

Financing Report

Project Elephants

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Introduction

Project Elephants is an educational game focusing on financial literacy education, which is a wildly underserved segment of public education. The product is a gamified approach to teaching lessons about tax, insurance, loans, and other topics of finance in short class-length bursts. The United States educational system has a notorious lack of financial literacy education, and over 75% of respondents in a private survey said they were uncomfortable with at least one financial topic when they graduated from public high school. The need for such a product in the market is apparent, and there is currently no other product serving this function, making now a prime time to fill that gap in the market.

The *Project Elephants* team is made up of young innovators with a passion for both game development and financial literacy education. While they are relatively new to the industry their combined passion, and a support network of industry consultants, guarantee that the product they create will fulfill the goals it has set out to fulfill and a product will be brought to market that effectively teaches financial literacy to students.

Market Analysis

The educational games market is one that has existed for decades but is still a niche market compared to the overall games market. In addition to still being niche, educational games have rarely penetrated into the classroom to become a curriculum component due to the glacial pace of change in public school curriculums. With games like *Minecraft: Education Edition* slowly pushing their way into the standard curriculum of public-school districts, we believe the market is prime for a more targeted product in order to take advantage of both a lack in competition and a hole in the public education curriculum.

Target Market Segment

The target market of *Project Elephants* is the cohort of middle through high school students in the Arizona public school system, which totals over 432

thousand potential customers in grades 5-9 (Arizona Department of Education, 2019). This market is untapped, as few if any direct competitors supply a financial literacy product targeting students of this or any grade level. It is our belief that this market segment could easily be captured through targeted marketing and securing contracts with individual school districts or the Arizona department of education as a whole.

Full Market Segment

The expanded market for *Project Elephants* includes all US schools and students in the target grade range of 5-9, which totals over 20 million potential customers (US Census Bureau, 2019). After capturing the target market of Arizona students, it would be a rational next step to expand the marketing effort to capture a wider range of school districts and homeschoolers. This would both be an effective profit generator and provide a much-needed product to a wider range of customers.

Cost Analysis

The *Project Elephants* team is a fairly small startup team with low overhead and a passion to bring the product to as many markets as possible. This means that the overall costs of developing the product is comparatively low and profits can be maximized in order to fund future development of educational products like *Project Elephants* to capture underserved groups and subjects.

Fixed Costs

With a small team of 8 and relatively light process costs, the *Project Elephants* team can operate at full effectiveness for just under \$9,200 per week. With a projected time-to-market of around 68 weeks, we expect the total fixed product costs for the project to be near to \$620,000. Over 93% of these fixed costs come from staff salaries, with the remainder coming from software license costs.

Variable Costs

All major game distribution platforms take a 30% cut of sale price. This means that without directly managing sales and the corresponding returns/support/etc. then *Project Elephants* is stuck in keeping at most 70% of each sale's value.

Marketing Budget

Using the Dorfman-Steiner Theorem for estimating marketing budgets, the *Project Elephants* team has come to the conclusion that a marketing budget of just over \$41,000 is appropriate to reach saturation in the target market of Arizona public school students. This comparatively small budget should be enough to effectively target multiple advertising channels while still making optimal profits.

Pricing Analysis

The *Project Elephants* team has reasoned that the optimal unit price for a copy of the product is \$5.00. This value is based on a comparison of the quality and content of *Project Elephants* versus products of a comparable scope available through the Steam marketplace. In addition to a price comparable to products of a similar scope, this lower price point of \$5.00 will help appeal to public schools which generally have a notorious lack of extra budget.

Profit Analysis

While the primary goal of the *Project Elephants* team is not to make a profit, but to bring an important product to an underserved market, the team does expect to make a healthy profit before reaching the target volume of sales. This will allow the team to self-fund in order to continue making educational products while at the same time returning upon any capital investments.

Break-Even Point

Project Elephants' streamlined variable costs of just 30% (\$1.50) means that the product's per-unit contribution is \$3.50. This puts the break-even point to recoup the project's funding at just under 200,000 sales, which is less than half

the target market size of 432,000, and a tiny drop in the bucket of the expanded market of over 20 million potential consumers. Any sales after this point are pure profit and can go toward funding the team's continued efforts to bring educational products to market.

Target Profit

Project Elephants' goal is not in turning an enormous profit, but in capturing the initial target market of Arizona public schools the team expects to make nearly \$850,000 on top of recouping the fixed costs of development. This is enough to fully fund a similarly scoped follow up product. In addition to this target profit, if the marketing for *Project Elephants* expands into the wider market of the US then the potential profits could skyrocket versus the cost of production.

Profit Forecast

The target market of the Arizona public school system is only 2% of the wider market of the US public school systems. This means that if even a small percentage of that wider market could be captured, the potential profits for *Project Elephants* would quickly drive up into the millions of dollars. Even capturing 5% of the wider market of US public school students in the target grade range of 5-9 would result in over 3 million in profits. This makes any investment into marketing and advertising in a wider range a hugely beneficial endeavor for the product.

Advertising Analysis

The initial advertising strategy for *Project Elephants* is to appeal to Arizona's public educators and administrators using targeted advertisements. These advertisements will play to the benefit of the *Project Elephants* brand identity of Fun, Proven, and Reliable games. In order to best appeal to educators and parents, who while not the target consumers of the product are those with the buying power for those consumers, the advertising campaign will stress that *Project Elephants* is an enjoyable educational product that is effective in teaching its lessons and straightforward to administer in the classroom.

Advertising Channels

The initial target market of *Project Elephants* is rather small, which means the initial advertising campaign needs to be targeted to that specific market. In this vein, the *Project Elephants* team has concluded that a three-pronged approach to the initial marketing campaign would best serve capturing the attention of the target market.

The first prong of the campaign is to leverage ads in the quarterly magazine of the Arizona Education Association, Arizona's largest teacher's union. This magazine has an expected reach of 32,000 educators, administrators, and staff, and extremely low estimated costs for a full-page ad at \$1,260. A targeted advertisement of educators in their own magazine should be a more cost-effective strategy than blanket advertisements.

The second prong of the campaign is to leverage the power of Google Ads' Search Network. This style of ads has a high average CPC but are a highly targeted type of advertisement as they factor in both the standard segmentation factors as well as the current Google Search terms used. Using this advertising channel *Project Elephants* can target parents, teachers, and administrators in Arizona searching for new educational products, school supplies, and school information.

The third prong of the campaign is the broadest and is to leverage the Facebook Ads network in order to reach a larger number of impressions for a much lower CPC. This channel will also allow targeted advertising to Arizona parents, teachers, and administrators, a large portion of which are active on Facebook.

Advertising Budget

The earlier estimate of an advertising budget of roughly \$41,000 using the Dorfman-Steiner Theorem will be able to generate upwards of 2.75 million impressions among the target market when split among the three advertising channels mentioned previously. Spending ~\$3000 on advertisements in the *AEA Advocate* magazine will generate upwards of 60,000 extremely targeted

impressions among educators. A budget of \$19,500 spent on Google Ads Search Network will generate approximately 215,000 impressions among consumers in the target market who are already searching related terms. Finally, an equivalent budget of \$19,500 put towards Facebook Ads will generate a further 2.5 million impressions among a wider audience of Arizona consumers. We believe this combination of advertising channels and budget distribution will maximize both number of impressions and quality of impressions among the target market of Arizona parents, educators, and administrators.

Financial Analysis

Project Elephants is a clearly profitable product as well as one that will fill a gap in the public education system and serve to improve the quality of financial literacy education in public schools. An investment of \$675,000 would cover the entire cost of production and marketing to the target market of Arizona, which when captured will result in approximately \$850,000 in profits, an ROI of 25%. This may not seem like much for the risk, but the expansion into other markets outside of the Arizona public school system will quickly multiply this potential profit, limited only by the marketing budget and the number of students in the United States.

We believe that with the proper marketing strategy and distribution timeline *Project Elephants* has a current value of \$1.9 million based on a Net Present Value calculation assuming that each year the product can capture a mere 1% of the full market segment for the next 5 years. Based on the estimated present value, and the small percentage of the larger market it is based on, the *Project Elephants* team believes that an equity stake of 30% is worth an investment of \$675,000.

Sources

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