



# **Finance**

*Justifications for Future Predictions*

## **Document Control**

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## **1.0 Introduction**

This document details how we came to the conclusions in the Future Predictions and Profit and Loss Account. It also explains the Profit and loss account for the totality of the time we used for the development of our software, TeachEasy and LearnEasy.

## **2.0 Profit and Loss Account for project duration**

As you can see from the profit and loss statement for the duration of the project we make no profit. This is as a result of us not making as many sales of media handlers as we expected and this was our only way of income and the other expenses incurred during the length of the project. We sold two media handlers at the same price as we bought two media handlers, making our net profit zero regarding media handlers.

Despite a negative net profit, we have been able to pay everything as we have taken out a loan, of which we have been paying the interest weekly. This is shown at the bottom of the spread sheet (Closing Balance).

## **3.0 Overview**

### **3.1 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 undercutting ones that allow more than one subject.

Our main competitors are as follows:

<b>Product</b>	<b>Cost per annum</b>
MyMaths - Primary	£265.00 [1]
MyMaths - Secondary	£565.00 [1]
Doddle - Suit	£6,900.00 [2]
PowerPoint	£109.99 [2]
MangaHigh (Maths games)	£150.00 for 5 students [3]
WizIQ (Online video tutorials)	\$470.00 - £300.00 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 Doodle 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, with an average of 19 teachers 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) per year
Price per teacher (group of 20):	10% discount: £26.99 per year

Our product will be sold on an individual basis, where each teacher will pay a licence annually. We will also offer discounts on the product if sold in bulk (20 persons or above) to make it more appealing to schools, who are more likely than individuals to already be using one or more of our competitor’s products. This allows us to sell to large institution such as a school as well as individuals such as private tutors. We assume that 50% of new customers renew their licences; this is a **pessimistic** projection, and we expect to achieve a greater retention of customers. We are using this value as our renewal rate to show that we are still a profitable company with pessimistic predictions.

### 3.2 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

### 3.3 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.

## 4.0 Expenses

### 4.1 Labour Cost

We are assuming that as we are only maintaining the product, and going to different schools to give sales pitches, employees will only be working at the rate at which they were working during the development period of the product.

### 4.2 Tax and the Loan

Our company is taxed 20% of its Net profit, as long as it is a positive value [7]. Our financial year is defined as starting on the 1<sup>st</sup> of July every year. The date that we will release our product to the public is on the 1<sup>st</sup> of July. Year 0 refers from the 1<sup>st</sup> July 2014 to 30<sup>th</sup> June 2015, which includes the six months that most of our product has been produced 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 four years of our product release. We plan on doing this as soon as possible, to reduce the company's Liabilities.

### 4.3 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.

### 4.4 Server Costs

We are planning to allow our product to be downloaded online; therefore we must pay for the use of a server. The server will be used to store customer's usernames and passwords, as well as storing the product for download. The cheapest available option is using Amazon Web Service (AWS). This 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

1TB = 1,000,000,000 / 64  
= 15,625,000 Users

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.

### 4.5 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).

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 [8]:

- £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.

The cost for google AdWords is dependent on how much we want. 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.

## **5.0 Financial Projection**

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

1. Projections Spread sheet
2. Year one net profit and Sales revenue Graph
3. Net Profit Graph over 5 years
4. Volume of sales Graph Over 5 years

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 fourth year, assuming that 50% of our customers renew their license yearly. This means we predict we will make a profit of £63,274.85 by the end of the fifth year.

## **6.0 Other Assumptions**

In this section the other assumptions we made when putting together the spread sheet will be outlined.

- Our inflow of new customers every year will remain constant
- A 50% renewal rate
- When 20 or more teach Easy software licences are bought; a 10 % discount will be given

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