tax Payable	€ 0.00	J - Registration Fee	-€ 18.85
VAT Due	€ 0.00	Total Expenses (F + G + H + I + J)	-€ 1,581.70
(B) TOTAL CURRENT LIABILITIES	€ 0.00	K - Gross Profit Less Total Expenses	
(C) BALANCE (A - B)	€ 2,057.53	(or Loss) Operating Profit	€ 2,149.93
Represented by:			
(D) Issued Share Capital:	€ 92.40	L - Miscellaneous Income	€ 0.00
20 shares at 4.62 €		M - Net Profit (or Loss) (K + L)	€ 2,149.93
(E) Profit & Loss Account (Profit after Tax)	€ 2,057.53	N - Corporation Tax Payable	€ 0.00
(F) Shareholders' Funds (D + E)	€ 2,149.93	O - Profit after Tax (M - N)	€ 2,149.93
		P - Appropriations of Profit (Q + R + S):	€ 2,149.93
		Q - Dividends:	€ 2,149.93
		R - Donations:	€ 0.00
		S - Other:	€ 0.00
		Balance (should be nil) (O-P)	€ 0.00

Signature: Ofer Paz – Business Advisor