



Finance

Justifications for Future Predictions

Document Control

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1 Introduction

This document details how we came to the conclusions in the Future Predictions and Profit and Loss Account.

2 Overview

2.1 Competitors and Product Pricing

We decided that the best way to determine the price of our product as a Teaching software suit would be to look at our competitors and decide where are product sits in the market.

Our main competitors are as follows:

| Product | Cost per annum |
|--------------------------------|--|
| MyMaths - Primary | £265 [1] |
| MyMaths - Secondary | £565 [1] |
| Doddle - Suit | £6'900 [2] |
| PowerPoint | £109.99 [2] |
| MangaHigh (Maths games) | £150 for 5 students [3] |
| WizIQ (Online video tutorials) | \$470 - £300 for 50 heads per teacher* |

Out of these, the most popular product is MyMaths which is currently used in 60% of secondary schools. Doddle is the second most popular, being used in 31% of secondary schools. It is important to note that MyMaths is only applicable to maths related work and Doddle contains content for almost every subject in the current UK syllabus. This explains the dramatic price difference in each product.

As our product provides to ability to produce content for any subject, we decided that Doddle is our main competitor to undercut and MyMaths is a competitor that we may exceed in product price. By selling our product at £550 per school, it can be calculated that the price per head is as follows:

| | |
|--|---|
| Number of schools: | 23,948 [4] |
| Number of teachers: | 451,100 [4] |
| Average number of teachers per school: | 19 teachers (451,100 teachers / 23,948 schools) |
| Price per teacher (individual): | £29.99 (£550 / 19 teachers) |
| Price per teacher (group of 20): | 10% discount: £26.99 |

Our product will be sold with a licence where an individual can buy a licence on an annual basis. We will also offer discounts on the product if sold in bulk (20 persons or above) to make it more appealing to schools. This allows us to sell to large institution such as a school as well as individuals such as private tutors. We assume that 65% of new customers renew *their licences*; *this is a **pessimistic** projection, and we expect to achieve a greater* retention of customers.

2.1 Interest in the Product and Potential Market

According to a survey sent out to teachers and tutors, 73% of people asked said they would be interested in buying our product. From this we can predict a potential market:

| | |
|--------------------------------|----------------|
| Number of teachers (UK): | 451,100 [4] |
| Number of private tutors (UK): | 60,372 [5] |
| Total: | 511,472 people |
| Total Market (70%): | 358,030 people |

2.2 Competitors Market

Our main competitor, Doodle is currently being used by 31% of secondary schools [6]. If we assume that this is our maximum target audience, we can estimate that we could potentially reach 110,990 teachers and tutors out of the total 358,030 teachers/tutors.

3 Expenses

3.1 Labour Cost

We are assuming that as we are only maintaining the product, employees will only be working for half as long per week as they currently do as there will be no need for the hours spent of further development, market research or company design.

3.2 Tax and the Loan

20% Tax on our company is defined at 20% for positive profit [7]. Our financial year is defined as starting on the 1st of July every year. The date that we will start selling our product is on the 1st of July. Year 0 refers from the 1st July 2014 to 30th June 2015, which includes the six months that most of our product has been made in. Year 1 starts from when the product goes live, and so on.

According to our financial projections, we plan to pay back the loan within the first five years of our product going live. We are planning to do this as soon as possible, to reduce the amount we are spending on interest.

3.3 Company workspace

As our contract for the space we have been renting to develop our product will have ended by the time we have launched our product, we intend to downsize to half of the office space needed in order to simply maintain the product. This equates to 700 square feet.

At £23.50 per square foot / annum this equals:

£16,450 per annum

This can be seen in the attached excel document, showing our company expenses over the next 5 years.

3.4 Advertising

Our main advertising strategy is to use google adverts, adverts in TES magazine, and online social media such as Facebook and YouTube. Google and magazine adverts cost money (accounted for in Advertising), online social media will cost money through creating content (accounted for in Labour Costs).

We are planning to allow our product to be downloaded online; the server cost is calculated later on in this document.

3.5 Server Costs

A server will be used to store customer's usernames and passwords, as well as storing the product for downloaded. The cheapest available option is using Amazon Web Service (AWS). Which offer the following solution:

Standard Storage: \$0.03 per GB = \$30 / TB /Month
= \$360 / TB / Year
= **£232.60/ TB / Year**

Data per user: **64** bytes (20 characters maximum for username and password + padding for AES encryption)

Potential number of users: (Teachers + Students) * 0.7 = 5,838,212

$$\begin{aligned} 1\text{TB} &= 1,000,000,000 / 64 \\ &= 15,625,000 \text{ Users} \end{aligned}$$

This solution offers more space than we need, however it means that we have plenty of overhead for unforeseen additional customers as well as the potential to store additional content such as pre-made lesson content for our product.

3.6 Advertising

TES magazine is a popular magazine the teaching industry, advertising teaching vacancies as well as teaching related products. They offer the following deal on advertising:

- £2195 per advert
- Publication every 2 months
- £2195 x 6months = £13170 / year

Audience reach of 427,000 people.

This cost and benefit of this can be seen in the attached spreadsheet.

Google advertising:

Budget for google AdWords can be whatever we choose it to be. Going on a Cost-Per-Click (CPC) basis, we can set a reasonable budget. Google recommends for start-up companies a budget of at least £10 per a day. This equates to £3650, rounding this up to £4000 gives us some extra headroom for potential extra clicks.

4 Financial Projection

The attached excel document shows our financial projections for the next five years and contains the following sheets:

1. Cash flow and Projections
2. 65% Customer Renewal P&L Graph
3. Projections with 50% renewal
4. 50% Customer Renewal P&L Graph

Cash flow and Projections contains all the figures described in this document, showing the companies expenses and income from product sales yearly, assuming our customer base is growing at a reasonable rate.

It can be seen that our loan can be paid off by the end of the third year, given that 50% of our customers renew their license yearly. This means we manage to make a profit of £79,000 by the end of the fifth year.

5 References

[1] - MyMaths. "Subscriptions" MyMaths.co.uk [Online]. Available: <http://www.mymaths.co.uk/subscribe> [Accessed: May. 25, 2015].

[2] - Doodle. "Pricing" doodlelearn.co.uk [Online]. Available: <https://www.doodlelearn.co.uk/pricing> [Accessed: May. 25, 2015].

[3] - MangaHigh. "Estimated Yearly Price" mangahigh.com. [Online]. Available: <https://www.mangahigh.com/en-gb/> [Accessed: May. 25, 2015].

[4] - GOV.UK. "Number of schools, teachers and students in England", gov.uk. [Online]. Available: <https://www.gov.uk/government/publications/number-of-schools-teachers-and-students-in-england/number-of-schools-teachers-and-students-in-england> [Accessed: May. 24, 2015].

[5] - Harry Wallop (2013, Oct. 8). "I've called in a private tutor to give my child a chance in the academic arms race". The Telegraph [Online]. Available: <http://www.telegraph.co.uk/education/secondaryeducation/10364395/Ive-called-in-a-private-tutor-to-give-my-child-a-chance-in-the-academic-arms-race.html> [Accessed: May. 24, 2015].

[6] - doodleLearn "about doodle and boardworks" doodlelearn.co.uk. Available: <http://www.doodlelearn.co.uk/careers/educationmanager>. [Accessed: May. 25, 2015].

[7] - <https://www.gov.uk/corporation-tax-rates>

[8] - GOV.UK. "Corporation Tax rates and reliefs," gov.uk. [Online]. Available: <https://www.gov.uk/corporation-tax-rates/rates> [Accessed: May. 24, 2015].