

Company Overview

Eislee is a for-profit social enterprise, selling scarves made from alpaca yarn imported from Peru. Our company will offer a beautiful, lasting product at an attainable price, introducing alpaca to a broader, more stylish market. We also support the sustainable and ethical fashion movement, benefiting the communities from which we source our materials and upholding strict standards at each stage of the production process.

Background

3.5 million alpaca live in Peru – 80% of the world's population – and 50,000 families in the Andean highlands make a living from herding alpaca. These families live in remote villages, with limited access to resources. As a result, many are living in poverty. Our goal is to source alpaca yarn through nonprofits or cooperatives that directly support these communities, produce scarves in factories in Peru, and import the finished scarves to the US to be sold through our ecommerce platform. We believe this fills a gap in the marketplace for high-quality scarves in a fabric between cheap cotton or itchy wool and expensive cashmere.

Alpaca fiber is a remarkable material, yet its benefits are not widely known. The finest variety, baby alpaca, is as soft and attractive as cashmere, but lighter, more durable and significantly less expensive. Alpaca fiber is processed in villages in Peru using the same traditional methods and farming practices that have been used for thousands of years. Cashmere, by contrast, is produced in mass in China and Mongolia, where increased demand for the material has altered farming practices, leading to degraded fiber quality and depletion of the natural environment. Consumers tend to associate cashmere with luxury and quality, but it is not uncommon today for a \$100+ cashmere scarf to pill after a few months of wear. Alpaca fibers are longer, and thus less likely to show wear. The material is also hypoallergenic (unlike wool), naturally water-repellent, moisture wicking and odor-resistant (think socks).

Large retailers like J. Crew and Nordstrom have started offering products made from alpaca fiber, and several designers featured alpaca products during NYC Fashion Week 2014. However, while companies are beginning to take notice of alpaca yarn, it is still not widely promoted in the US. This presents an opportunity in the scarf market for Eislee to provide a lasting yet affordable product for the Sensibly Stylish, a growing consumer segment.

Social Impact

The Peruvian alpaca market is dominated by two major producers who have no clear social mission. The two largest sellers of alpaca products, Michell and Incatops, hold 90% of the total market and 97% of the export market in Peru for alpaca products. The remaining market consists of small nonprofits and cooperatives. While Michell and Incatops have associated nonprofits, their true impact is unclear. Their buying power in the market allows them to pay lower wages to the farmers while still making huge margins.

We have identified and begun discussions with a cooperative, COOPECAN, which is the third largest exporter of alpaca yarn and products, holding 2% of the export market. COOPECAN provides financing to the villages, pays the families in advance of purchase, classifies the yarn according to quality levels, and processes the fiber into yarn. COOPECAN gives 70% of all profits back to the families and maintains 30% to improve their services. They offer cash advances for the farmers and implement projects to

improve the quality of alpaca fiber through: (1) management of natural resources, (2) genetic improvement, (3) cost lowering services (such as animal health services and machinery purchases), and (4) transportation services from the small villages to the processing centers. Despite their small share of the alpaca market, COOPECAN has been rapidly growing, with 261% growth throughout 2012. Additionally, they secured funding in 2014 to acquire a factory for processing the fiber into yarn, which demonstrates their plans to continue growing in the coming years. Working with COOPECAN or one of dozens of other similar cooperatives, Eislee has the opportunity to disrupt the alpaca market in Peru by giving greater power and influence to socially conscious organizations focused on true social impact.

In addition to sustainable sourcing, our end-to-end production process is a significant element of our brand story. We therefore plan to produce only in factories that support ethical working standards and to visit these factories often to verify these conditions.

Target Customers

Our company has two key components: we offer a quality, stylish product at an accessible price and we support sustainable fashion practices. Companies that focus on the first element target “Fashionistas,” or devoted followers of fashion. Companies that focus on the second element target “Passionistas,” or those who want to experience the world and make it a better place. According to

discussions with David Dietz, CEO at Modavanti, these two segments are converging, and that is where our ideal customer lies. Our early adopters are the “Sensibly Stylish,” consumers who are fashion conscious, but also sensible to cost and production methods.

Customer Research

Just as certain consumers are shifting away from fast food in favor of higher quality and sustainably sourced fresh food, so too we expect socially conscious consumers to prefer sustainably and equitably sourced apparel. To verify this shift and to better understand our customers, we spent an afternoon in local “hipster” coffee shops and boutiques in Wicker Park in Chicago, where we spoke with ten individuals whom we believe fit into our target market. In addition to these ten brief interviews, we conducted three in-depth interviews with target customers focused on scarves, alpaca products and sustainable fashion. Through our research, we were able to validate two key assumptions.



(1) There is a market for our scarves: Most of our interviewees owned anywhere from 10-30 scarves, with a couple favorites amongst them. Their scarf collection was made up of a huge variety of pieces, including different brands, materials, designs and price points. Most owned one or two expensive, often times cashmere, scarves that cost anywhere from \$100-\$300, but also owned scarves that were purchased “for \$5 on the streets of NYC.” They generally purchased scarves for warmth, comfort and as statement pieces and often had good memories and stories associated with their scarf purchases. When we asked our interviewees about alpaca products, most did not know much about the fiber but were interested to learn more. Interviewees who owned alpaca scarves, hats or gloves all had positive associations with these products. When we let our interviewees feel a 100% baby alpaca scarf, they were excited by the warmth and softness and said they would be willing to pay from \$50 to \$70 for a similar scarf. One boutique employee was shocked to learn the scarf was not cashmere and eagerly called over one of her co-workers to feel the scarf.

While competition is high in the fashion industry, this information demonstrates that our customers are open and willing to add new brands of scarves to their closets. Their curiosity and positive associations with alpaca products, as well as the increasing use of alpaca yarn by many mainstream designers, supports a market for our scarves. Our price point and the story behind our product should further help to sell Eislee scarves to customers.

(2) Our customers care about sustainable fashion: Many fashion companies are trending towards “slow fashion,” which is a movement by designers and retail companies to promote transparency in their production process, and favor lasting, well-made pieces over cheap, disposable apparel. For example, H&M, North Face, Kenneth Cole and Nordstrom produce sustainable apparel lines. This is further supported by a Deloitte study¹, which noted that 84% of the world’s most influential shoppers – the millennials – believe it is their duty to improve the world and 66% of consumers consider transparency and honesty important when buying a brand.

Despite an interest in sustainable and slow fashion, our interviewees’ purchasing decisions were first and foremost based on the style and quality of a product. For this reason, Eislee’s primary focus will be on selling attractive, high-quality scarves, with sustainability as an added feature of our brand story. We also learned that while sustainable purchases make our interviewees “feel good,” they are either not willing to pay more for a sustainable product, or they are willing to pay only a small percentage more. This is in line with research done by MarketLine², which noted most people would pay no more than a 10% premium for an eco-friendly product. Therefore, we believe it is important that Eislee compete at a price point lower than cashmere; if priced the same, the majority of consumers will purchase cashmere, as they are less likely to take a chance on an unknown fabric simply because it is sustainably produced and more eco-friendly.

Market Opportunity

According to the 2012 Accessories Census³, \$440 million was spent on scarves in the US, with approximately 40 million scarves sold. \$44 million of this market was sold online. As our company grows, we plan to expand into adjacent products in the fashion and accessories markets. The US apparel market is a \$225 billion industry⁴ and the US accessories market is a \$30.5 billion industry. Given these values, it is evident that there is significant revenue available within the apparel, accessories and scarf markets.

Competitive Landscape

(1) **Companies that sell alpaca scarves:** There are two types of alpaca scarves currently on the market:

Type 1	Type 2
<p>Description: Company branding and website aesthetic is old-fashioned, unstylish, and crafty.</p> <p>Companies identified through a Google search for “alpaca scarf”:</p> <ul style="list-style-type: none"> Alpaca Collections Peruvian Connection Shupaca <p>Prices vary greatly from \$30 to \$120</p> <p>Eislee differentiator: Accessing a different market, production methods, style, sourcing.</p>	<p>Description: Stylish younger brands carrying alpaca pieces due to softness or sustainable production methods, or both.</p> <p>Companies identified through our research in sustainable fashion:</p> <ul style="list-style-type: none"> Cuyana Alternative Apparel The Reformation <p>Prices vary greatly from \$65 to \$300</p> <p>Eislee differentiator: Sustainable and ethical sourcing, greater emphasis on communicating luxuriousness of material.</p>

(2) **Producers of cold weather scarves (varied materials):** When buying scarves, most individuals are open to different brands, fabrics and styles. Therefore, it is clear that our competition comes from any company that sells stylish scarves.

- Cotton or Wool Scarves: Prices and quality vary greatly. The majority of cotton and wool scarves are in line with the “fast fashion” movement, created from inorganic materials and in factories where labor laws are unclear.
- Cashmere Scarves: Attractive due to their luxuriousness and perceived quality. Prices are typically high. Excess demand for cashmere has led to a decline in fabric quality and cashmere herding practices are damaging to the environment.

Note: There are also many silk and linen scarves on the market, but these materials are meant for warm weather and generally worn as statement pieces only. We therefore do not consider these scarves to be substitutes.

	Trendy, Stylish	Soft /Luxurious	Durability, Quality	Accessible Pricing	Sustainability, Social Impact	Prevalence in the Market
Alpaca Scarves – Type I (old-fashioned, unsophisticated brands)						
Alpaca Scarves – Type 2 (stylish, younger brands)						
Cotton/Wool Scarves						
Cashmere Scarves						
Eislee						N/A

strong weak

Note: Brands within each category will vary greatly given the vast number of companies that sell scarves. To best lay out our competition, we focused on the brands within each category that we felt were our strongest competitors.

(3) **Companies with similar brand mission:** Potential customers purchase sustainable clothing and accessories as gifts in order to share the story and message behind the item with the receiver. In addition, most consumers do not shop entirely sustainable, but selectively choose a few pieces to add to their wardrobes. Examples of companies with messaging and style similar to Eislee are: Modavanti, Zady, Everlane, Apolis and Nisolo.

Competitive Positioning

Competitive Advantages	Price and Quality By utilizing a material that is luxurious and durable, yet not widely distributed in the US, we are able to offer our customers a unique combination: attractive, high-quality, and lasting pieces that come at an attainable price point.	Social Impact and Transparency All of our alpaca competitors source from one of the two largest sellers of alpaca yarn, or do not explicitly state who they source their yarn from. Michell and Incatops pay lower wages than the cooperatives and are not transparent about their social impact outcomes. Additionally, our main competitors do not detail their production process. Our production process will be dignified and our practices transparent to customers.
	Imitation As with most fashion companies, our business model could be imitated by competitors. It will therefore be crucial to carefully craft and manage our brand, communicating our story to consumers in the right way. We will also focus on developing relationships with our cooperatives and factories.	Higher Costs Social impact and transparency come at a cost. Working with cooperatives to source alpaca yarn rather than large corporations will be slightly more expensive. Ensuring certain manufacturing standards also means that the least expensive option may not be available to us.

Brand Positioning

"It is not about making sustainable products special, it is about making them normal."
(John Grant, Green Marketing Manifesto)

Sustainable fashion is often associated with products that are hippie, unstylish or unusual. We recognize an opportunity to help bring sustainable mainstream. Our brand will bridge the preferences of our target customers and what our competitors lack by blending sustainable, fashionable and high quality, and doing so at an affordable price. Our scarves will therefore have simple, classic designs and colors. While we plan to hire a designer to give our products unique and recognizable characteristics, they will be similar to the images to the right.

Note: We are focusing on scarves initially due to their simplicity from a production standpoint. Scarves are one-size fits all and unisex and unlike clothing, minor inconsistencies in production will not harm the end product. Scarves are also an ideal product because many individuals, especially women, own multiple scarves. Once we have gained traction through sales of our scarves, we plan to explore other alpaca apparel and accessories, including sweaters, blankets, sweatpants and bags. We also plan to source from various countries and sell other sustainable products to continue to expand our social impact reach and lessen the business risk involved in working within one developing country.



Go to Market Strategy

Our scarves will be sold primarily through an ecommerce platform at eisleedesigns.com. We recognize the importance of the design of our website, as ecommerce, especially in the fashion world, is about selling an image, rather than simply a product. Our website will represent this image and will be comparable to websites such as cuyana.com, stoneandcloth.com and nisolo.com.

Our Promotional Story

The following is an example of how Eislee's story will be shared on our website and other social media platforms:

Your wardrobe should be an expression of yourself and what you represent. At Eislee, we stand for high-quality, classic pieces that have the power to influence positive social change. We put care into the production process through responsible sourcing of our materials and the use of dignified factories. The end product is a luxuriously soft scarf that will last due to both its premium quality and timeless style.

Our Production Process

Responsible Sourcing

We use only 100% baby alpaca (trust us, it's soft), sourced directly from villages in the Andean highlands, where we pay 3-5x higher wages than our largest competitor's, while simultaneously working in these villages to improve their herding techniques.

Dignified Factories

We visit our factories often and verify first-hand their concern for both quality in production and treatment of their workers.

Transparency

We tell you exactly where your yarn is coming from and what factory it was produced in. To make you feel even better about your purchase, 5% of all revenue is given directly back to these villages to support the quality of education for their children.

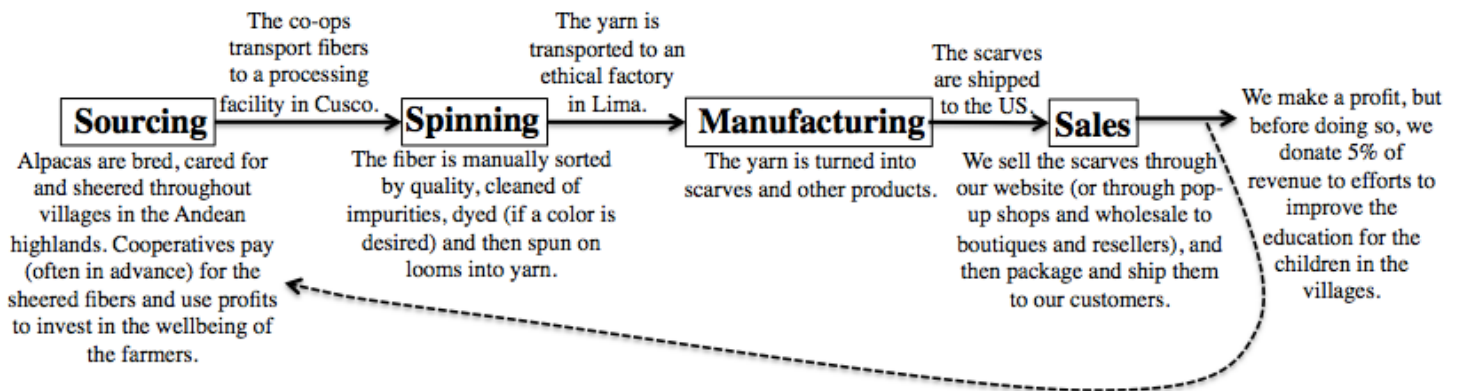
Marketing

We will drive traffic to our website through grassroots marketing focused on partnerships with fashion influencers (bloggers and Instagrammers), press and social media. We have made a list of nearly a hundred fashion influencers and resellers, many of whom we have connections to through our personal networks. While we recognize that being featured via these influencers is challenging and sometimes costly, we believe that if we reach out to a hundred influencers – each with a varying number of followers – we can generate interest from at least a small portion of these individuals. It is ultimately our goal to be featured more extensively as our business grows.

In addition to grassroots marketing, we will run pop-up shops and sell at craft markets and trade shows to increase sales and market our product to a broader audience. After gaining a strong base of early adopters, we plan to partner with and sell through sustainable clothing resellers and boutiques. While these retail outlets will lessen our profit margins, we believe they are crucial to growing our customer base and marketing our company.

Operations

The following demonstrates the process from sourcing through sales for our alpaca scarves:



Revenue Model

Eislee will generate revenue from sales of our products, which will initially be 100% baby alpaca scarves in one design and varying colors. Our scarves will primarily be sold direct to the customer and priced at \$65. This price point is less than all quality cashmere scarves on the market and less than or equal to alpaca scarves of similar design and quality. Additionally, at this price, we are able to achieve a reasonable markup from cost (approximately 2.5x).

Bill of Production

	<u>Item Description</u>	<u>Cost</u>
1	Alpaca yarn ⁵	10.17
2	Scarf production ⁶	9.95
3	Packing and shipping to US ⁶	0.37
4	Import tariff ⁷	1.93
5	Tags and packaging ^{8*}	0.18
6	Transaction fees ^{9*}	1.95
7	Shipping to customer ^{10*}	2.73
Total Cost per Scarf		\$27.29

*Not included or lower when selling wholesale.

We plan to initially fund Eislee via a crowdsourcing campaign on Kickstarter, supplemented by funds from personal investment, as well as friends and family. We will hold our Kickstarter campaign in June 2015 with a guarantee delivery of scarves to our backers by October 2015. Crowdsourcing will provide us with the upfront costs to fund our first production run, which will produce enough inventory to deliver scarves to our Kickstarter backers, as well as additional inventory to carry us through the winter 2015-2016 season. Profits from this production run will be reinvested in the company for a new line of scarves and other products.

Business Analogues

There are number of successful retail businesses with similar models and social impact elements to their story. Nisolo, an ecommerce shoe company, promotes the style and quality of their shoes first and foremost, and details the importance of their production methods and social impact as a part of their brand story. Everlane, an ecommerce clothing company, details every cost that goes towards creating an article of clothing in order to support “radical transparency.” Zady and Modavanti are both ecommerce companies that resell various sustainable brands. The popularity of these companies, and the funding that they have received, signals a market interest in mindfully and ethically produced apparel.

Progress to Date

Since formation in Fall 2014, the Eislee team has spent significant time developing a better understanding of the alpaca industry in Peru and the fashion industry in the US. This includes substantive discussions with Peruvian alpaca cooperatives, impact investors and textile manufacturers. In mid-February 2015, we plan to sell forty 100% baby alpaca scarves, similar in design to the ones we will produce, in the lobby of local apartment building to get feedback on design, quality and price points. Our major goals over the next several months are as follows: (1) develop our presence on social media – @EisleeDesigns on Instagram and Twitter, (2) visit Peru to meet with COOPECAN, Rhin Textils and other cooperatives and manufacturers, (3) design our first style of scarves, (4) formalize agreements with our cooperative and manufacturer and begin production of a first run of scarves, and (5) launch our Kickstarter campaign and website. We plan to have our first run of scarves ready to sell by early Fall 2015.

Business Risks

	Impact	Mitigation
Competitor Risk	The fashion industry is competitive with often unpredictable consumer demand. Additionally, low entry barriers make imitation likely.	We are entering the industry at a time when alpaca is gaining popularity in the fashion world. As a result, many customers have heard of alpaca but do not know much about it and it is still not widely offered. This opportunity gives us a significant early mover advantage. We plan to capture this opportunity by moving fast and building our brand quickly.
Political Risk	While Peru's economy is stable and one of the best performing in Latin America, there is still inherent risk in doing business in a developing country, particularly within the impoverished villages.	Our initial business model relies on resources within Peru. However, as our business grows, we will diversify our product line to mitigate this risk. First, we plan to purchase alpaca from other countries such as Bolivia, Ecuador, Argentina and Chile, where alpaca are prominent and raised by families experiencing similar levels of poverty. Additionally, we will explore other sustainable product offerings from various developing countries.
Scalability Risk	Working with small nonprofits and cooperatives creates concern over whether these organizations will be able to support an increase in demand for alpaca products.	We have spoken extensively with COOPECAN to understand their capacity. In 2014, they had sales of approximately \$1.5M and the processing factory is not being utilized at full capacity. The factory has capacity to process enough yarn to produce over 200k scarves similar to ours. COOPECAN is looking for new clients and growing rapidly. We thus expect them to continue to steal share of the \$75M alpaca export industry in Peru.

Management Team and Advisors

<u>Name/Title</u>	<u>Experience</u>
Kate O'Connor <i>Co-Chief Executive Officer, Co-Founder</i>	Kate has four years of consulting experience with project management and process improvement expertise. She also has an extensive network in the digital marketing and start-up space. Kate is currently in her first year at the University of Chicago Booth School of Business, working toward her MBA.
Sara Raffa <i>Co-Chief Executive Officer, Co-Founder</i>	Sara has two years of high-end retail experience and four years of internal audit experience with a focus on control design and optimization. She spent several months collaborating with the founders of Zombie Coffee, a youthful coffee concept that sources coffee beans from a cooperative in El Salvador. She has extensive connections in the non-profit and fashion industries and has visited Peru to explore the Eislee concept. Sara is currently in her first year at the University of Chicago Booth School of Business, working toward her MBA.

Recognizing gaps in experience within the core management team, we plan to bring on a team member with a Peruvian background or experience in international impact investing and a team member with design and fashion experience. We also have several advisors that are involved with the team on an informal basis, providing valuable insights as well as industry connections.

<u>Name/Title</u>	<u>Experience</u>
Alberto Jabiles <i>MBA Candidate, UChicago Booth</i>	Alberto is a native of Peru who has worked for several Peruvian NGO's. He has a strong network with experience in impact investing and the textile industry in Peru.
John O'Connor <i>President/CEO, JSO Digital</i>	John owns a digital marketing agency with experience in website design and management, content creation, and social media. He is the founder of several additional start-ups.
Nicole Raffa <i>Photo Stylist, Thrillist Media</i>	Nicki has seven years of experience in the fashion industry as a personal shopper and fashion stylist. She holds a degree in Fashion Marketing from Parsons School of Design.
Brad Jeffery <i>Founder/CEO, Causegear</i>	Brad is a Chicago-based entrepreneur working on a social venture to support impoverished crafters in India. He has extensive insight into challenges faced as a sustainable fashion startup.
Trevor Fay <i>MBA Candidate, UChicago Booth</i>	Trevor is passionate about impact investing, completed a Fulbright fellowship in rural Brazil, and managed over 400 undergraduate chapter leaders internationally at Net Impact.

¹ "Value Opportunities in Sustainable Fashion." Deloitte, 12 June 2014. Web. <<http://www.slideshare.net/Deloittesustainability/value-opportunities-in-sustainable-fashion?related=1>>.

² Moody, Kate. "Sustainable Fashion: A Growing Trend." MarketLine, 21 Feb. 2013. Web. <<http://www.marketline.com/blog/sustainable-fashion-a-growing-trend/>>.

³ "Accessories Census 2012." *Accessories Magazine*. N.p., Mar. 2013. Web. <<http://www.accessoriesmagazine.com/downloads/accessories-census-2012>>.

⁴ Facts on the Apparel Market in the U.S." Statista, Aug. 2013. Web. 06 Feb. 2015. <<http://www.statista.com/topics/965/apparel-market-in-the-us/>>.

⁵ Based on a pricing sheet from COOPECAN, yarn will cost an average of \$67.81 per kilo (price varies based on the color of the yarn). Our scarf design weighs approximately 130g. This value assumes 20g of waste and thus a total of 150g per scarf. Note that using a similar calculation, yarn from Michell in Peru would cost 6.94 per scarf.

⁶ Based on discussion with Alex Jacoby, a Contracts Manager at Rhin Textil, which is a factory in Peru that complies with PVH requirements for ethical treatment of factory workers and quality standards. He provided a breakdown of costs as follows: Knitting \$5.50, Dry Cleaning \$3.50, Labeling \$0.95, Packing \$0.12 and Shipping \$0.25. Additionally, he noted that he can buy the yarn straight from COOPECAN so that we can avoid Peru's 18% sales tax on the yarn.

⁷ Import tariffs on the finished scarves are 9.6% of the cost. This is under tariff code 61171010 of US-Peru Trade Promotion Agreement. 19 USC 3805 <http://www.ustr.gov/sites/default/files/uploads/agreements/fta/peru/asset_upload_file837_9523.pdf>

⁸ Hang tags from UPrinting will cost approximately \$0.05 each and tissue paper from The Packaging Source will cost approximately \$0.13 per scarf (\$29.90 for 480 sheets, assumes 2 sheets per scarf). <<http://www.uprinting.com/clothing-hang-tags.html>>, <<http://www.packagingsource.com/store/c/3445-Solid-Color-Tissue-Paper-Made-in-USA.html>>

⁹ Merchant processing fees generally range from 2.5% to 3%. This figure is based on an average 2.75% processing fee of a price of \$71.01 (\$65 price plus Chicago sales tax of 9.25%).

¹⁰ Cost of shipping within the US based on USPS pre-sort bulk rate, first class. <<http://dbcalc.usps.com/CalculatorSetPage.aspx>>.