

## **Business Studies 2001 (JAL) Paper 8 Question 5, also Paper 12 Question 5**

You are inspired to make your fortune by starting a distance learning enterprise to teach the world Computer Science, using multimedia lessons distributed over the Web.

Write notes for a business plan for the potential investors, under the following headings [5 marks per heading]:

- (a) The market
- (b) The team required
- (c) Outline overall project plan
- (d) Business model, with a rough estimation of capital expenditure and profitability

### *Solution notes*

- (a) The market

The market is

- Global: computers are now all over the world, and the Internet has global reach. Teaching delivered by the Internet can therefore be global. Some issues with language, but can be overcome. Streaming media delivery plus adjunct material and tests work well for this sort of subject.
- Sustainable: There will always be new entrants, and new things to teach
- Under-served. There is a massive skills shortage worldwide, and a need for good teaching and teaching materials, especially in a subject as fast-moving as Computer Science.

Market size can be determined by Market Research, initially desk research looking at the demographics of the target population, such as the number of new Internet users, the labour market for trained people, the number of untrained school-leavers or people changing jobs who need re-training etc. Quantitative results can be found by surveying a small portion of the target population, by, for example a telephone survey, or putting up a web-site describing the project and inviting registration of interest.

However this is a market where severe competition can be expected, with few barriers to entry. The education industry has some trusted brands, such as Cambridge and Stanford. Use of such a brand, (e.g. “The Cambridge Studies in Computer Science”), if possible, would ease market entry and raise barriers to competition. Therefore an early goal would be to seek alliance with a prestige brand.

- (b) Team

CEO (and PA)

CFO (may be the same as CEO)

CTO: web designers and programmers (4?); Educators (4); help desk and support staff(4)

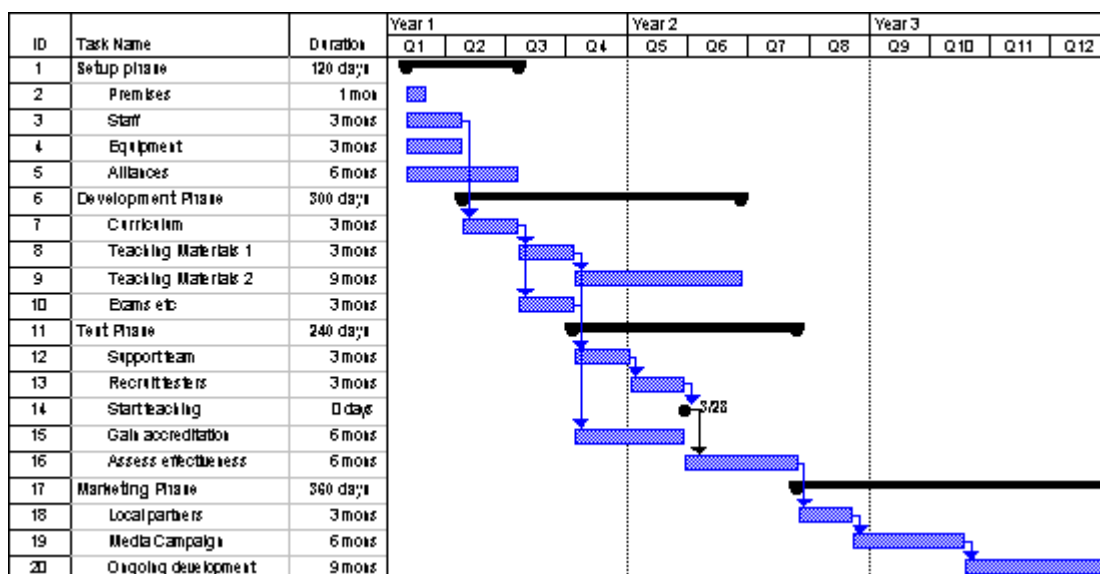
V.P. Marketing ; Sales staff (4)

Say 20 people.

- (c) Outline plan

We draw a GANTT chart:

(N.B. More concerned with the thought processes and principle, than the detailed estimates)



#### (d) Business model

The primary business model is to sell subscriptions to the course, similar to, say, the Open University model. Additional income sources may be from advertising on the web site, book and other adjunct sales, and from arrangement of additional local teaching.

Assume (per annum of full production):

100K students, £100 net subscription, thus £10M subscription revenue

Advertising: say £10 pcm on 10M page hits £1M

Additional income, commissions etc £1M

Total revenue £12M

Say 20 permanent staff at £100K each including overheads 2M

Variable costs: external exam fees, materials etc per student: £30: £3M

Marketing spend £3M

Total expenditure: £8M

Gross Profit: £4M p.a.

This assumes that one-on-one tutorials are self-funded by separate fees, otherwise the expenditure is dominated by these costs.

Capital Expenditure estimate

Computers etc: £2M

2 years permanent staff operating expenses before return: £4M

1 year marketing £3M

Capital expenditure of £9M;

This indicates about a 45% return. Possible, but not wonderful compared to a venture capital target of 60% IRR. Consideration should be given to reducing the initial marketing spend, for example.

Also no contingency has been allowed for.

Obviously, more research, a much more detailed model, with justification for the numbers, detailed cash flow and sensitivity analysis would be essential before contemplating such a business.