

Monetization of Technology Projects

Tom Valva, Lecturer Computer Science Department

tvalva@odu.edu

757-805-2593

Dragas Hall, #2119



WHAT DOES THIS HAVE TO DO WITH CS-411?

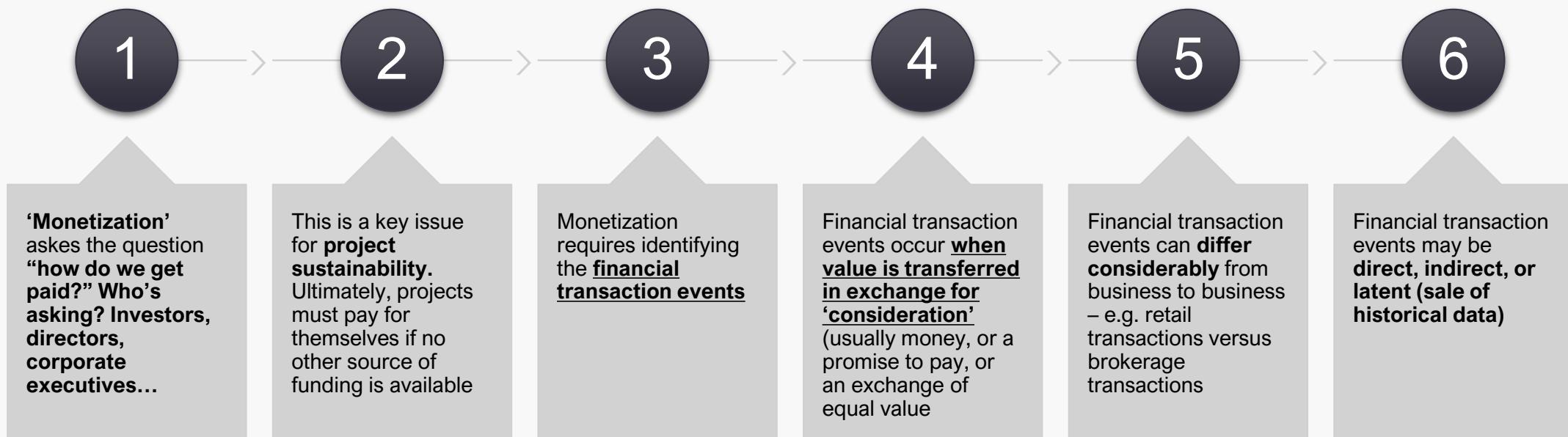


Defining how a project is monetized is a key step in securing development funding

Viable **Technology designs** are only one part of a typical project venture pitch

Parties interested in how a project will pay off may be **corporate sponsors, venture capitalists, individual investors, partners and affiliates**

WHAT IS MONETIZATION?



MONETIZATION IS A KEY ELEMENT OF PROJECT FEASIBILITY

Financial projections are essential parts of the project ‘pitch’ – Four Key Questions:

“What is the market for your project? A key question for CS-410

“How will this project make (or save) money?”
A key question for CS-410

“How much do you need?”

“What are you willing to offer in return?”



Question #1 What is the Market for your Project?

Example: Estimating Market Size

- ❖ Xlite LLC is a cloud-based software company offering subscriptions to AI-enabled bidding software to municipalities, school districts, county governments, township governments and special purpose entities like park commissions.
 1. 2022 US census total local government entities in the US
90,837
 2. Target state: California 361 municipalities
 3. Average subscription cost per month \$2000
 4. Average implementation cost: \$10,000 per client
 5. Average hours billed on customizations – 100
 6. Cost per hour for customizations \$175
 7. Total yearly average revenue per client:
 $(12 * \$2,000) + \$10,000 + (\$175 * 100) = \$51,500$
 8. Total market size = $90,837 * \$51.5K = \4.7 Billion
 9. California Market = $361 * \$51.5k = \18.6 Million
 10. **10% of California market = \$1.86 Million or 36 clients**





Question #2: “How will this project make money?”

- ❖ Identify your **core transaction:**
 1. Who are your customers?
 2. Fee for service, or product
 3. ‘Broker’ fee for matching up interested parties
 4. Commission % of sale
 5. Subscriptions
 6. Special projects
 7. Advertising
 8. Sale of data

Indirect Revenue

- **Advertising Revenue**
 - Advertising platforms (Google, Facebook, etc.)
 - Estimate page views
 - Estimate click-through rate %
 - Cost per click & revenue per click
 - Example: 1M page views per month, 3% click-through, \$.07 shared revenue per click, \$.03 to subscriber, \$.04 to advert platform.
 - $1M \text{ view} \times .03 = 30K \text{ clicks}$. $30K \text{ clicks} \times \$.07 = \$2.1K \text{ revenue}$.
Advert platform receives \$1,200, subscriber receives \$900.
 - Directly managed advertising
 - Firm sells space on site, manages all activity
 - **Referral Revenue**
 - Form submission to affiliate
 - Affiliate pays referral commission fee



Latent Revenue -Monetizing Data

- Traditionally data was considered an artifact of ‘processing’ with little value outside a system
- However, data can have tremendous value to marketing, sales, advertising and business analytics practices
- Data must be ‘anonymized’ carefully, preserving its demographic value without exposing Personally Identifiable Information (PII)
- Data can be distributed to clients via downloads, APIs, and/or media
- Pricing data – by record, access time, volume, # of API ‘hits’, etc.
- Monetizing data is a latent revenue stream – significant operations are required before it is viable





Question #3: “How much do you need?”

- ❖ Identify your scope and initial costs to launch:
 1. Percentage of market targeted
 2. Development costs
 3. Cost of sales
 4. Implementation costs
 5. Service costs
 6. Executive costs
 7. Advertising costs
 8. Infrastructure costs

Run or 'Burn' Rate*

- ❖ The annual 'burn rate' for Xlite LLC is \$2.7 Million per year:
 1. Employees represent the most significant expense
 2. 3 Salespeople to cover North, Mid, South Territories in California
 3. Developers work on product, and customizations
 4. Hosting is cloud-based
 5. Consulting costs help cover excess implementation & development work

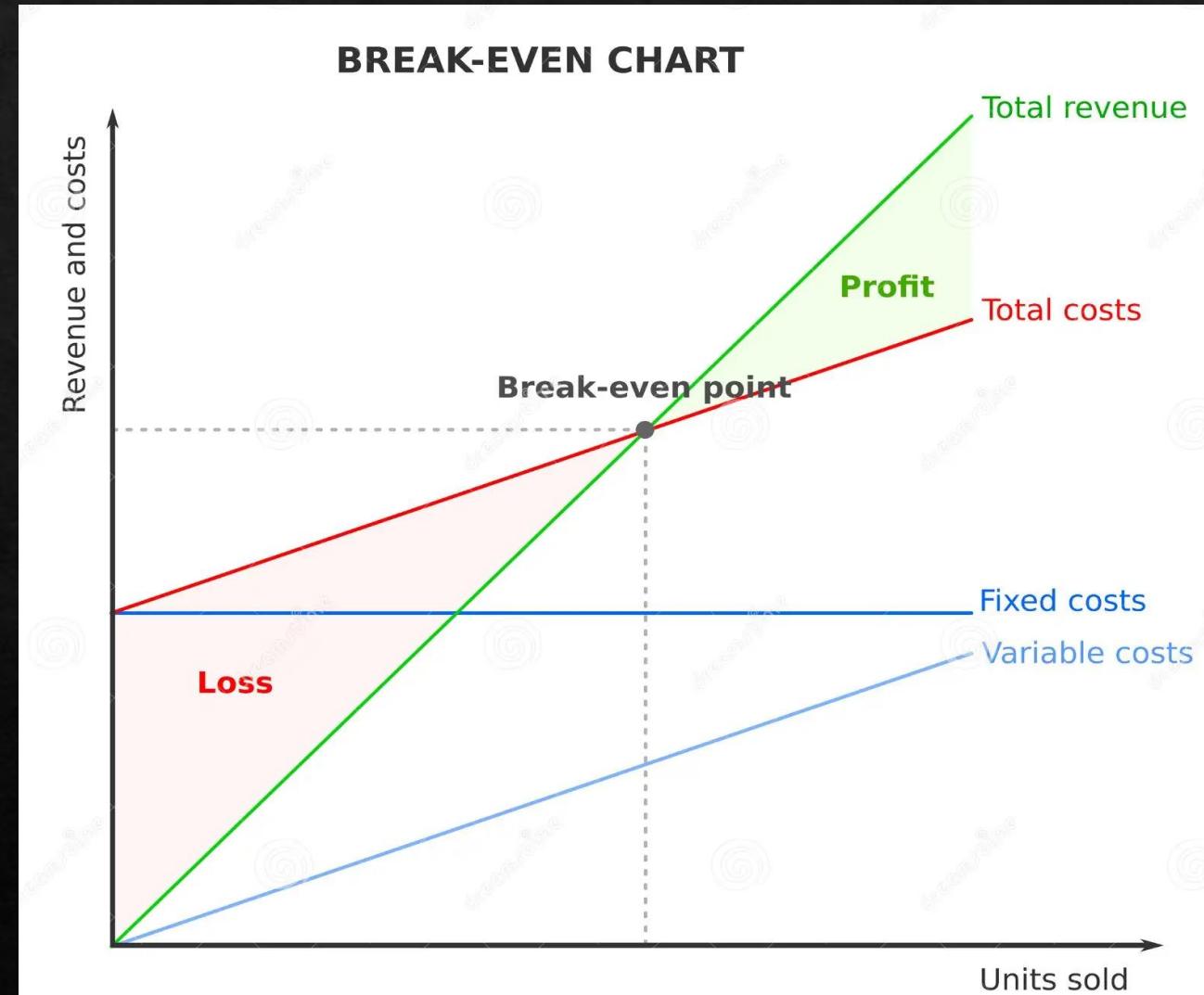
Xlite LLC Run Rate Analysis

Personnel:	Units	Cost Per Unit	Total
Management	2	\$ 175,000	\$ 350,000
Sales	3	150,000	450,000
Development	4	120,000	480,000
Implementation	5	85,000	425,000
Service	5	65,000	325,000
Clerical	1	55,000	55,000
Subtotal:			\$ 2,085,000
Other:			
Insurance		\$ 10,000	
Hosting & network		150,000	
Advertising		100,000	
Consulting		200,000	
Miscellaneous		150,000	
Subtotal:			\$ 610,000
Total:			\$ 2,695,000

* Run or Burn Rates are often expressed in months as well, so in this case, Xlite's month burn rate is \$225K per month

Proforma Financials & Break-Even Point

- ❖ **Proforma Financials** calendarize expected revenue and expenses for the project/company
 1. Initial periods are not usually expected to be profitable
 2. Costs can be identified as fixed and variable costs
 3. Variable costs are those that increase with unit volume (sales, implementation)
 4. The **Break-Even Point (BEP)** is the most valuable statistic to identify for the project/company
 5. The Break-Even Point is the period when project/company revenue equals expenses
 6. **Profitability** is achieved after the Break-Even Point is exceeded
 7. Projects that fail to reach BEP may need additional investment, general recalibration, or abandonment





Question #4: “What are you willing offer in return?

- ❖ Identify capital structure – now many partners and how much do they hold. What's left over?
 1. Equity – most investors seek a percentage of ownership in the company
 2. At pre-revenue phases ‘Angel Financing’ is common
 3. Later, venture financing having A, B, C, rounds is common
 4. Loan – a loan could also be arranged, but cash flow is a requirement
 5. Loan with equity conversion option – once a certain level of revenue is attained load could be converted to ownership in the venture eliminating loan payments

Monetization within Organizations

- ❖ Some projects within organizations may not fit the ‘new company startup’ model, but the financial analysis is very similar
- ❖ **Cost reduction** – reducing run-rate costs increases income from operations
 - ❖ **Greater productivity** – increased volume capability leading to increased operational revenue
 - ❖ **Administrative productivity** – reduce sales cycle by automating paperwork, accelerate revenue realization by reducing implementation times
- ❖ Such projects are funded via **organizational budget allocations** requiring internal ‘sales pitches’ during **strategic planning reviews**





Thank You

Tom Valva, Lecturer Computer Science
Department

tvalva@odu.edu

757-805-2593

Dragas Hall, #2119