



EKONOMIHÖGSKOLAN  
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Advisor: Leif Edvinsson

# A Capital Idea-

Developing an IC-based model for Market value plans

Note: The Methodology in this thesis has yet to be completely changed and edited. This is still considered a draft which requires a complete editing "overhaul". We are missing one key interview among key informants which will be held on Monday June 5 due to scheduling conflicts. Once this interview is held and processed, we will be able to make a full accounting of our analysis as well as conclusion. An update will be posted on the portal the evening of the 5<sup>th</sup>. We look forward to your feedback.

Douglas J Ross and Malin Jepson

Malin Jepson 821111-2787  
Douglas J Ross 680117-0991

## **Abstract**

<b>Title</b>	Market value planning: Developing an IC-based model for Business Plans
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<b>Advisor</b>	Leif Edvinsson
<b>Key words</b>	Market value planning, Intellectual capital, UNIC, Knowledge economy
<b>Purpose</b>	To present a possible solution or new template for business plans that we like to call a Market value plan.
<b>Methodology</b>	To fulfill our purpose we have used TAKE-10 as a case to develop the MVP. IC theory and models served as the foundation for creation. Furthermore primary data was collected to validate the MVP.
<b>Theoretical perspectives</b>	Five founding models were used to develop the Market Value Plan template. These models have all originated from the Intellectual Capital school of thought.
<b>Empirical foundations</b>	The empiric material describes the work process involves in creating both the business plan and the MVP. Completed plans of these are available as Appendix 2. Data collected through several key interviews is also found herein.
<b>Conclusions</b>	

## **Acknowledgements**

Lund, June 2006

Malin Jepson

Douglas J Ross

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## **Definitions**

### **Intellectual capital**

That definition has evolved over the past 25 years into a concise explanation of IC as an equation equaling the total sum of human capital + structural capital + relational capital. While there is still a debate regarding what exactly IC is, this established definition is the one that will be applied to the market value planning prototype in this thesis. (Edvinsson, 2002)

### **Knowledge economy**

A knowledge economy or a knowledge-based economy is a phrase that refers to the use of knowledge to produce economic benefits. The phrase was popularised if not invented by Peter Drucker as the heading to chapter 12 in his book *The Age of Discontinuity*. It came to prominence in New Zealand in the mid-to late-1990s as a way of referring to the manner in which various high-technology businesses, especially computer software, telecommunications and virtual services, as well as educational and research institutions, can contribute to a country's economy.

Various observers describe today's global economy as one in transition to a "knowledge economy", or an "information society". But the rules and practices that determined success in the industrial economy of the 20th century need rewriting in an interconnected world where resources such as know-how are more critical than other economic resources. ([http://en.wikipedia.org/wiki/Knowledge\\_economy](http://en.wikipedia.org/wiki/Knowledge_economy), 2006-05-29)

### **Business plan**

A business plan is a summary of how a business owner, manager, or entrepreneur intends to organize an entrepreneurial endeavor and implement activities necessary and sufficient for the venture to succeed. It is a written explanation of the company's business model.

Business plans are used internally for management and planning and are also

used to convince outsiders such as banks or venture capitalists to invest money into a venture.

([http://en.wikipedia.org/wiki/Business\\_plan](http://en.wikipedia.org/wiki/Business_plan), 2006-05-29)

### **Market value plan**

The Market value plan can be described as a business plan that defines the value of intellectual capital of the firm as well as its financial capital.

## **Abbreviations**

<b>FC</b>	<b>Financial capital</b>
<b>HC</b>	<b>Human capital</b>
<b>IA</b>	<b>Intellectual assets</b>
<b>IC</b>	<b>Intellectual capital</b>
<b>INC</b>	<b>Innovation capital</b>
<b>IP</b>	<b>Intellectual property</b>
<b>MVP</b>	<b>Market value plan</b>
<b>MV</b>	<b>Market Value</b>
<b>OC</b>	<b>Organizational capital</b>
<b>PC</b>	<b>Process capital</b>
<b>RC</b>	<b>Relational capital</b>
<b>SC</b>	<b>Structural capital</b>



# 1. The Beginning

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*This chapter is an introduction to the concept of value planning. Descriptions of the knowledge economy, economic shifts and business planning history are provided as an inspiration to the prospect of developing a new business planning template. This inspiration raises issues that are briefly discussed which lead to our purpose in the area of value planning.*

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*“An investment in Knowledge pays the best interest.”*

**Benjamin Franklin**

## 1.1 Knowledge Economy

Today's corporations are met with an ever increasing challenge to maintain profitability or even more importantly sustainability. Access to information today is a vital success factor. Ironically it has also become a major problem due to information overload. This has been described as information fatigue syndrome (Oppenheim, 1997) or analysis paralysis (Stanley & Clipsham, 1997). An important issue facing corporations as well as entrepreneurs is the rapid development of the Knowledge Economy.

While the idea of the Knowledge Economy was born in the early 1960's (Machlup, 1962), the legitimacy of the concept as more than an exercise in semantics has only now begun to be realized. While adapting to this change may be an almost insurmountable task for many firms, the opportunity for entrepreneurs (both within and without an organization) exists to embrace the Knowledge Economy and improve their opportunity for securing competitive advantages.

This opportunity exists in the initial tool that spurs most ventures forward. Given the 942 million Internet links available to aid in business planning, we feel safe in assuming that entrepreneurs or existing firms desiring to launch a new business tend to use business plans as a tool for planning their business (<http://www.google.com/search?hl=en&q=Business+Plan>, 2006-05-31). It is stated that the process of writing a business plan helps take a thorough, careful and comprehensive look at the most important facets of the business, including the contexts in which it operates (Bangs, 2005). Some authors even assert that the business plan is the roadmap for a successful business (Kuratko & Cirtin, 1990)

Since the Knowledge Economy is more recognized, the question is raised whether there cannot be a different perspective on business planning; one that takes full consideration of Knowledge Economy. What follows is a retrospective on the economic shifts that have lead to where we are today. This in combination with business plan development needs to be explained before we venture tackling the question above.

### **1.1.1 Economic Waves**

Since the end of the 19<sup>th</sup> century, the concepts of shifts or changes in the economy have been compared to waves or cycles. Nikolai Kondratiev illustrated upswings and downswings during long wave economic trends or shifts. Technological advances were present during each new long wave. Atkinson (2004) writes that these techno-economic shifts also contain new products, economic organizations and managerial practices, new skill sets in the labor force, and shifts in living standards and values. (Freeman & Louçã, 2001)

Historically the world has passed through five great waves of techno-economic change; the second and third brought about what is now considered the

production economy, the fourth or financial economy wave was spurred on by mass production possibilities, which taught industries to focus on cost efficiency. The current wave which is the Knowledge Economy, has brought an explosion of technological development that has transformed business practices. It is this fifth wave that serves as inspiration for this thesis. (Atkinson, 2004)

During the industrial revolution (third wave), the concept of business plans started to take shape in the form of long term planning as a method of turning around large firms in financial trouble as described by Fayol (1988, originally published 1916). Although it wasn't until after the Second World War that the concept of long term planning started to grow and was used by firms such as Ford Motor Company (Ewing, 1956). Business planning guides presented and promoted a structure of anywhere from 13 to 200 essential points that the entrepreneurs should cover when producing a business plan. These points covered every day operational activities including attempts to forecast demand, as well as analytical and strategic tools for planning. (Robinson, 1979)

Drucker (1959) wrote one of the first articles on long-range planning when using an entrepreneurial approach. He attempted to define long-range planning as the organized process of making entrepreneurial decisions apart from trying to make forecasts, make predictions on future decisions or try to eliminate risk.

Between 1880 and 1930 the growth rate in the US industries increased rapidly because of the mechanical horsepower and the use of electricity in industries that enhanced mass production possibilities. This acted as a catalyst to bring about the fourth wave or shift from the production economy to the “newer” financial economy. (Freeman & Louçã, 2001)

Parallel to this, the development of the business plan followed the upswing of the financial economy. Several texts were written based on the idea of long term planning or “business plans” and these books focused mostly on new or

small firms and were targeted to entrepreneurs educating themselves. Arguments for writing business plans were presented and the promotion of different structures towards entrepreneurs had begun. The field of entrepreneurship now abounds with normative advice to new organizations on how to write business plans. (Karlsson, 2005)

The Knowledge Economy was a concept developed in the early sixties when the mass production boom was still moving upward. It would take another 30 years before the fifth wave would be in full swing. The two major oil crisis of 1973 and 1979 had hit industrialized nations hard. This led to understanding how valuable and limited energy was in keeping the mass production machine grinding forward. (Forrester 1971; Meadows *et al.* 1972). Proponents of an industrial slow down finally challenged the financial economy in 1989. (Dertouzos *et al.*, 1989)

The 1990's were illustrated by a rapid development and growth in communications technologies, but also a rapid development of the Knowledge Economy. As an example Entovation International, headed by Debra M. Amidon has provided a timeline in knowledge innovation inroads just prior to the turn of the century. It shows the boom that has occurred in the field which has brought us into the knowledge innovation era. (<http://www.entovation.com/timeline/timeline.htm>, 2006-05-08) (See Appendix 1)

## ***1.2 Problem Formulation***

The current corporate culture continues to educate business owners, employees and even customers under a pedagogy that is burdened by an old paradigm. Covey (Lewis, 2006) has stated on numerous occasions the following: "Many of our modern management practices come from the Industrial Age. It gave us the belief that you have to manage and control people. It gave us our view of accounting, which makes people an expense and machines assets. As long as

businesses see people within their organization as expenses, there is little to no motivation to unleash the knowledge worker that exists within.”

Newer economies such as China and India are cutting their teeth so to speak on the need for knowledge and knowledge intensive processes. Since they are not as burdened with the legacy of the Financial Economy, there is a very real possibility that these regions will come to dominate the business world as they develop new enterprises with the knowledge worker in mind and thus maintain a competitive advantage over western enterprise. (Goldwyn Blumenthal, 2005)

This brings us back to the question of there being another way of business planning that can help adapt to the Knowledge Economy. One way of making this adaptation is to replace a business plan with a Market value plan for the venture in question.

To show the advantages and disadvantages with a Market value plan we will perform a comparative study between it and a business plan. This will also give a clear picture of the differences between the two and create a possibility for judging the applicability, value and viability.

If more new ventures can begin by developing Knowledge Economic-based Market value plans, then the transition from legacy thinking will be less encumbered. If the new model or template created in this thesis can be considered viable enough to equate a work method by which new Market value plans are created, then it could serve as a tool to the West in keeping abreast or even ahead of global economic growth.

### ***1.3 Purpose***

We want to present a possible solution or new template for business plans that we like to call the Market value plan (MVP). A case company named TAKE-10 will be used to illustrate the differences between a business plan and the

MVP.

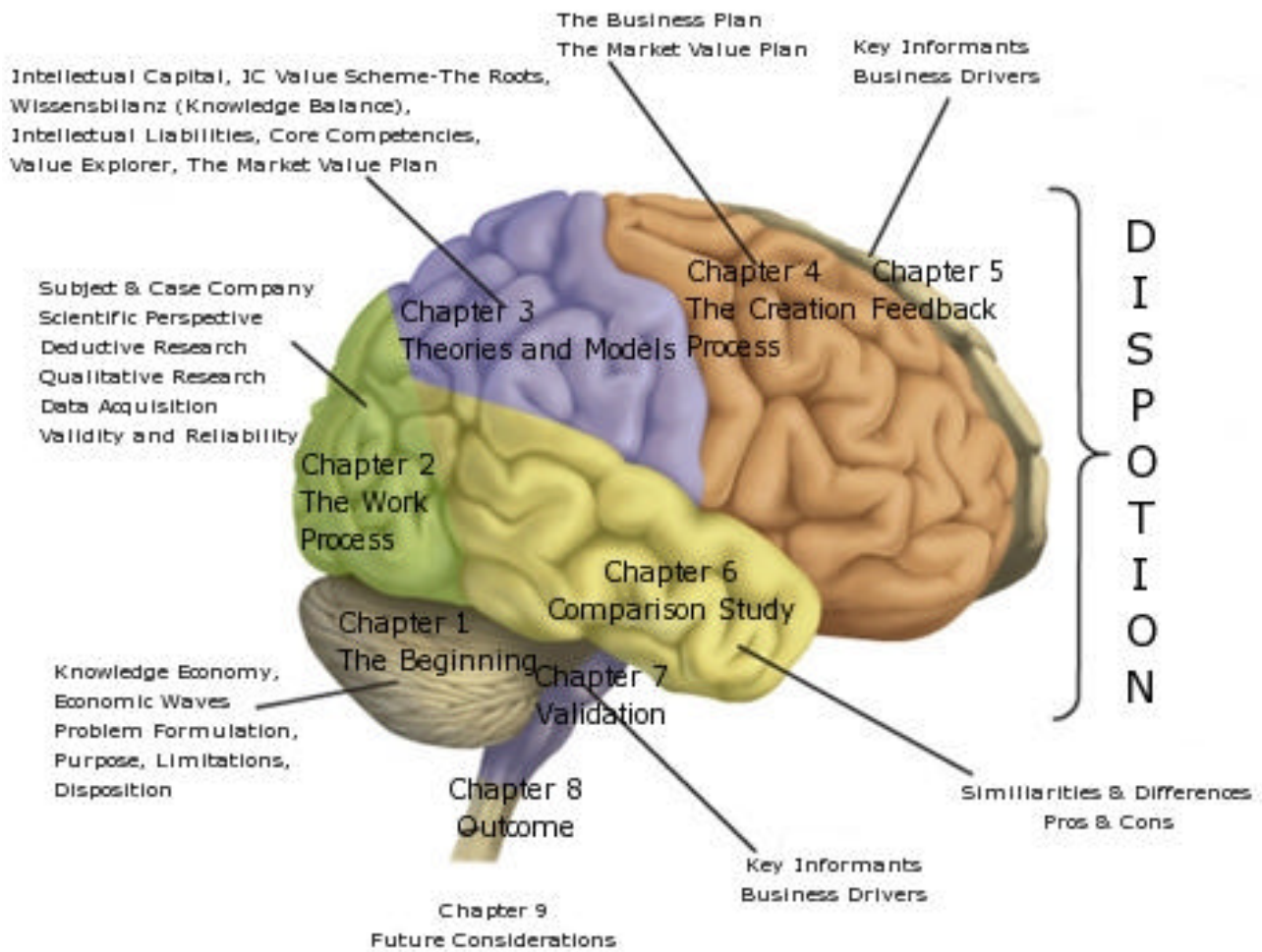
### ***1.4 Limitations***

This thesis is limited to the construction concepts surrounding the business plan as well as how it can aid in determining the market value or potential market value of the venture detailed within it. Discussions as to why business plans are constructed or their roll outside of what has been defined by this work will not be broached.

This construct is made up of several models all of which are limited to a focus on intellectual capital. These models will be applied either in whole, in part or even adapted to develop said construct.

We have chosen to focus our attentions on a single case or entrepreneurial effort. This case is represented by an existing business plan which will serve as a base in establishing the foundation of the Market value planning tool. The sustainability of the business idea in the case company is not the focus of this thesis. It is one of a multitude of possible ideas that could implement this model.

## 1.5 Disposition



## 2. Methodology

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*This second chapter describes the methodology used to answer the questions and the purpose described in the first chapter. This to give the reader information about how the study is conducted and how the empirical material has been assembled. A general discussion about the validity and reliability of the study will also be presented.*

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### 2.1 Subject and case company

We will be working with the mindset that a new type of business plan has value in the knowledge economy of today. This is our motivation for developing the Market value plan that is founded on the concept of intellectual capital representing one of the pillars in a company's market value (Edvinsson, 2002).

Douglas J Ross (one of the authors of this thesis) recently wrote a business plan for a new venture he is undertaking with others. He relied on the use of a software program (Business Plan Pro) to aid him in his endeavour. The company that the business plan has been written for is a digital publishing venture called TAKE-10 which is in the start-up phase.

Normally access to business plans is rather difficult given the protective nature entrepreneurs have of guarding their ideas in the early stages. Given our intimate access to this business plan we will apply it to the MVP process described in chapter four. The two plans will as stated before, be compared and commented on to understand the perceptions of the MVP and how it is received by key informants.

Our interest in Intellectual Capital(IC) models and their applications within the



Knowledge Economy has motivated us to be a part of a new school of thought in developing new applications within this sphere. Leif Edvinsson, who has played a key role in several of these newer applied efforts has been a source of inspiration.

The MVP will be derived by using several recent as well as established IC models. By using the same business idea in the MVP as in the already created business plan comparisons will be more valid. To provide the new MVP with credibility, copies will be sent out to key informants in order to collect comments and observations.

### **2.1.1 Harvest of Ideas**

Intellectual capital is the base used that has been explored to help us when creating the MVP. After considerable research, we found five models/theories that are applicable to the MVP development process. A ‘Harvest’ analogy will be use to transfer these models from their more theoretical climes to a necessary pragmatic level for practical application. The theories/models to be used are:

*Wissensbilanz; Arbeitskreis-Wissensbilanz 2004*

*IC Value Scheme; Edvinsson 1992*

*Intellectual Liabilities; Harvey & Lusch, 1999, Caddy, 2000*

*Core Competencies; Andriessen & Tissen 2001*

*Value Explorer; Andriessen & Tissen 2002*

### **2.1.2 Business Plan Pro**

The software Business Plan Pro was used when creating the first business plan for TAKE-10. The choice of using software was made to expedite the process. This software was provided by Palo Alto Corporation which offers “products

and offer task-oriented, "know how" solutions for small-business and home-office entrepreneurs, professionals, and middle managers” ([http://www.paloalto.com/pr/company\\_background.cfm](http://www.paloalto.com/pr/company_background.cfm), 2006-05-19). This particular program was chosen on account of a previous academic course in which the plan’s author was required to purchase said software to complete a key assignment. Palo Alto has received favorable reviews by notable industry publications for their Business Plan Pro over the past 10 years. It is regularly on Amazon.com's top 10 list of best-selling business software. Business Plan Pro has won many honors, and customized versions have been developed for corporations.” ([http://www.paloalto.com/pr/company\\_background.cfm](http://www.paloalto.com/pr/company_background.cfm), 2006-05-19).

## ***2.2 Hermeneutics***

We have achieved a general understanding of the subject matter by starting with document studies regarding the intellectual capital way of thinking and using the models described above.

The scientific perspective is hermeneutic which means that the reality is created by persons and must be studied through how people understand the reality (Jacobsen, 2002). The hermeneutic perspective is of importance because the meaning and the real context of the documents studied and the substance in the interviews has been the central part of the thesis (Bell & Bryman, 2005).

The reason for choosing this perspective is that it is good for interpreting and understanding documents. Bell & Bryman (2005) writes that a common reason for using this method is the fact that it is built on the author’s perspective and the sensitivity for context. They explain that it is a suitable method for interpretation of documents as well as other phenomenon (Bell & Bryman, 2005). Furthermore Jacobsen (2002) states that this perspective is appropriate when the study is somewhat controlled by the researcher and consists mostly of

words. In this study we have been given the possibility to interpret the secondary data, in this case document studies, but also the primary data in form of interviews has been collected.

### ***2.3 Deductions***

We have chosen a deductive approach. This method relies on securing certain expectations regarding the world through empirical material that has already been collected and theories that already exist (Jacobsen, 2002). The basis for this thesis has been document studies which have helped us when creating our template. Leif Edvinsson's insights have also contributed essential aspects to our purpose. The primary data on how to create a business plan and the comments we have received regarding the template is also important.

Documents regarding intellectual capital and related models have been studied. The importance of these models has improved the efficiency of collecting data as only the most relevant material has been collected (Jacobsen, 2002). Along with the models it is essentially an established Financial Economic template for creating business plans that has been studied and compared to the Market value plan made.

This deductive method has been criticised because it leads the researcher towards certain information. The researcher collects the material that he thinks is relevant and that leads to giving the researcher support for what he believed when he initiated the study (Jacobsen, 2002). Through having certain expectations we limit the collecting of empirical material and there is a risk that we might overlook important data (Jacobsen, 2002). We are aware that the collecting of material to some extent has been controlled by earlier research and theoretical references. We have attempted to keep an open mind by gathering as much information about intellectual capital as possible to gain an overall picture of the subject and what is most important for our study. We

have also attempted to look at the different perspectives in the material collected to understand the different author's opinions.

According to Holme and Solvang (2001), a descriptive approach is suitable within problem areas where a certain amount of knowledge already exists. In this thesis there are some parts that are descriptive and narrative which support a this approach. It allows the researcher to make descriptions of conditions that have taken place and that exist now. For example the way of working with the existing business plan templates vs. the possibility of adopting the MVP.

This thesis also contains parts of a normative approach that does not describe the situation, but explains how something should be done (Holme & Solvang, 2001). This can further define the purpose of this thesis which again is to create a MVP template to compare with the business plan. Therefore it says something about why and how a MVP should be created.

## ***2.4 Qualitative research method***

When using a qualitative research method there is a focus on words rather than on numbers (Bell & Bryman, 2005). Here the qualitative research method has been used when carrying out document studies and when taking interviews with the persons who have read our Market value plan. To get a deeper knowledge within the area of intellectual capital and the usage of the models applied, it was considered highly relevant to go to the actual source and get the newest and most suitable information. Leif Edvisson has provided us with a lot of information and contacts.

The qualitative method is more open to new information, things that are not expected (Jacobsen, 2002). This has helped the authors to work with unexpected information in a way that is not possible when using a quantitative method (Jacobsen, 2002). We think that the flexibility that this method

contributes with has been very important. An open-minded perspective has been used both when collecting and considering data for the new template and when receiving comments on its value. When carrying through the interviews it created a possibility for adjusting questions and asking follow-up questions and thereby giving us even more detailed comments.

The qualitative method has however been criticised since no researcher can be totally open-minded (Jacobsen, 2002). The researcher has prejudices, but is often not aware of these prejudices (Jacobsen, 2002). Every researcher has its blind spots, things they don't see because they don't know what to look for (Jacobsen, 2002). In this case the authors have been aware that their former knowledge and intentions may have affected the research result. This might mean that some information has been overlooked since there have been perceptions about what is relevant. Through using a qualitative method a more nuanced picture is created which makes it difficult to make eventual generalisations (Jacobsen, 2002). We are aware of where this method is lacking and therefore a critical way of thinking has been applied when carrying out the study.

Further criticism is that the qualitative method is subjective, hard to replicate and that it has a lacking transparency (Bell & Bryman, 2005). This topic and its effect on this study will be discussed under the headline validity and reliability.

## ***2.5 Data acquisition***

### **2.5.1 Primary and secondary data**

In this thesis both primary- and secondary data has been used. The empirical material consists of document studies and interviews or comments from relevant persons.

The document studies have been of great importance because there is an

enormous amount of knowledge on intellectual capital to be found. It gave us an overview of the subject without too much influence from any direction. It can although be said that there is a limited amount of authors within this area that all are aware of each others work.

The collection of data regarding intellectual capital and the models chosen has then been used to create our prototype or our Market value plan. With this knowledge as our base a form of brainstorming was conducted in order to take as many aspects as possible in consideration.

We are aware that the secondary data that has been collected by other persons has been used in other purposes. Therefore we have put a lot of effort on choosing proper documents and sources. We have only used documents which we believe have a high credibility.

In Bell and Bryman (2005) there is a checklist to be found. This checklist provides pointers on things to question when using documents. We have used it to make it easier for us to form an opinion about the documents.

? Who has created the document?

? Why has it been created?

? Is it possible to strengthen or confirm the course of event or statements that are presented in the document?

? Is there other possible interpretations of documents then the one oneself presents?

As stated before there are a limited amount of authors within this area and they usually refer to each other. Since this is the case we believe the information in their articles to be relevant and trustworthy. The authors continually present

new material on the subject.

The secondary data has mostly been collected by using the database ELIN and LIBRIS provided by Lund University. It is scientific articles from various authors that have been collected. Literature has also been found by using Lovisa which is a library database also provided by Lund University. Furthermore the thesis database has been used. We have also used search engines as Google to help scan the area for information.

The primary data consists of the prototype already made and the process of making it will be described. A business idea that existed was put on paper and software by Paolo Alto was used for creating the business plan. There are certain steps and questions along the way. A lot of work and thought had to be put down to make it.

In contrast to this the work with building the new plan will be presented. We used the same business idea and that might have made the work easier because certain parts were already fixed. On the other hand a lot of new information had to be collected because of the different direction of the Market value plan. The creation of the Market value plan which is the latest contribution of primary data was time consuming since many new perspectives had to be considered.

When creating both the business plan and the MVP the collection of secondary information was a necessary part of the process. For example data on market values, prices, competitors and so on had to be looked into.

The other part of the primary data collected is the interviews carried out. The Market value plan was sent to interviewees for us to then make short interviews. This provided us with information of the credibility and usability of the template created. We also got information on how the interviewees saw the Market value plan in contrast to the regular business plan. The interviewees are

people that have been working in the corporate world for a long time, some have published books and some have long experience with judging business plans and making decisions on investments in companies. We have asked for a professional opinion, but to some extent the answers bear the stamp of the interviewee's personal opinions and experiences.

We also consider the tutoring we have had to be primary data though Leif Edvinsson has given us explanations on how his model work and how we should think when using it. After all he is the one who has established a global standard in the management of Intellectual Capital and he is the originator of the UNIC model. Leif Edvinsson has also provided us with suggestions on people to contact regarding interviews.

### **2.5.2 The choice of Interviewees**

We have chosen a handful of respondents to send our business plan and Market value plan to. To get access to respondent that have knowledge in the area of both business planning and to some extent intellectual capital we have asked out tutor for advice. He referred us to persons that he found suitable. We wanted respondents that could make a statement on what the worth of a Market value plan could be in comparison to that of a business plan and if one could replace the other.

When getting in contact with the persons chosen some had an extreme workload and didn't have time for us. We presented our work to find the suitable persons and were referred to other persons and so on. This created some of a snowball or chain effect to get to the persons who had time and possibility to help us (Bryman & Bell, 2005, s. 126-127).

About to the respondents can be said that they have different backgrounds and experiences. Still they some but not all have in common that they are entrepreneurs, highly active in the corporate world, have companies of their



own, are active in other organisations, have board responsibilities, work within venture cap, and have experience of assessing companies.

The respondents have in some cases looked at the table of contents of both the business plan and the Market value plan and read the summary provided. In most cases our respondents have taken time to go through the entire business and Market value plan. This of course are two different ways of forming an opinion of the context, but we have left it to this because we found it better to get some comments than none.

The respondents chosen have been Erling Gustafsson, but because of a heavy work load we were referred to Christina Brinck who also works at AP Direktinvesteringar, Sjätte AP-fonden. After talking to Hans Möller who is the CEO of Ideon we were referred to Patrik Söderlund and Håkan Nelson who both work with venture capital companies.

We also selected two so called business drivers or successful entrepreneurs to receive feedback regarding how they run their companies. These were Henri Saffer of Blueberry and Erik von Schenk of Jolife.

The respondents have been seen upon as trustworthy since they hold a high confidence in their respective line of business. They hold important positions in known companies which doesn't have to prove reliability, but can still be seen as a sign of competence and experience.

### **2.5.3 Interview technique**

Telephone interviews have been carried through with the respondents. This was chosen since many of the respondents are very busy and they live and work on various places in Sweden and abroad. There are certain advantages

with making telephone interviews except that it reduces costs and saves time. It makes it easier for people to open up and can also be seen as a type of anonymous interview, which can reduce possible interview effect. This means that the person interviewed is affected by the physical presence of the interviewer and acts abnormal (Jacobsen, 2002, s. 162).

There are also disadvantages with the telephone interview, something that we have tried to take in consideration. We haven't had any possibility to observe how the respondents acted and thereby lost the possibility to pay attention to facial expressions and body language. The interviewer can lose signals regarding if the respondent feels that a question is uncomfortable which can lead to the person being interviewed to shutting their self off (Jacobsen, 2002, s. 161-162). We were both present during all interviews to increase the possibility of apprehending signals in voice and pitch. We have also tried to build up a confidence through telephone and mail contact before the interview where interest and engagement has been showed. The telephone interviews has given the respondents a possibility to chose a point of time which might have reduced possible contextual effects (Jacobsen, 2002, s. 162)

We used an interview guide for all interviews. The guide was used as a template where different themes or questions were discussed. The interview guides can be found in (See Appendix 2).

The table of contents for the business plan and the whole Market value plan was sent to the interviewees beforehand. They were asked to read it and compare the content to that of a business plan. We then called back a few days later and asked the questions we had. While the interviews were semi structured (Andersen, 1998) they were rather open. Since we wanted feed-back we were open to listen to what the interviewees had to say without the interview guide controlling too much.

## ***2.6 Validity and Reliability***

When empiric material is collected it should fulfill two demands (Jacobsen, 2002):

? The empiric material has to be valid and relevant.

? The empiric material must be reliable and credible.

The validity has to do with whether what we measure what we want to measure, that what we measure is relevant and can be valid for more than one unit (Jacobsen, 2002). Reliability deals with whether the study is done in a way that can be considered suitable (Jacobsen, 2002). In our case we have aimed at getting a deeper knowledge within intellectual capital to use this knowledge for the creation of a Market value plan. Since we have collected an extensive amount of information and then made a choice of what to use we feel confident that the material that we have used actually represents a valid basis for our work. The information is also considered reliable because it is well known authors and websites that have been used as sources for information.

When it comes to our already existing business plan and the knowledge on how to create it we ourselves possess that knowledge. This means that there is only one source in this case and it can surely be influenced but we can't get any closer to the source. If asked again one would with high probability get the same answers.

**The persons interviewed about the new template.....**

We have worked with screening the areas of competence to get as relevant data as possible and thereby we have also been careful with generalizations. When

finding something new we have looked into it and later in the screening process a decision has been made on whether the information is suitable for our purpose. The results are founded on both primary and secondary data which has been collected, something that we consider increases the validity. The data collected is also reviewed as relevant because certain criteria's has been used when collecting the secondary data. Furthermore we have put a lot of weight on getting relevant interviewees. We have made some subjective judgments when collecting the data, but we have taken a critical attitude to all findings.

The conclusions of this thesis...generaliserbarhet?

### 3. Theories and Models

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*This chapter aims at by way of introduction giving the reader an overall picture of intellectual capital. Furthermore the five different theories and models chosen within this area will be presented. These theories and models will then be the base when we create our Market value plan.*

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#### ***3.1 Intellectual capital***

A Market value planning tool as its name indicates relies heavily on the concept or general theory of Intellectual Capital. The idea is that from this general theory an MVP tool can be developed. IC theory in and of itself provides only a base understanding and direction. The need for more cognitive models to bring the planning activity down from the theoretical to the applied science level is necessary in order for an MVP to have any practical value to entrepreneurs who would use it.

Planning a new business both as a startup or a new venture within an existing firm requires producing a complete picture of the new business. This is especially important for entrepreneurs looking to secure any type of financing through venture capital companies or in the case of existing business executives signing off on budgets. To assure that a complete picture using an MVP could be made, we felt it was prudent to adopt several theories and models.

Each model has its focus areas which will be described later. There is some overlapping of concepts, but this is natural given that each model is representative of the research in the field of Intellectual Capital. The models

which have been adopted either completely or in part are the following:

*Wissensbilanz; ; Arbeitskreis-Wissensbilanz 2004*

*IC Value Scheme; Edvinsson 1992*

*Intellectual Liabilities; Harvey & Lusch, 1999, Caddy, 2000*

*Core Competencies; Andriessen & Tissen 2001*

*Value Explorer; Andriessen & Tissen 2002*

The foundation of this work will be based on the IC Value Scheme developed by Leif Edvinsson at Skandia AFS in the early nineties. This value scheme according to Edvinsson has been compared to a tree, where the root system consists of valuable building blocks that determine the market value (the fruit of the tree) of the firm.

In keeping with Edvinsson's analogy, the theories and models applied to the Market value planning tool in this thesis will represent the various aspects surrounding a typical fruit tree. While the IC Value Scheme represents the tree itself including the root system, the nourishment or water for the tree will be illustrated by the Wissensbilanz developed by.

Where there are fruit trees there are also pests that are dangerous to the survival of the tree or the development of its potential harvest. The concept of intellectual liabilities as defined by Michael Harvey, Robert Lusch and Ian Caddy represents said pests or threats to the well-being of the fruit tree.

Once the fruit of the tree is ripe, the harvest or the market value is realized. The fruit will represent core competencies and their ripeness or value which will be quantified through the use of the Value Explorer<sup>®</sup> model developed by Daniel Andriessen and René Tissen.

### 3.1.1 IC Background

The general theory of intellectual capital (IC) builds the foundation of our Market value planning model. While several models will be implemented, the basis for these models and our template weaves a common “IC” thread throughout the course of this work.

The first use of the term “Intellectual Capital” can be debated. Tom Stewart initially stated that it occurred in 1969 when John Kenneth Galbraith in correspondence with economist Michael Kalecki wrote: “I wonder if you realize how much those of us in the world around have owed to the intellectual capital you have provided over these past decades” (Sveiby, 1998, updated 2001). Ten years later Mr. Stewart states that the term “...dates back at least to 1958...” (Stewart, 2001) While the exact date of the “birth” of the concept of IC is not relevant for the establishment of a Market value planning prototype, it does provide a frame of reference that serves to legitimize said concept as having had enough time to develop.

During the 1980's, several researchers and economists began to seriously consider aspects of management that would influence how IC would be defined. Among these was Commerce and Manager Professor Hiroyuki Itami who studied the effect that invisible assets had on how Japanese companies were managed and published his work “*Mobilizing Invisible Assets*” in 1980 (Sullivan, 2000, p.238-244).

Another stand out or pioneer was Karl-Erik Sveiby, considered the founding father of the “Swedish Movement” into knowledge management published his first book “*The Know-How Company*” in 1986 where he explored how knowledge focused companies were managed given that they lacked traditional production characteristics (Sullivan, 2000). Sveiby would publish several more articles and books related to this subject over the course of the following five years.

It was not until 1991 when the concept entered the mainstream. Tom Stewart who is on the board of Editors for *Fortune* magazine wrote an article where he defined IC as: “the sum of everything everybody in your company knows that give you a competitive edge in the market place” (Stewart, 1991). That same year, Skandia Corporation created the world’s first executive IC function, and named Leif Edvinsson as Vice President. Edvinsson, who was inspired by Sveiby developed the Scandia Navigator, which helped quantify a measure of IC for the insurance company.

Edvinsson's efforts in building the Scandia Navigator in 1992, also led that same year, to the development of the IC Value Scheme which today is known as the UNIC model (Edvinsson, 2002, p.98-99). Figure 3.1 shows a critical timeline of events that have resulted in a well established definition of IC.

#### Övergång

That definition has evolved over the past 25 years into a concise explanation of IC as an equation equalling the total sum of human capital + structural capital + relational capital. While there is still a debate regarding what exactly IC is, this established definition is the one that will be applied to the Market Market value planning prototype in this thesis.

Human capital, structural capital and relational capital will from this point forward be referred to as HC, SC and RC respectively. While the equation efficiently illustrates IC value, it does not explain the details behind the variables represented within it. These definitions will follow. We feel it is prudent to continue relying on the same resources when defining the variables that were used in arriving at this equation, thus maintaining continuity.



**Figure 3.1.1 (Sullivan, 2000)**

**Time Line**

- 1980 Itami publishes "*Mobilizing Invisible Assets*" in Japanese
- 1981 Hall establishes company to commercialize research on human values
- 1986 Sveiby publishes "*The Know-How Company*" on managing intangible assets
- April 1986 Teece publishes seminal paper on extracting value from innovation
- 1988 Sveiby publishes "*The New Annual Report*" introducing "knowledge capital"
- 1989 Sveiby publishes "*The Invisible Balance Sheet*"
- 1989 Sloan Global innovation strategy published by Debra Amidon**
- Summer 1989 Sullivan begins research into "commercializing innovation"
- Fall 1990 Sveiby publishes "*Knowledge Management*"
- Fall 1990 Term "Intellectual Capital" coined in Stewart's presence
- 1990-1991 Origins of a knowledge-based firm by Debra Amidon**
- Jan. 1991 Stewart publishes first "Brainpower" article in *Fortune*
- Sept. 1991 Skandia organizes first corporate IC function, names Edvinsson VP
- 1992 Long Range Planning by Leif Edvinsson is published**
- Spring 1992 Stewart publishes "Brainpower" article in *Fortune*
- 1993 St. Onge establishes concept of Customer Capital
- July 1994 First meeting of Mill Valley Group
- Oct. 1994 Stewart authors "*Intellectual Capital*" cover article in *Fortune*
- Nov. 1994 Sullivan, Petrash, Edvinsson decide to host a gathering of IC managers
- Jan. 1995 Second meeting Mill Valley Group
- May 1995 First Skandia public report on IC
- April 1996 SEC symposium on measuring intellectual/intangible assets
- Sept. 1996 Sullivan and Parr book, "*Licensing Strategies*", published
- Oct. 1996 Lev founds Intangibles Research at New York University
- Mar. 1997 Sveiby publishes "*The New Organizational Wealth*"
- Mar. 1997 Edvinsson and Malone book, "*Intellectual Capital*", published
- April 1997 Stewart book, "*Intellectual Capital*", published
- June 1997 Hoover Institution conference on measuring intellectual capital
- March 1998 Sullivan book, "*Profiting from Intellectual Capital*", published
- 2002 Leif Edvinsson, *Corporate Longitude; Navigating the Knowledge Economy*
- 2004 "Tänkebok för chefer – baserad på bilder" by Björn Molin

### 3.1.1.1 *Human Capital*

Jacob Mincer (1958, p.281-302) presented the concept of Human Capital to his peers by looking at the correlation between the apparent disparity in wages and issues such as the amount of formal training, the actual time spent training vs. earning income, age, etc. Gary Becker wrote a book titled “*Human Capital*” 6 years later which was used as a key reference.

Beckers work was considered controversial as peers considered breaking down human characteristics as motivators for businesses to hire in financial terms as **debasing**. Over the years, Becker has expanded his research to such an extent, that his definition of human capital has become extremely complex. He has considered issues such as family influence, marital stability, risk of becoming a smoker, other health issues, habits of children, and punctuality among many others in defining the economic ramifications of human capital in the firm. (Becker, 2006)

We have chosen for practical reasons to apply a more succinct but still encompassing definition of human capital. Edvinsson (2002, p.110) quipped that human capital is what walked out the office door every evening. While this pithy description may not be enough to understand what will be valued in an MVP, it does remind us that in the case of HC, it is indeed an issue of people and what they bring to the table in the form of value for the firm.

Edvinsson further explains that HC deals with all individual capabilities such as knowledge, skills, experience. He reminds us however that these things cannot be considered in a vacuum, but they must “...capture the dynamics of an intelligent organization in a changing competitive environment”. Like Becker, Edvinsson clarifies the need to consider the 'why' and 'how' behind the individuals knowledge and skills base. Creative and innovative levels as well as potential are also important considerations (Edvinsson & Malone, 1997, p.35)

In simplified terms, HC can be “...described as the employees' competence, relationship ability and values” (Edvinsson, 2002). We feel that it is also important to consider health issues as explained by Becker. It is these four descriptives that we will apply to HC in our MVP.

### *3.1.1.2 Structural Capital*

Edvinsson describes SC as “...the embodiment, empowerment, and supportive infrastructure of human capital” (Edvinsson & Malone, 1997, p.35). What does this mean in layman's terms? Simply it is a combination of several different types of “capital” that will be defined further on in this chapter. It will become clearer once the IC Value Scheme is presented and explained. What is important to understand is that SC includes what can be owned. IT systems, databases, patents, copyrights, logos, work methods, processes, incentive programs, results from studies, etc.

SC is best defined by the capital categories it subsumes. Therefore, SC is the total **compilation** of Organizational Capital (OC), which consists of Process Capital (PC) and Innovation Capital (INC). INC in turn consists of Intellectual Property (IP) and Intellectual Assets (IA). Each of these “capital” types will be described in detail under the IC Value Scheme.

### *3.1.1.3 Relational Capital- **andra Relational***

During the development of the IC concept it was described early as being the combination of HC and SC. This meant that RC had long been considered part of the SC. In 1994, Hubert St. Onge who was working at CIBC enhanced the Skandia IC Value Scheme by breaking RC out from under SC thus equating its value on par with SC and HC.

RC can be defined as the total value of a firm's relationships with the people

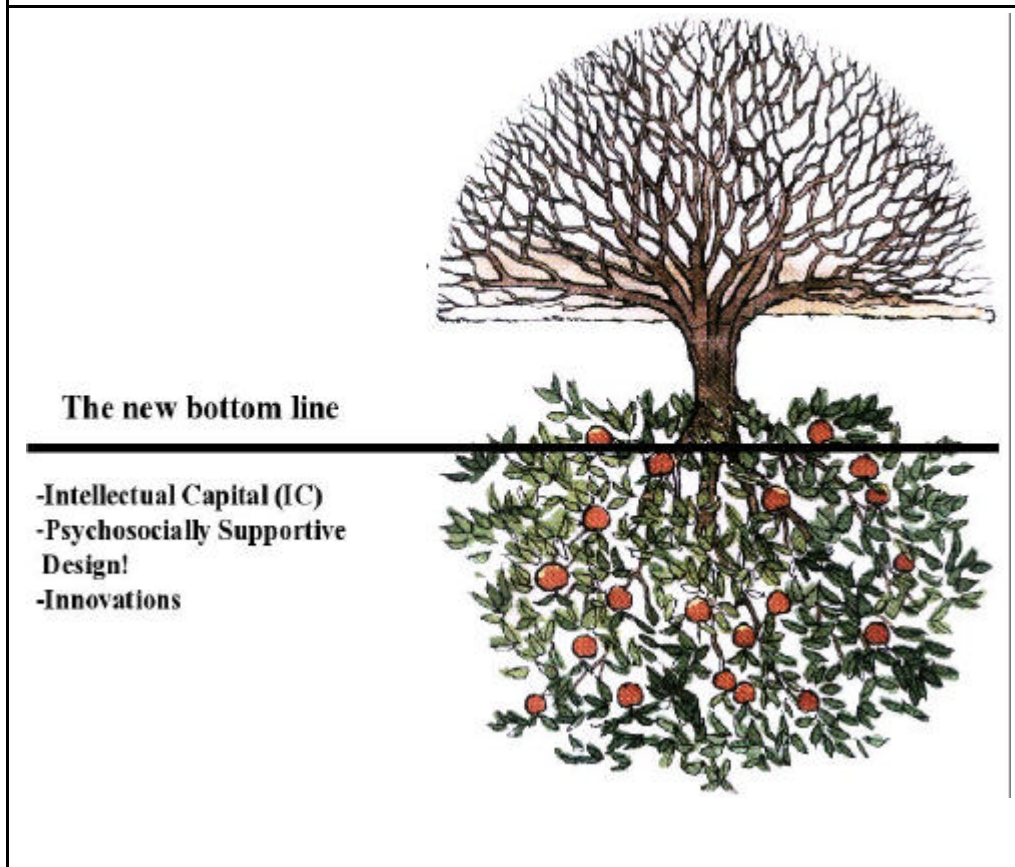
and organizations it does business with. However it is important to understand the depth of what that entails. Duffy (2000, p.10) provides that depth of explanation by stating that “Customers are the engines of growth...Customer capital is the value - the contribution to current and future revenues – that results from an organization's relationships with its customers.”

It is the correlation between revenues and customer relationships that is important to understand when developing an MVP.

### ***3.2 IC Value Scheme – The Roots***

As previously discussed, Edvinsson's IC Value Scheme has been compared to a root system leading to a tree that represents the market value of the firm. The importance of this root system is accentuated by the fact that the image has been purposely created upside down.

*Figure 3.2a - Edvinsson's Value Concept*

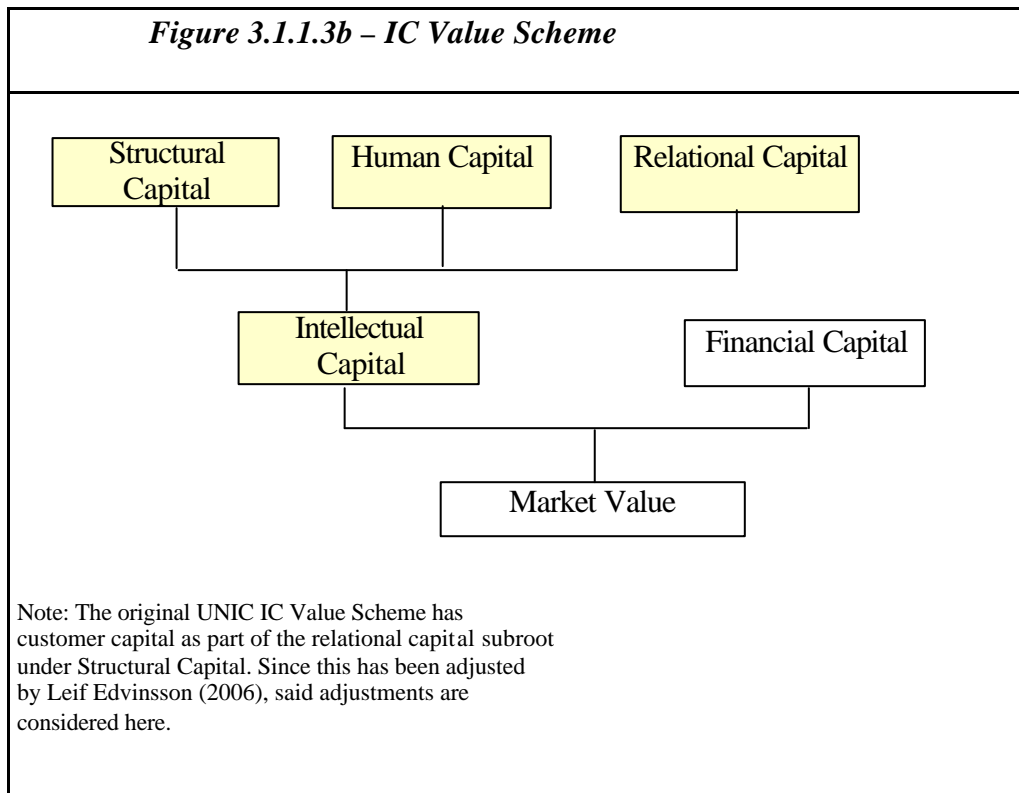


The root system however is rather simplified which serves the pedagogical purpose of maintaining a coherent template. Imagine the difficulty of branching out a root system that considers each minute aspect of every possible corporate scenario dealing with IC parameters. The extensive nature makes any efforts to create an all encompassing detailed root system prohibitive.

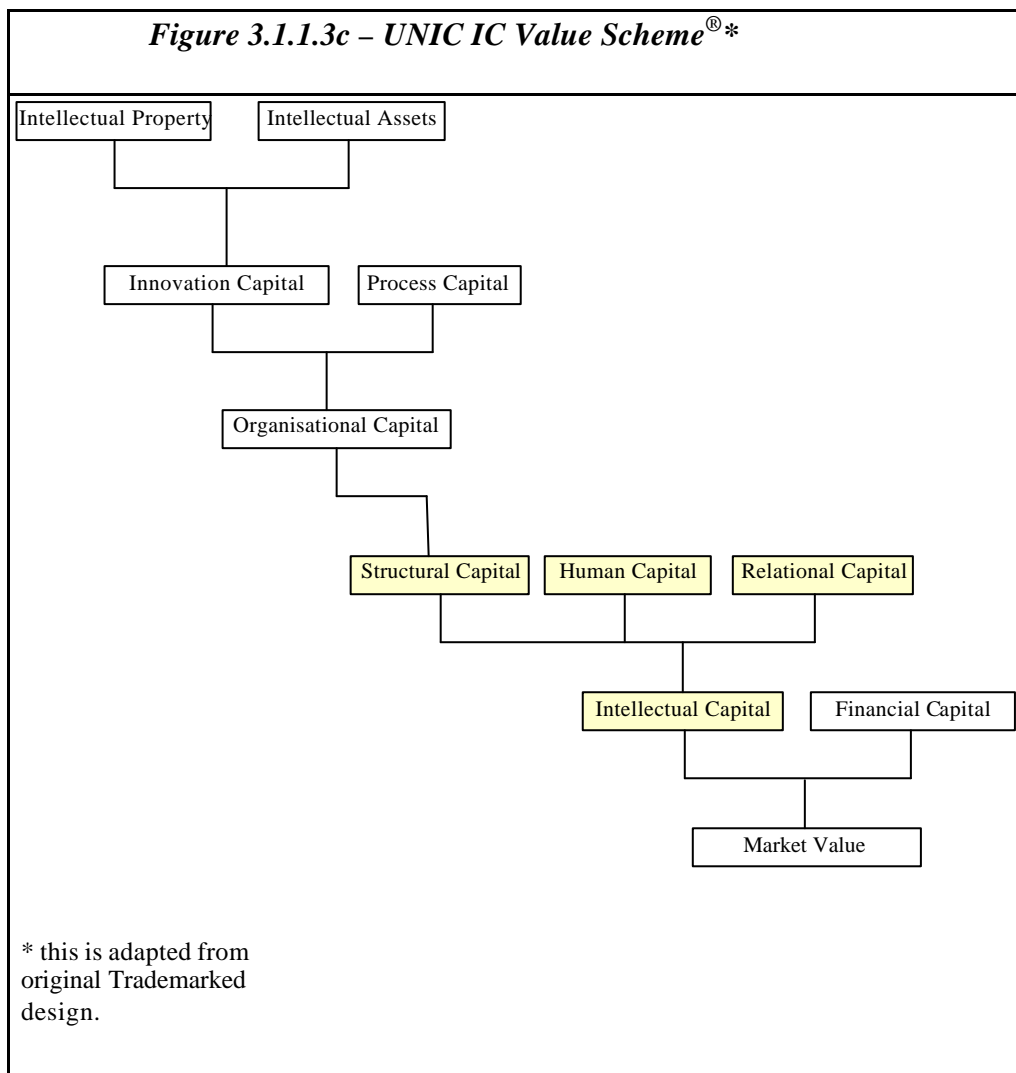
The base or main roots defined in the IC Value Scheme encompass the established areas of 'capital' existing in the typical firm. The details or smaller extending root systems from each of these main capital roots will be unique to each firm.

The roots closest to the market value tree on one side have already been

defined. They are the IC root which is connected by the HC, SC and RC roots.



Again the concept is turned upside down exposing the roots or the value origins of the firm. Figure 3.2c shows the complete capital roots system that will be applied when building an MVP.



### 3.2.1 Organizational Capital

In order for a firm to be effective, there needs to be a way to leverage HC throughout the entire organization. Organizational capital (OC) is the system and working methods developed to accomplish this. HC is not static and can leave a firm at any moment. Firms who have succeeded in packaging or systemizing HC so it remains when the owner leaves the firm are considered to have leveraged those capabilities. That leverage is also considered OC.

(Edvinsson & Malone, 1997, p. 36).

In practical terms OC can be described as reporting systems, standard operating procedure databases, order systems, phone etiquette and so on. Corporate culture fits into this capital root as well.

In Molins book "Tänkebok för chefer" (2004) he also points out the weight of developing the culture. Molin (2004) states that the culture should be a support for commitment, participation and value creation. Furthermore the weight of developing the business with help form common pictures that can improve the internal and external communication is brought up.

It is understood that any start up or new corporate extension will initiate OC development during the planning stages when deciding on various issues ranging from which database software or systems to invest in to employee dress standards at the office.

OC is divided further into two roots. Process Capital (PC) and Innovation Capital (INC). Each of these describes certain aspects of what has already been defined above.

### **3.2.2 Process Capital**

PC is considered the practical knowledge that is applied in maintaining efforts to create value. Items such as employee incentive programs which can inspire knowledge workers to achieve and maintain efficient working levels that improve the firm's value. Work processes and certifications such as ISO or environmentally based belong here as well. These enhance the value of the firm within by creating an efficient work ethic while external impressions of



high or ethical standards attract customers. (Edvinsson & Malone, 1997, p. 35)

Work processes, certifications, employee incentives, etc are legitimate concerns for new ventures. In a nutshell, PC is about how things are done at the firm. Therefore, it is important for this capital root be considered during the planning phases.

### **3.2.3 Innovation Capital**

While PC deals with how the day to day things are done, Innovation capital (INC) focuses more on the creative processes or how things are done regarding breakthroughs in product development as well as what things are done that are unique or protected by commercial rights such as patents or trademarks. (Edvinsson & Malone, 1997)

INC is divided further into two roots. These are Intellectual Property (IP) and Intellectual Assets (IA). The aspects of INC are represented by these tips or ends of the roots system.

It should be obvious that any new venture already possessing patents or a creative adaption to an existing process needs to consider how this INC is to be leveraged. This is often the very focus point of any new venture or business, and at times the entire business plan will revolve around said INC.

#### *3.2.3.1 Intellectual Property*

Intellectual Property (IP) has become rather easy to identify in most cases. Trademarks, patents, copyrights, industrial design rights, trade secrets are the bulk of what is considered under IP. The value of these properties can be

extensive if developed well enough. Trademarks such as Coca Cola and Nike are considered to have a large value for their respective corporations. Intel's processor patents have been a vital key in their ability to dominate the CPU market for so long.

When starting a business, the possession of any IP from the start or the ability to quickly develop such is important in establishing a sustainable venture. Therefore planning with this in mind would be considered a necessity.

### *3.2.3.2 Intellectual Assets*

IP is much easier to identify than IA. IA is a much fuzzier concept. Many confuse the two, and will often be talking about IP when discussing IA. A good example that illustrates the difference would be Steven R. Covey who is considered a guru among fortune 500 companies in leadership education and effectiveness training. He was considered by “*Time*” magazine as one of the top 25 most influential person in the United States. When looking at his company's IP, the Franklin Covey trademark applies. The copyrights to the number of books he has written including his most recognized “*The 7 Habits of Highly Effective People*”, which has sold over 15 million copies to date (<http://www.stephencovey.com/about/professionalbio.html>, 2006-05-06). Both his Trademark and copyrights are clearly defined and a value attached to them. **Luddigt.**

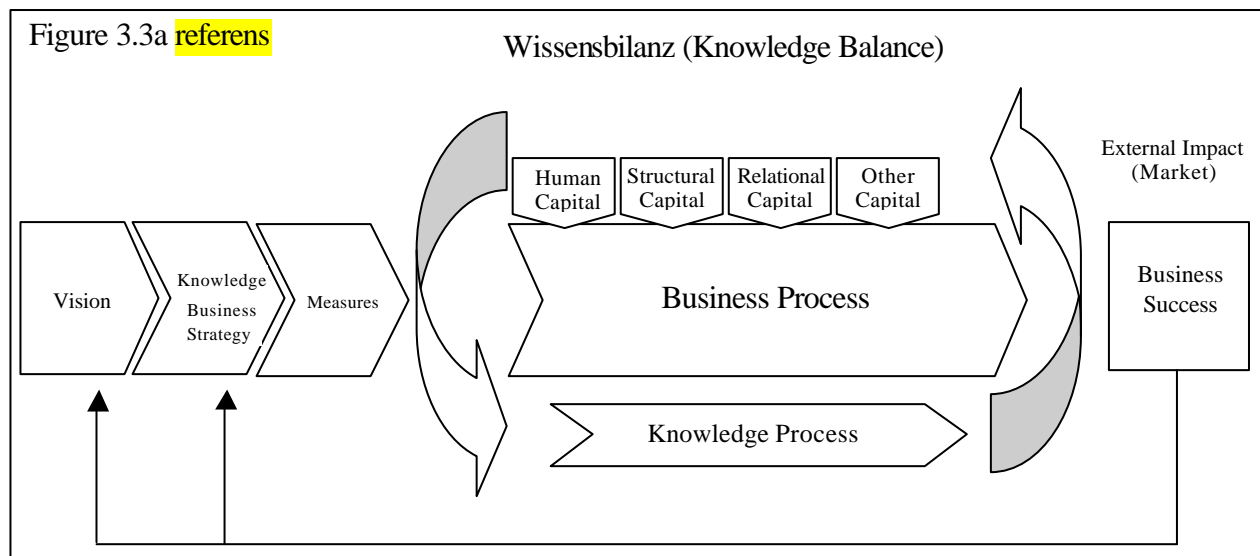
His IA however would be his concepts such as the Abundance mentality vs. the Law of Scarcity, or his Law of the Harvest, which he abides by and utilizes in his consultations with executives. Neither of these concepts were originated by Mr. Covey, and neither of them are protected by any commercial rights. He has however, adopted them and has been the key cog globally in creating awareness of them through his business. These principles or theories are definitive examples of IA.

Entrepreneurs who get an early start on identifying IA through an MVP can possibly obtain important information or signals early on concerning which of their assets have played a roll in increasing the firm's market value. It is easier to see one arrow hitting a bull's eye and identify the archer that shot it vs. paying attention to a target rattled with hundreds of arrows and identifying the archer(s) whose shaft(s) travelled true.

### **3.3 Knowledge balance/Wissensbilanz *f*örst**

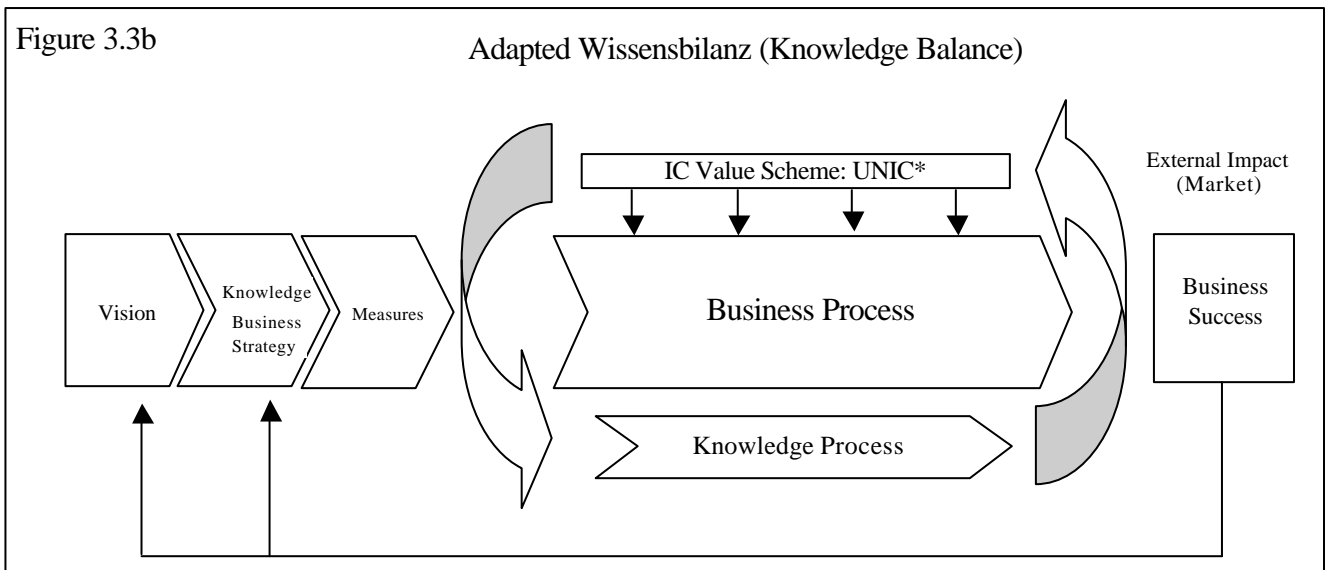
According to the AK-WB group, “The Knowledge Balance is an instrument for the structured representation and development of the intellectual capital of an enterprise.”(Arbeitskreis Wissensbilanz, 2006, <http://www.akwissensbilanz.org>). The concept of balance developed within this model has been more directed to accounting principles. The Wissensbilanz project group is working toward this end. The ability to for firms to create in effect an IC balance statement. Of course this accounting exercise serves two purposes. The first is to assist in the decision making process(what actions to take). This is aided by revealing the IC aspects within the firm that contribute to its success. The second is an opportunity for leadership to inventory the IC within the firm and thus revealing areas that need shoring up in order to maintain sustainability. Both of these purposes play a role in the concept of ‘balance’ as to the word’s basic meaning.

Wissensbilanz (Knowledge Balance) can be said to represent the vital nourishment needed to initiate the growth process. As long as a firm is just a concept or idea, it is nothing more than a seed waiting for that perfect combination of nutrients to unleash germination and than growth. If a tree is subjected to an excess of any one nutrient or a lack of the same, the ability to grow is interrupted. The lack of water, fertilizer or sunlight can have a destructive effect which can eventually lead to the death of said tree. The concept of ‘balance’ is reiterated within the Wissensbilanz model. Figure 3.3a provides a schematic to the Wissensbilanz process.



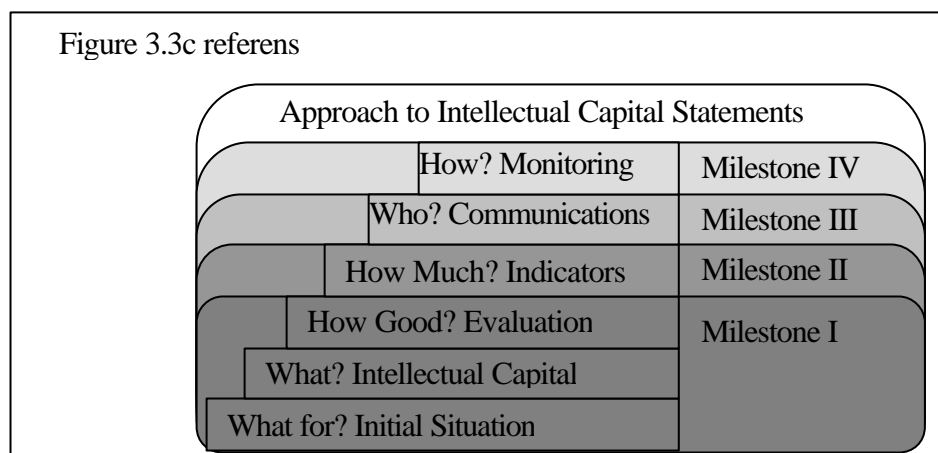
The farmer (who has a vision of flourishing fields of grain) evaluates the lay of the land he will be planting on, weather conditions that will effect his crops, and the ph levels in the soil he will sow his seeds. The firm likewise begins with the same process of evaluating the external impacts in the market on their vision. From this, like the farmer they are able to develop a strategy. This evaluation leads to a number of measures (milestones) on how the firm will position its IC in relation to sustainability. As figure 3.3a illustrates, the business process is dependent on the various types of IC either within or connected with the firm. Therefore we have decided to focus on the definition of 'balance' that deals with assuring that the right amount of each of these types of capital is present to not only maximize the effective use of said capital, but to create sustainability for the firm.

The model focuses on the three major pillars of IC as well as 'other' capital. This we feel is best reflected by Edvinsson's IC Value scheme. Therefore we have sought to clarify the Wissenskapital model by replacing the capital definitions with the IC Value (UNIC) scheme. Figure 3.3b illustrates the cohesiveness of this adaptation:



Our reasoning behind this adaptation is an issue of a means to an end. The end being the ability to quantify the market value of the firm in terms of both Financial and IC capital.

The work process within Wissensbilanz coincides well with the business planning process that will be utilized in the case represented later on in this thesis. This working process is structured in terms of four key milestones to achieve a tangible understanding of the IC and its relation to the success or sustainability of the firm. The figure 3.3c below illustrates these milestones.



While the specific steps of each milestone are not defined here, it is sufficient to define them as a work process to identify the IC within the firm, its level of competency, its magnitude and where it can best be utilized. The established use of this model is project based. The firm by utilizing the first three steps in this milestone work process can establish a strength and weakness level in relation to the given project. If XYZ corporation wants to begin offering a new service, they can through the milestone approach assess the IC strengths and weaknesses within their firm to decide whether to continue or cancel the project.

The fourth step or milestone allows for the firm to direct IC where it may best serve in achieving sustainability within the project. This as mentioned earlier falls well within the framework of business planning in general, and therefore provides a strong correlation to the concept of our Market Value Plan model.

When planning a new venture, entrepreneurs can be served well in taking stock of their IC in a similar manner. In this way they can begin the new business from a perspective of directing IC where it will do the most good according to their vision and strategy.

### ***3.4 Intellectual Liabilities***

Part of business planning deals with the need to weigh the difference between the good and the bad that each entrepreneurial venture brings to the table. The amount of efforts to bring IC into accounting practices through reports like those done at Skandia, CIBC, KPMG, etc. have been pro value in the sense that the focus has been on quantifying the value by measuring the intellectual assets within the firm. One discussion that has been broached on occasion has received much less attention or research time, and that is the issue of Intellectual liabilities.

As unusual as this might be, it makes at least a bit of speculative sense. Who wants to focus on the real possibility that the working theories or concepts driven by the resident knowledge worker a.k.a. guru while creating value comes with a few thorns and thistles that if unchecked can eventually cause more harm than good.

Harvey and Lusch (1999, p. 85-92) brought up an obvious but sentient point in the danger of assuming that all IC automatically is converted into an increase in equity. The question that follows their reasoning is “Where are the intangible liabilities that are being accrued along with the potential benefits from the intellectual capital?”

It is important in the planning stages of a new business to have an awareness of liabilities with the firm from the start as well as potential liabilities that can reveal themselves. While no one can be expected to weed out such in crystal ball fashion, the humble exercise of balanced valuation can at least provide a realistic image if not a wholly accurate one.

### **3.4.1 IC= IA-IL**

With all the discussion surrounding various types of capital especially when focusing on the end roots of IP and IA, it is natural from a perspective of accounting to ask the following question. If the value of capital is equal to the difference between assets and liabilities, shouldn't the value of intellectual capital be equal to the difference between intellectual assets and intellectual liabilities?

Caddy (2000, p.129-146) presents two implications from the above mentioned

formulas that warrant attention. The first deals with how the firm measures its capital. Again the basic accounting formula  $C = A - L$  applies. This does not happen in a vacuum. The firm is a dynamic organization that will produce, accumulate and lose IA over its own lifespan. The same applies for Intellectual Liabilities (IL)

The effects on the firm can be just as severe in influencing existing and potential customers to look elsewhere due the rise in badwill.

The second implication Caddy (2000, p.129-146) discusses is the natural consequence of the first. If the equation is valid than an appropriate system or method needs to be developed to incorporate the identity of IL. While the identity of the investment in a project is tangible and easily recognized, and the replacement costs are also as easily identified, the difficulty lay in assessing present and future opportunity cost lost.

Regardless of the difficulty, it is important to at least acknowledge these liabilities in some capacity when building an MVP.

### **3.4.2 Classification**

One way of dealing with the difficulty of quantifying IL is to first develop a system of classification. Liabilities can vary and be represented among most or all companies as well as be company specific. Sometimes these liabilities can be large enough to bankrupt a firm, even major corporations. The Exxon Valdez catastrophe and Enron scandal are two sobering examples of what can happen when IL are allowed to fester unchecked within a company. In the first case the IL damage caused due to the biggest oil disaster in modern history is still effecting Exxon's ability to strategize even 10 years after the spill.



Environmental groups lobbied the government to force Exxon and Mobile to merge due to lack of faith in the company to continue it's clean up of Prince William Sound.

Enron as a company is only a shell today because of leadership within the company misallocating resources and manipulating share prices among other things. Arthur Andersen was one of the largest accounting firms, but due to their involvement in the Enron scandal they were forced to shut their doors, and are longer a going concern.

Not all IL needs to have such drastic consequences, but understanding their very real effect on the firm allows for entrepreneurs to accept, discuss and work to classify the existing and/or potential IL in their firms.

To be able to identify IL Harvey and Lusch (1999) have conceived a working process to classify such. They reason that any such system would resemble those used to identify IC such as Edvinsson's Skandia Navigator. The table below illustrates a classification model for liabilities.

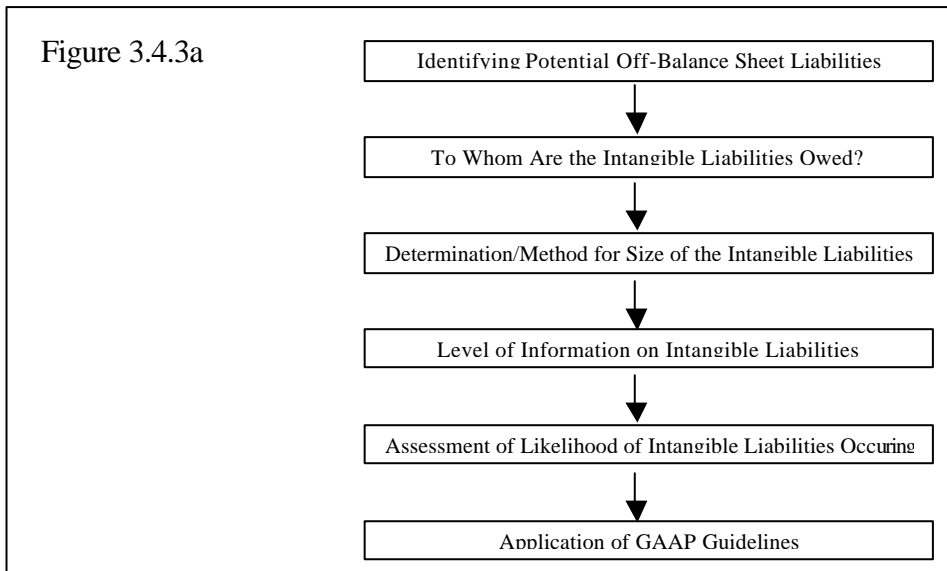
**Figure 3.4.2a (Harvey & Lusch, 1999)**

Potential intangible liabilities	Internal intangible liabilities	External intangible liabilities
Process issues	Weak strategic planning process	Poor product/service quality
	Inadequate R&D	Low commitment/trust of suppliers/distribution system
	Process antiquated manufacturing process	High turnover of customers, suppliers and distr. system
	Poor new product development process	Potential litigation of gov't not meeting regulations/laws
Human issues	High employee turnover	Bad word-of-mouth among customers
	Discrimination among employees	Potential product liability suits from customer harmed
	Inadequate training/development	Law based loyalty/awareness among growth market segment
Informational issues	Inexperienced top management team	Negative brand/product information (recall)
	Lack of adequate information	Decreasing corporate reputation
	Infrastructure Inability to turn data into information (lack of analysis)	Successful litigation against company
Configuration issues		Unfavourable stock analyst report on company/industry
	Organizational structure (lack of flexibility)	Inadequate distribution channels to achieve growth
	Lack of patents/copyrights	Lack of strategic alliances to leverage resource base
	Inadequate geographic location of plants, warehouses, etc.	Inefficient location of production facilities

### 3.4.3 Magnitude of IL Assessment

The process of assessing the magnitude of each IL goes through a six step process represented by figure 3.4.3a. The initial step of identification (classification) has already been discussed. Once classification has been defined, the need to identify who the firm is indebted to in relation to the IL in question. These debts can be to parties both within and without the firm. In the case of Enron, government agencies became involved to deal with the criminal activity. Law suits were initiated, and over the last few days as of this writing the debts have been quantified through judgements made in a court of law. These judgements were for tens of millions of dollars. Not all situations are as

drastic as this. It could be a simple issue of failure to make good on a promise to a key employee that leads to their performance dropping due to lack of inspiration. What is important is understanding that all IL carries with it a debt to someone.



The next step is determining the size of the IL in question. Again this can vary greatly. From a financial perspective each liability should be valued at the present money value of all future services/products that are sacrificed in order to honour the obligation (Chasteen *et al.*, 1995)

This according to Harvey and Lusch requires more consistency in measurement than in any specific type of measurement system. Importance is also placed on a completeness in the number of indicators or measurements within the adopted system with a caution to avoid a level of complexity that usurps valuation. Their criteria for this can be listed in the following manner: (Harvey & Lusch, 1999)

1. are the measures internally consistent and can they be defined relative to standards being applied to intellectual capital?
2. can the measures be modified if needed and maintain continuity internally?

3. do the measures satisfy the internal and external customers of the organisation?
4. do the measures reflect changes in the company (to reduce IL) and reflect changes taking place in the environment (higher level of governmental regulation or expectations of customers)?
5. is there a signalling mechanism that indicates that the measures of IL are not accurately assessing the liabilities time contingency?
6. are the measures being implemented properly for those monitoring and using the measures to understand if they are accurately working?

The next step requires an accounting of the level of information for each IL of the firm. Some issues are easily identified due to complete information such as taxes, employee turnover, loans, etc, while other issues tend to become a bit fuzzy when attempting to pin down their scope. Issues like terrorism, new technology, product tampering, weak strategic planning, etc fall into this area of incomplete information..

Exercises in gathering and analysing information surrounding existing as well as possible IL raises the firms awareness of potential problems. A prognosis of such becomes valuable in the planning process for new businesses. In line with the prognostication of potential IL, the next question that follows is what is the likelihood of said IL occurring? Some are certain to happen, but others are left to a slew of factors that require a judgement call. Two important factors need to be considered here. First of all, what is the likelihood of an specific IL will occur, and secondly, how will this likelihood change over time? (Harvey & Lusch, 1999)

The odds of getting into an automobile accident even a slight one today is rather small for a responsible driver with a spotless record. However, looking down the 'road' five years from now, what is the likelihood of the same driver getting into an accident? This perspective of time allows for the firm to recognize the cumulative effect of their business practices which over a shorter

period might not raise concern.

Finally Harvey & Lusch stress the importance of accuracy in reporting, and recommend that any such reporting such reflect the GAAP standard. While there are no developed guidelines for IL within this framework, a consistent connection to established guidelines that can be accepted by management as well as the financial community. (Harvey & Lusch, 1999)

### ***3.5 Core Competencies***

One of the criticisms surrounding initial IC model efforts was their static nature in dividing intellectual capital into human, structural and relational. This has been deemed as an artificial separation that lacks value because products and services created through the utilization of a specific strategy possess no relation to these forms of capital individually (Viedma, 2003).

The argument states that said products/services are associated with an “integrated bundle of such assets as reflected in core competencies and capabilities.” (Viedma, 2003) Viedma takes this charge based partly on Andriessen’s paper concerning weightless wealth. Andriessen develops his modifications of standard IC theory in a way that reunites the various parts of IC back into the firms core competencies. Viedma appears to marginalize the value of examining IC in its separate parts when he concludes that “Core competencies as the only intangible assets to manage.” (Viedma, 2003). Andriessen however, considers several practices in “mainstream” IC theory as being at a crossroad in need of advancing the discussion (Andriessen, 2001) This advancement deals with identifying the interrelationships the various IC capital parts that unite into a core competency. In simple terms what the firm is best at doing based on what they have.

To identify these requires understanding which assets are strategically

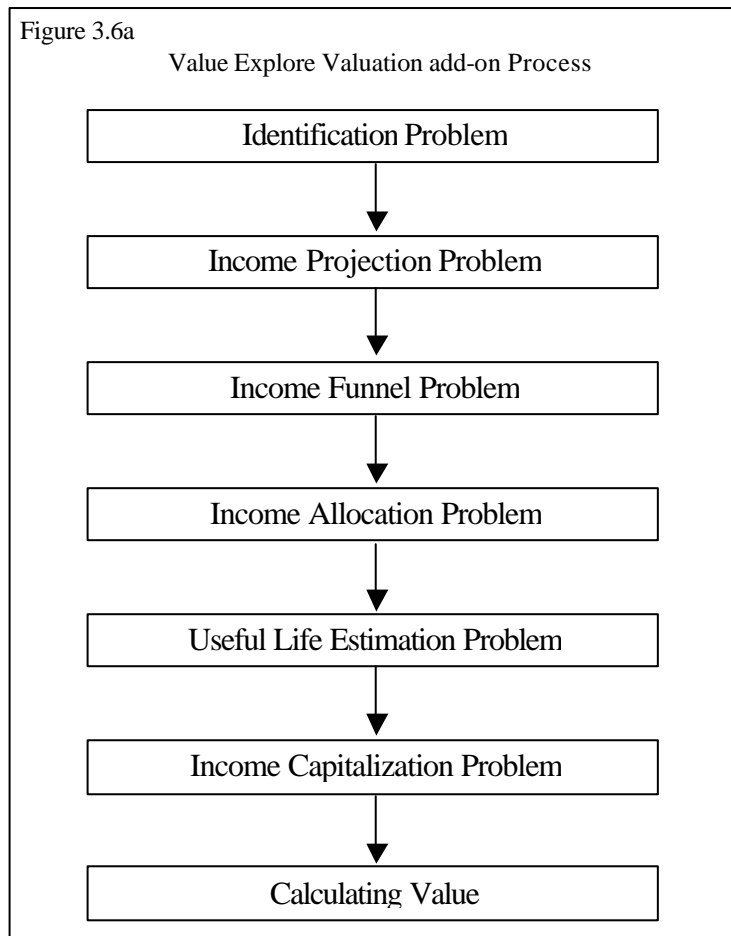
important to the firm. This is why we feel that identifying core competencies requires breaking down IC into its root elements in order to more clearly understand what the firm possesses. Just as all living things are made up of a construct of various genes, so is the firm made up of a construct of various types of capital. The issue of static separation vs. action is not relevant to said existence. Haanes and Fjeldstad (2000) stated "...it is not only what the firm has, but what the firm does, that matters in value creation." We state that what a firm does is dependent on what a firm has." Therefore, we view core competencies as the best compilation of corporate genes a firm possesses. Without this vital "DNA", the firm cannot act with any competency. In line with Andriessen, we see defining core competencies as another link in the process and accept his definition of said competencies; "a unique bundle of intangible assets"(Andriessen, 2001)

### ***3.6 Value Explorer***

One of the major difficulties with early IC measurement tools was quantifying intangible value into a tangible value that would be easily understood. Andriessen & Tissen (2000) may have solved this problem with the development of their Value Explorer<sup>®</sup> Valuation add-on tool. We selected this tool since it depends on the core competency identification process which has already been discussed.

The application to our planning process is strengthened by the original purpose of the Valuation add-on which is to "support strategy development and decision making." (Andriessen, 2002)

The Value Explorer<sup>®</sup> is a seven step process that culminates in quantifying the IC being processed into a money value. Figure 3.6a below illustrates the process.



### 3.6.1 Identification Problem

We are again tuned into the discussion of defining core competencies. This step basically requires leadership to examine their IC and identify the few things they are best at. This is not a comparison of a firm's abilities in relation to competition, but an objective view of just what is/are the best thing(s) the firm can do. A foodstuffs company may find their sauce recipes or their dietician expertise as core competencies given their current IC structure. Core Competencies are usually few in number ranging from two for small firms to ten for large corporations.

### **3.6.2 Income Projection Problem**

Once the core competencies are identified, there needs to be a way to apply a financial value to them. Before this can be done, the firm needs to identify where the income is going to be projected from. That is to say, which products or services generate income for the firm? This step is rather simple as it is basically a list of products and services provided by the firm. What will be used in valuation is what is known as the contribution margin of the products and services listed.

### **3.6.3 Income Funnel Problem**

This step begins to define financial values that will be used later to generate the final calculated IC value. The contribution margin is calculated by taking the gross margin (sales minus cost of goods sold) and deducting the direct costs. These direct costs are those that can be directly connected to the production or service. Overhead expenses are not considered. The result becomes the contribution margin.

It is important to note that we have decided to not consider the application of a compensation costs which is applicable in the Value Explorer<sup>®</sup> process. Since we are interested in developing a working process for planning that reveals the total market value or potential market value of the firm, it is necessary to include the effects of tangible and financial capital (which are both represented in the IC Value Scheme) as well. The compensation figure is arrived by using the average costs of capital in the firm. Again since we are not isolating the IC value of the firm in this context we will not be implementing the compensation figure in the calculation.



### 3.6.4 Income Allocation Problem

In this step the work of transferring the contribution margin value from the products/services to the core competencies is done. Here a matrix system is utilized where each product/service is measured in relation to each individual core competency. The measurements deal with the level of importance each core competency has in the development of the product/service in question.

This importance is defined by contribution level. The matrix used in the Valuation add-on ranges from 0-3 with the following values:

0 = No contribution

1 = Supporting contribution

2 = Substantial contribution

3 = Essential contribution

An example to show how this works would be Bob's Bakery. He owns a small bakery that produces two products. Bagels and Cinnamon Rolls. After defining his core competencies of dough kneading, tailored shaping and recipe innovation, he is now applying the above matrix to determine the total contribution level of each core competency. Figure 3.6.4a illustrates Bob's core competence contribution:

Figure 3.6.4a Core Competence Contribution table for Bob's Bakery				
		Bagels		Cinnamon Rolls
Dough Kneading	6	60%	3	37,50%
Tailored Shaping	0	0%	2	25%
Recipe Innovation	2	40%	3	37,50%
Total	5	100%	8	100%

Now if Bob has produced a total of \$ 400 000 in contribution margin for

Bagels, than that margin would be divided up in the following manner:

$$\text{Dough Kneading} = \$400\,000 \times .60 = \$240\,000$$

$$\text{Tailored Shaping} = 0$$

$$\text{Recipe Innovation} = \$400\,000 \times .40 = \$160\,000$$

Cinnamon Rolls with a contribution margin of \$ 830 000 would be divided so:

$$\text{Dough Kneading} = \$830\,000 \times .375 = \$311\,250$$

$$\text{Tailored Shaping} = \$830\,000 \times .25 = \$207\,500$$

$$\text{Recipe Innovation} = \$830\,000 \times .375 = \$311\,250$$

The total contribution margin for each core competency would look like this:

$$\text{Dough Kneading} = \$240\,000 + \$311\,250 = \$551\,250$$

$$\text{Tailored Shaping} = \$207\,500$$

$$\text{Recipe Innovation} = \$160\,000 + \$311\,250 = \$471\,250$$

### **3.6.5 Useful Life Estimation Problem**

Other issues need to be considered to legitimize this valuation process. Since firms do not work in a vacuum, they are subject to the market forces, which includes the limits on maintaining competitive advantages. It is therefore necessary to gauge the lifespan of each core competency prior to it being successfully adopted by competitors. This is known as the sustainability factor. In layman's terms, how long will it take competitors to begin doing what you do as well or better than you? A sustainability factor is applied to each core competency.

### **3.6.6 Income Capitalization Problem**

Competencies are vulnerable to other issues outside of competitive efforts.

Therefore the Value Explorer<sup>®</sup> has listed several potential threats to losing core competencies. These are used to determine what is known as the Robustness factor. Each core competency begins with a Robustness factor of 1 or 100%. For each positive correlation to the list of threats, and penalty of 20% is deducted.

The threats listed within the Value Explorer<sup>®</sup> are:

- The people possessing said competence are vulnerable
- The values and norms on which the competence is predicated are under pressure
- The technology and IT systems that form part of this competence are under pressure
- The primary management processes which this competence uses are unreliable
- The endowments this core competence depends on are vulnerable

### 3.6.7 Calculating Value

Finally there is a need to project the expected growth of the contribution margin of each core competency. This is usually predicated on income projections for each of the firm's products/services. This potential factor is given as a percent.

Once this is done it is time to calculate the value using the following formula:

$$V_{CC} = \left[ \sum_{t=1}^S \frac{CM * (1 + P)^t}{(1 + i)^t} \right] * R$$

V<sub>CC</sub> = Value of Core Competence  
 S = Sustainability  
 CM = Contribution Margin  
 P = Potential for the future (in %)  
 R = Robustness (in %)  
 i = Cost of Capital

This model ends at the valuation of each core competence or the Vcc, which is why it is necessary to reconnect this value into the MVP by completing Edvinsson's IC Value Scheme. This results in adding the total Vcc which we have determined is equal to IC and adding the remaining financial capital to produce the market or potential market value of the firm.

### **3.7 The Market Value Plan**

Through the incorporation of the five models described throughout this chapter, we have created a market value planning toolkit from which entrepreneurs can build their plans for future businesses. This toolkit attempts to capture the breadth of IC valuation while maintaining the integrity of financial valuation models. Our toolkit has been compared to the harvest process of the farm. Figure 3.7a illustrates this process which is in its infancy.

**OBS!!!! VÅR BILD HÄR**

## **4. Creation processes for the Business plan and Market value plan**

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*Here the empiric material will be presented. The creation of the business plan will be described as well as the creation of the Market value plan. Both plans will then be found in an appendix. Here we only describe the steps to making them.*

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### **4.1 The business plan**

As we have stated before a business plan for the company TAKE-10 has been made. This took place before we started to write our thesis, but we think that it is important to describe how the software programme used works. We here want to describe how the work process looks, which steps that are important in creating the business plan.

#### **4.1.1 The creation process**

Business Plan Pro is the software used when creating the business plan for TAKE-10. The software is owned and marketed by Paolo Alto Software. The choice to use software has its base in it being more effective. An addition to explain the process is that all the steps include section where additional information and examples can be viewed. There is also a wizard that helps with calculating economic data. This to simplify the creation process.

##### *4.1.1.1 Setup phase*

The setup is made to customize the creation of the business plan to the specific needs of every user. The starting date is decided, as is the title, the type of business (is it a start-up or are you in a business), the outline setup and the financial setup. With these settings made the software guides you to the

creation process.

#### *4.1.1.2 Kick-start*

##### Objectives

As the creation process begins the first step is the creation of objectives. The software explains the meaning of objectives. It says that the plan objectives should be specific goals that can be measured. There should not be more than three or four because long lists make it harder to focus.

##### Mission

The objectives are followed by the mission statement. It is explained that the mission statement is for establishing the fundamental goals for the quality of the business offering, customer satisfaction, employee welfare, compensation to owners, and so forth. A good mission statement can be a critical element in defining your business and communicating it.

##### Key success factors

The key to success must be stated. The software tells us that virtually every business has keys to success that make the difference between success and failure. The key to success depends on what your company presents and what it offers. The lists should hold no more than three or four priorities otherwise it might be less effective. Finally the advice is given that the list of objectives should either be a numbered list or a set of bullet points.

#### *4.1.1.3 Your Company*

##### Company Summary

Here a summary paragraph about the business can be made. If needed, more details can be outlined in sub-topics to follow. It is used to describe where the business is located, how long it has been around, what products or services it sells, and to whom.

### Company Ownership

The ownership and legal establishment of the company should be described here. A specification on whether the company is a corporation, partnership, sole proprietorship, or some other kind of legal entity, such as a limited liability partnership is asked for. An explanation of who owns the company, and if there is more than one owner, in what proportion should also be made.

### Start-up Table

It is suggested that a table should be created, a table helps estimate start-up costs, and loads the starting balances into the Balance Sheet table. An estimation of the start-up expenses and your start-up assets is done. Examples of costs are, legal, stationary, insurance, rent, web site development and so on. There is also room for an explanation of the start-up summary.

#### *4.1.1.4 What you are selling*

### Product and Service summary

A description of the products or services offered, how they are provided and by whom, and plans for future product or service offerings is to be made.

#### *4.1.1.5 Your Market*

### Market Analysis Summary

The software here indicates that this is the chapter where research from outside the business is likely to be required. The different groups of target customers included in your market analysis are to be described and an explanation of why you are selecting these as targets should be made. There is also room for a summary of market growth, citing highlights of some growth projections, if you have this information available.

### Market Analysis Table

For the market analysis, one normally focuses on potential customers, not actual customers. Here the income from potential customers over a five years period is to be appreciated. One should enter a percentage for annual growth. Then estimate the first year of potential customers. A pre-programmed wizard then helps calculate the second to the fifth years and automatically apply the growth rate to the annual estimates.

#### Market Segmentation

There is a statement made that the market segmentation concept is crucial to market assessment and market strategy. This section is to be used for the explanation of the segmentation, the definition of the different classifications, and the development of as much information as needed about the customers within each market segment group.

#### Target Market Segment Strategy

Here the strategy for the segmentation and the choice of target markets is to be presented. There should also be an explanation of why the company is focusing on the specific target market groups.

#### *4.1.1.6 The Segment you're in*

#### Service Business Analysis

Since the choice was made that this is a service company, it is our services that are supposed to be analyzed. There should be an explanation of the industry and the size and concentration of businesses in this group, the way products or services are bought and sold, and specific competitors are important factors.

#### Competition and Buying Patterns

An explanation of the general nature of competition in this industry and how the customers seem to choose one business over another is needed.



#### *4.1.1.7 Sales Forecast*

##### **Sales Strategy**

In the software it is stated that since market strategy differs from sales strategy a description of the later is required. Things that should be dealt with are: Close sales prospects, compensate salespeople, optimize order processing and database management, manoeuvre price, delivery, and conditions.

##### **Sales Forecast Table**

The sales forecast gives a way to develop and estimate the sales and cost of sales. There are five different rows consisting of unit sales, unit prices, sales, direct unit costs, direct cost of sales. Here an approximation is to be made. The rows automatically sum at the bottom of each column, and the sums transfer to the profit and loss table. The sales forecast wizard walks you step by step through the process of creating your sales forecast. You can insert and delete rows to makes your forecast match your needs. An explanation of the sales should also be made

#### *4.1.1.8 Your Marketing Plan*

##### **Competitive Edge**

An edge will give a head start if need to bring in new investments exist otherwise it might be substituted by things as hard work, integrity and customer satisfaction. In the software it is to be read that the classic competitive edges are based on proprietary technology protected by patents.

##### **Marketing Strategy Summary**

The marketing strategy is for describing the positions, target market and types of communication activities.

##### **Milestones Table**

This is for listing the different activities planned and to make it clearer. Dates and orders of activities are decided upon. For every activity name, person

responsible, department, budget, and deadline date should be listed. An explanation of the milestones is the next step.

#### *4.1.1.9 Web plan*

##### Web Plan Summary

Introduce the Web Plan section of the business plan. Talk about the final destination of the website, when all the work is done, what will your site achieve? Consider your position very carefully.

##### Website Marketing Strategy

An addition to the market plan, but the website is the product or service. Online marketing strategy might be a reference to your overall company marketing strategy and how your website fits into that strategy.

##### Development Requires

Here the requirements for the development of the website is to be described. The development can be divided into front end or back end development.

#### *4.1.1.10 Management Team*

##### Management Summary

A summary of how many employees the company has, how many managers, how many of the managers and who the founders are is requested here. Are there gaps to be filled or do the company have the resources needed. Is your organizational structure sound, with job descriptions and logical responsibilities for all the key members?

##### Personnel Table

A list of the personnel is to be made. The list hold information on how many employees the company has and what their positions are and to which group they belong. The salary expenses are to be filled out in the table. Furthermore

the next step contains an explanation of this table were assumptions, costs and benefits from the table shall be discussed.

#### *4.1.1.11 The Bottom Line*

##### Start-up Funding

From where the funding will come is asked for here. The total assets, the liabilities and capital and investments are illustrated. To this belongs the explanation which should describe from where the funding will come. Is it investments or loans and will it cover what is needed to start-up the business.

##### General Assumptions Table

This table keeps track of important assumptions (estimates) that affect the profit and loss, balance sheet, cash flow, and business ratios tables. The assumptions include current interest rate, long-term interest rate and tax rate. The next step is to discuss these and other important assumptions. Explain how key assumptions have affected the financial projections.

##### Profit and Loss Table

Use this table for the row-by-row estimates for expense items. This is where you budget for expenses. In this table row can be added or deleted to match your accounting and your budgeting format.

Here a wizard pops up and questions on all areas are asked. Then the profit and loss table is created from that. To this comes the explanation of the profit and loss projection. Topics are percentage increase in sales and profits, your gross margins, and key budget items. How realistic are your sales and expense projections? How good do your numbers look?

##### Break-even Analysis Table

In the software it says that the break-even analysis is an expected component of

most business plans. This analysis shows how much revenue needed to meet both fixed and variable costs. By default, everything in this table is calculated for from numbers in the other tables. An explanation of the break-even analysis and made assumption is required.

#### *4.1.1.12 Cash is King*

##### Cash Flow Table

A table of the cash flow is to be presented. In the software it is stated that the cash chart gives an instant check on the cash balance and the cash flow. The cash balance should never be negative. It also says that cash flow depends a great deal on cash-critical assumptions for how long you wait to get paid by customers, how long you wait to pay vendors, and how much inventory you keep on hand. A wizard pops up and asks questions on all the topics in the cash flow table and when finished answering the table is created. From this information a chart is also created. Then an explanation to the Cash Flow Table with focus on the monthly chart is asked for.

##### Balance Sheet Table

The Balance Sheet Table shows the cash position for the business - its Assets and Liabilities at a specified time. The Balance Sheet table is entirely calculated. There are no inputs. Balances depend on the assumptions for profits and depreciation on the Profit and Loss table, on your assumptions for loans and investments and assets in the Cash Flow table, and on your assumptions in the Receivables Detail, Inventory Detail, and Payments Detail tables. An explanation is asked for here, comments on the numbers are the main topic.

#### *4.1.1.13 The Financial Plan*

##### Financial Plan Summary

This is a summary of the financial plan. It will be presented together with the tables created like, break-even, profit and loss and cash flow.

#### Ratios Table

This table includes several standard business ratios. These are formulas used by analysts (and particularly banks) to measure the projections against standard calculations, and, in some cases, to compare them to industry standards. A ratio wizard makes it easy to find the standard ratios for the industry. Once completed, the wizard will input the ratios directly into the industry profile column. Then explain the important ratios.

#### *4.1.1.14 Finish and Polish*

#### Strategy and Implementation Summary

A summary of the strategy for funding and marketing and priorities.

#### Review Milestones

The milestones set up earlier are once again reviewed.

#### Executive Summary

This is a summary of the main highlights of the plan. This topic will appear first in the printed document. This summary is the doorway to the rest of the plan. It is recommended to get it right because otherwise target readers may not go any further.

#### **4.1.2 Final comment**

When filling out all the essential information asked for the process is complete and a business plan is created. This is how the TAKE-10 business plan was created and it is to be read in Appendix 3.

## ***4.2 Market value plan***

The same company will be used in this Market value plan as in the business plan above. When creating the business plan software was used. Here we do not have any software. The thought is that it might be possible to develop software further on. Here we have instead tried to integrate the directions about the steps in the Market value plan and this might also increase the understanding when reading a Market value plan for the first time. We have tried to explain as much as possible because we have the beginners in mind, some of the information might be excessive for someone who has a lot of experience within these areas.

### **4.2.1 The creation process**

Here a description of the different steps for creating a Market value plan are listed.

#### *4.2.1.1 Introduction*

The plan starts with an introduction. We describe what will come in the plan, but that has to do with us developing it. Otherwise an introduction presenting what type of company and what it will do is enough.

#### *4.2.1.2 Knowledge balance/Wissensbilanz*

##### **Market**

A description of the market is to be done. This will determine the playing field and the potential for the new business. The turnover, competitors and room for growth are subjects that among other should be discussed. This requires research outside of the own company.

##### **Vision**

The vision and the objectives shall be described shortly. What is the contribution of your company, where do you want it to be in 10 years and so

on. The objectives on the other hand are slightly more short term based. A bullet list with three to four objectives is a suggestion.

### Strategy

A description of where the focus of the company lies is requested. This step is then further divided into four sections where the products sold, how to sell, a forecast regarding possible growth, where and how to market the products or services and in this case the website are to be described.

### Milestones

The suggestion is that a table should be made, one that represents the initial phase in getting the company off the ground. It can be different campaigns or other activities that are important to the company. It can also include other types of measures that help fulfil the vision.

#### *4.2.1.3 The IC Value Scheme*

Below each of these following parts an evaluation of what the firm possesses should be made.

### Intellectual property

IP is usually identified as trademarks, patents, copyrights, industrial design rights, trade secrets, which are the bulk of what is considered under IP. The value of these properties can be extensive if developed well enough. Describe the IP that your company possesses.

### Intellectual assets

IA describes principals and methods. Principals can affect company policies, sales ethics, customer relations etc. Methods deal with how things are done in practical terms such as reverse engineering (working backwards), sales protocol, resolving concerns within customer support etc.

### Innovation capital

INC focuses on the creative processes or how things are done regarding breakthroughs in product development as well as what things are done that are unique or protected by commercial rights such as patents or trademarks. This is often the very focus point of any new venture or business, and at times the entire business plan will revolve around said INC.

### Process capital

PC is considered the practical knowledge that is applied in maintaining efforts to create value. Items such as employee incentive programs which can inspire knowledge workers to achieve and maintain efficient working levels that improve the firm's value. Work processes and certifications such as ISO or environmentally based belong here as well.

### Organizational capital

OC is the system and working methods developed to accomplish that the HC is spread in the organization. In practical terms OC can be described as reporting systems, standard operating procedure databases, order systems, phone etiquette and so on.

### Structural capital

SC can be described as the embodiment, empowerment, and supportive infrastructure of human capital. What is important to understand is that SC includes what can be owned. IT systems, databases, patents, copyrights, logos, work methods, processes, incentive programs, results from studies, etc.

### Human capital

Human capital is what walks out the office door every evening. HC is indeed an issue of people and what they bring to the table in the form of value for the firm. HC deals with all individual capabilities such as knowledge, skills, experience. Questions like 'why' and 'how' are important behind the individuals



knowledge and skills base. Simplified HC can be described as the employees' competence, relationship ability and values.

#### Relational capital

RC can be defined as the total value of a firm's relationships with the people and organizations it does business with. However it is important to understand the depth of what that entails. Relations are the engines of growth, RC capital is the value - the contribution to current and future revenues – that results from an organization's relationships.

#### Intellectual capital

IC as an equation equalling the total sum of human capital + structural capital + relational capital. At this point in the Market value planning process the intellectual capital can be summarized. A short synopsis, overview or even bullet list can be used to summarize.

#### Financial capital

FC in simple terms deals with the actual cash monies invested in the firm. Shareholder equity, venture capital, seed capital and personal investments can all be considered.

#### *4.2.1.4 Intellectual liabilities*

##### Identifying Potential IL

A worksheet is to be filled out by checking the areas within a classification scheme that are applicable to the firm. The areas where potential issues can arise are process, human, informational, configuration or other areas. Both internal and external and potential and existing IL are supposed to be separately considered.

##### To whom is IL owed?

Here the firm defines where the potential IL is directed. Who is owed the cost

of the IL? That cost could be owed to consumers who have purchased substandard product or service, government agencies might be the debtors for regulations violations in production or illegal business practices. All of the checked potential liabilities from the worksheet including any “others” that may apply are to be listed here accompanied with debtor identities.

#### Determine the size of IL

At this point the firm has to begin thinking in terms of measurement. Many things need to be considered in this determinative exercise. Are these measures consistent? Can they be modified if needed? Do they satisfy the internal and external debtors (those owed)? Do they reflect changes in the organization (such as an ever in/decreasing turnover ratio over time)? Are they implemented correctly to determine if they are effective in representing the true picture of the firms condition? All of the defined liabilities and their cost owed should be listed below together with their defined size.

#### Level of information

This step involves taking the above IL issues and defining the amount of information the firm has in regards to these issues, their occurrence and their size. Issues that deal with accounts payable, employee or customer turnover are often issues that the firm has perfect information concerning, while issues such as environmental cleanup, new technology, product tampering, etc are issues where the firm has imperfect knowledge concerning. All the IL issues should be listed below including the degree of knowledge regarding each of them.

#### Likelihood of occurring

Here the key is to answer two questions. The first is what is the likelihood of the particular IL occurring, and the second is how does time effect this likelihood? For example: There is a 100% likelihood that you will die. What is the likelihood however of you dying within the next 12 months? It is much smaller than the likelihood of you dying within the next 30 years. What time frame does the firm wish to focus on? The IL issues should be listed below

together with initial likelihood and the same over time. Remember to define time frame.

#### Apply Accounting Principles

This step is a reminder that the measures created to assess size and likelihood of IL need to coincide with acceptable accounting principles such as found in GAAP guidelines. If necessary, calculations to prepare IL for inclusion in accounting reports can be done here. Otherwise, remember that when preparing any reports to keep in mind the need to apply said guidelines.

#### Counter Measures

This is an opportunity to present any activities (measures) that will be taken to counter the IL issues that have been presented. This is an opportunity to limit the effect IL has on the value of the firm. Present any such activities here.

#### *4.2.1.5 Core competencies*

Most companies will have anywhere from 2 to 10 core competencies depending on size, scope and sector. This is not a general list of individual talents possessed by staff, but processes through which things get done. Examples such as a commercial diving company that has a unique water proof adhesive application system for plugging holes in man-made ponds. That competency attracts golf courses to use their service because the competition still relies on draining the entire pond or lake to locate leaks.

List the core competencies of the firm with details regarding each.

#### *4.2.1.6 Value assessment*

For all these steps it is easier to use a wizard, this is possible when access to suitable software exists.

#### Start-up or Capital requirements

This step is rather simple. Define what the firm needs at the start and determine how much it will cost to secure these needs. Fill out the existing spreadsheet adding those requirements specific to the firm.

#### Start-up Funding

This step requires explanation of how the start-up requirements will be satisfied. What kind of financing if any will be established? Fill out the spreadsheet adding funding resources specific to the firm.

#### Market Analysis

This step deals with existing or potential customers. Who is the firm selling to? Since this is about projections, potential growth figures are also needed. Fill out the spreadsheet below adding those projections specific to the firm.

#### Sales Forecast

These are key financial projections, and their weight is vital in determining future potential value in the firm. Here you need to define what the firm is selling, how much, at what price as well as the cost of each item being sold and sales cost. Place below a spreadsheet or other diagram illustrating these projections.

#### Personnel

These projections require you to understand who you need now as well as who you will need in the future. This also requires an understanding of the job market regarding what services are worth. Remember you often get what you pay for. Place below a spreadsheet or other diagram illustrating these projections.

#### Profit and Loss

These projections deal with how well the company is bringing in revenues and spending money. Every company has expenses that need to be considered.

Rent, utility costs, insurance, etc. These costs need to be considered along with those incurred by selling. These costs are usually considered as operating expenses or overhead costs. Fill out the spreadsheet adding those projections specific to the firm.

#### Cash Flow

These projections lend an understanding to the direction or trend of revenues received and expenditures paid out. A positive trend while projected is not guaranteed, but a negative trend can be an early warning sign of major sustainability issues within the current plan. Fill out the spreadsheet below adding those projections specific to the firm.

#### Balance Statement

As the business grows and develops assets and liabilities are incurred over time. This report puts these into a financial perspective which reveals a net value for the firm during a given fiscal year. Fill out the balance sheet below adding those projections specific to the firm.

#### *4.2.1.7 Value explorer*

##### Identification Problem

To resolve this problem, one has to become aware of the intellectual capital within the firm. Once you are aware, the key is to identify those intangible or intellectual skills that make the company unique. What we are discussing here is core competencies. List below those core competencies previously defined in this business plan. (NOTE: You do not need to define them here, just list them)

##### Income Projection Problem

While it is simple to determine the revenues on the sale of widgets, determining the income on the skills of the firm can be more difficult. Of course as in algebra when you are dealing with variables, you usually focus on what is known first. In this case it is the products and services the firm sells.

From this list of products/services, a contribution margin will be assessed. To deal with this projection problem list the products/services the company provides.

#### Income Funnel Problem

Resolving this problem means calculating the value of the contribution margin. The contribution margin or CM is calculated by deducting direct costs from the gross margin (sales revenue minus the sales cost of goods sold).

#### Income allocation problem

The CM needs to be allocated somehow to the skills or core competencies that have been defined in the firm. In order to accomplish this, a matrix needs to be filled out to determine the importance of each competency in relation to each product.

#### Useful Life Estimation problem

Since the firm does not exist in a vacuum, the reality of competition makes sustaining a superior core competency rather difficult. Therefore there is a life span attached to each. This does not mean that the core competency necessarily disappears or erodes within the firm, but instead it relates to how long can the firm maintain this competency (this includes developing it further) before competition catches up. Define the strategic life or sustainability time for each competency.

#### Income Capitalization Problem

The cost of capital has to be considered. To do this, use the discount rate. The yield on a government bond usually reflects this risk free borrowing rate.

Another factor that needs to be considered is the vulnerability of each core competency. Here is a short list of statements which represent risks that could cause the firm to lose a core competence. Use these statements as a checklist for each core competence. For each statement that is 'true' in relation to a

specific competence, add a 20% risk of losing the same. The Robustness Factor will be 1- any risks of losing the same.

### Calculating Value

Before the actual final step of calculating the IC value, the Potential Factor of each core competency needs to be defined. The Potential or Projection Factor is the estimated expected growth rate of the CM, which is based on the income projections for each product.

### The Valuation

The IC Value now can be calculated by using the following formula.

$$V_{cc} = \left[ \sum_{t=1}^S \frac{CM * (1 + P)^t}{(1 + i)^t} \right] * R$$

V<sub>cc</sub> = Value of Core Competence

S = Sustainability

CM = Contribution Margin

P = Potential for the future (in %)

R = Robustness (in %)

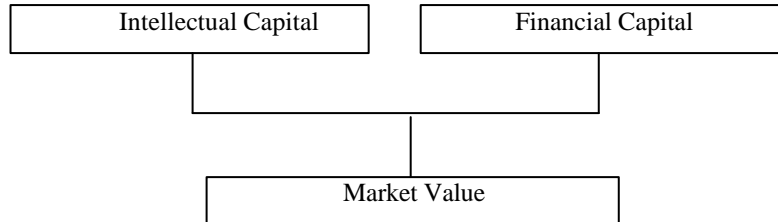
i = Cost of Capital

Use this formula to calculate the value of each core competency from which the firm can discover the total V<sub>cc</sub> for the firm.

### The Market Value

The final step before the business plan is finished deals with combining the IC value of the firm together with the financial capital to determine the projected Market Values. Here we refer back to the root capital diagram and focus on the

following:



To determine financial capital, it is simply a matter of calculating what the founders or other investors have paid for a share of the company during the start-up. Net profits are also added to this figure. This together with the IC value ( $V_{cc} + \text{Compensation factor}$ ) reveals the firms total projected market value. Calculate the Market value projections.

#### **4.2.2 Final comments**

Since no software is used the Market value plan differs slightly regarding layout to the business plan. The document has to be created by oneself and no wizards are available. As said before the Market value plan also contains explanations in the final plan. The Market value plan is to be read in Appendix 4.



## **5. Feedback**

### ***5.1 Key Informants***

The interview guides used can be found in Appendix 2

#### **5.1.1 Validity**

Christna Brinck thought that the MVP could not serve as a planning document in itself. She said that the MVP could not replace a Business plan. There were points made that were good in the MVP, but it wouldn't work as a single document. This can be integrated into companies that have a need for IC.

Patrik Söderlund considers the idea a good one, but felt that the TAKE-10 MVP in its current form was not practical enough to emphasize the potential in the actual business idea.

#### **5.1.2 Strengths**

Christina Brinck found the MVP very pedagogical. To use the harvest model and use the picture of it helps the reader and creator. This all makes the MVP easy to process internally.

Patrik Söderlund felt that it was positive that the business idea itself was good as well as the emphasis on IC.

#### **5.1.3 Weaknesses**

Christina Brinck found that the conclusion of the MVP was unclear. She found that she didn't get enough answers and that because she finds that the MVP is lacking an complete summary. The vision and business idea could have been clearer and put on the first pages. That is the way it is normally done in a business plan and the summary is then undermined by the following chapters.

Because of this the businesses goal was not obvious. A summary that highlights the most important things like internal goals or why a certain capital root has been developed gives a overview. This would also help in the way that the full document doesn't have to be read and an outsider can get an understanding of the business idea.

Patrik Söderlund felt the plan was too heavy preferring instead to read what he called a light version of a business plan. The models tend to hide the thoughts behind the business idea itself.

#### **5.1.4 Insights**

Christina Brinck likes the tree or the IC Value Scheme, it is innovative and structures the thoughts. She says that models and pictures always helps, personally she likes it very much. She also says that IC has grown to be popular during the last 10 years and it has been popular with high real values and finding new ways to decide on these values. Things like land and factories are easier to value than fuzzy assets like IC. When it comes to IC the value can never be precise, it can not replace the other things like land and factories. IC can complement it, but can never replace it, one have to take all parts into consideration.

Patrik Söderlund felt that it was an interesting thought. It is good for companies that have established themselves enough. Light version would be better. It is difficult to find the core of the idea because of the amount of information in the plan. In a light version, a focus on the core idea could be emphasized.

#### **5.1.5 Future potential**

Christina Brinck says that she prefers a company summary. This document, the MVP, can be integrated in a business plan. This because it develops the IC part in a business plan especially in companies where the employees are the central

part of the business. As a single document it could preferably be used as a internal document used by for example the management.

Patrik Söderlund states that we have are on the right track, but the current format is not a good method to present it to readers. We could maybe implement a checklist over IC aspects instead of presenting all of it. We could choose certain important things that are especially important and develop them in the plan.

## ***5.2 Business Drivers***

### **5.2.1 IC Value?**

Henri Saffer considers his staff as the greatest value in his business. He is dependent on the competence and quality of his coworkers. He said, “I work to surround myself with good quality people with good values and who are motivated”.

Erik von Schenk considers the collective knowledge within his company as having the greatest value. He specifies that it is the collective knowledge concerning production of Jolife’s product.

### **5.2.2 Vision and strategy**

Henri Saffer’s vision was to make Blueberry one of the five largest facilities service providers in Scandinavia. He motivates this vision as something reachable to work for. He felt that if the company stood still that they would diminish. He considers himself ambitious, not risk averse and feel that it is necessary to succeed.

Blueberry's strategy was focused on direct contacting major companies including follow ups. Henri Saffer dubbed it warm calling. What he meant was that he selected companies based on size and Blueberry's resources to match job ambition levels. The focus was further limited to companies that were expanding or moving to or from the region. Blueberry went through a rapid period of growth the last two years, this was accomplished through successful tendered offers in the public sector. This direct contact is preferred which is why Henri Saffer allocates no money to any other type of marketing. He said we tried other options and felt it was a failure to do so because of the amount of mail potential customer receive.

Blueberry put a lot of time in contacting and tender offering. This explosive growth made operations really tough to handle. There were times when he had to slow down growth in order to take care of his existing customers. His biggest challenge was handling new contracts which meant recruiting more staff. His quality approach actually caused high turnover among middle management in an industry, Henri claims usually has turnover issues with those furthest down the hierarchy.

Erik von Schenk's vision is to develop their product Lucas into the health system to increase survival during cardiac arrests. Even today only three to five percent of patients survive this failure. His company seeks to be mind breaking and utilize unconventional methods to connect the different competencies so that their product can influence the entire health chain.

Jolife's strategy consisted simply of missionary sales upfront to build the market from the ground up. Detailed bio-technical studies are also a vital part of Jolife's strategy. These include important tests on pigs which when successful lead to testing on human subjects. These tests were further legitimized through key opinion leaders.

Jolife's organization according to Erik von Schenk is extremely focused. He

claims that due to the fact that they are a one product company this makes it easier to be focused. Jolife is very resource dependent since most of their organization consists of strategic alliances.

### **5.2.3 Strengths and weaknesses**

Blueberry, according to Henri Saffer is best at, developing trust relationships with customers, flexibility in working with customers, understanding growth opportunities and taking care of staff. Henri Saffer stated that they were very aware of the need to maintain these strengths.

In spite of these strengths Henri had to meet the constant liquidity issues that are common in the industrial service sector. To combat this 'ketchup bottle' problem Henri initiated increased education to personnel to generate loyalty among customers as well as referrals. Henri also began using factoring services.

Erik von Schenk has identified the focused dedicated resources in form of his employees as his major strength. He also believes that Jolife's product transparency and concept development are considerable strengths. Erik von Schenk is very aware of the need to maintain these strengths, but feels it is a difficult proposition because of their dependency on outsourcing. If, he said, "if someone in our company wants to leave we cant stop them. We do," he replied, "have a very good incentive program which we feel is good enough to motivate those to stay."

While he admitted having identified several weaknesses which his company has attempted to counter by focusing on those things that are within the budget to negate. Erik von Schenk stated that the limitations of economic reality forced Jolife to waiting for the next round of investor financing before tackling certain other of the identified weaknesses.

#### **5.2.4 Value assessment**

Henri Saffer states that Blueberry has never applied tangible value to their IC. “We claim that we have that value, but nothing that we could actually account for”, he said.

Erik von Schenk succinctly stated no.

## 6. Comparison study

*This chapter is dedicated to a comparative study between TAKE-10s original plan structure and that of the MVP. This study is laid out in two separate formats the first is a simple pro and con analysis and the second compares similarities and differences.*

Figure 6a



### Differences & Similarities

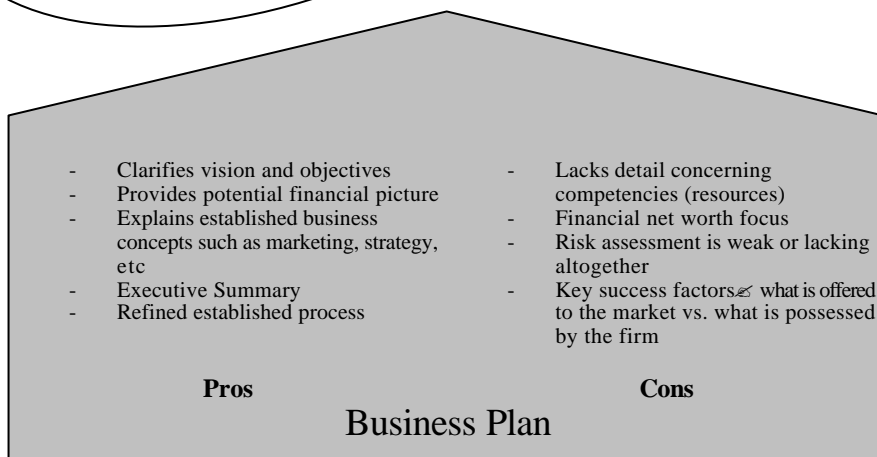
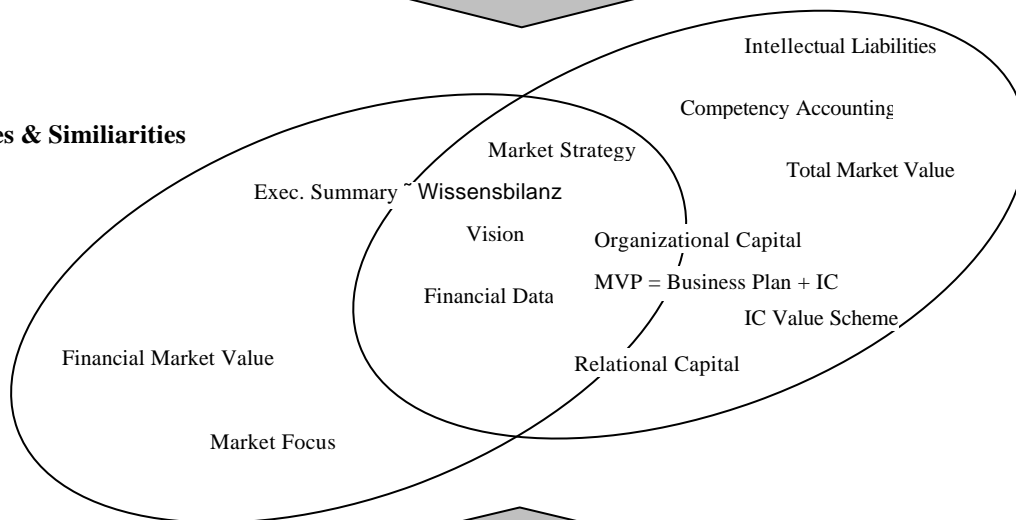


Figure 5a above provides an overview of the pros and cons, similarities and differences that we have identified among the business plan and the MVP.

One important observation was how the business plan fit into the MVP. This observation was slightly surprising considering that there was no conscious effort to retain any aspects from the original business plan construct.

Due to this inclusive development we could find rather few differences from the business plan perspective, the most notable being an external focus based on the market as well as the financial market value. Differences from the MVP perspective are more apparent. This seems logical given our above mentioned observation. One could compare the MVP to a glove and the business plan to a hand, meaning that the MVP contains the vital parts of the business plan while providing more.

Our observations of the MVP revealed the list of pros illustrated in figure 6a above. This more detailed description clarifies the strengths that this template possesses.

- Clarifies vision and objectives: By using Wissensbilanz we were forced to acknowledge the market impact on TAKE-10's vision and objectives in such a way as to influence how the IC within the company was structured. This went beyond simple consideration of potential threats.
- Provides potential financial picture: As with the business plan, many standard financial reports helped provide an image of how the business would look in economic terms.
- Explains established business concepts: The IC models we have adopted require detailed descriptions of even traditional concepts such as marketing and strategy, etc.
- Complete focus/value picture: By focusing much of the MVP on IC development and valuation, the TAKE-10 business idea was forced to consider the internal value which together with the financial capital and



market focus provided a complete picture.

- Strong risk assessment: The concept of intellectual liabilities created a depth in risk assessment that focused on internal vulnerabilities. This exercise required much thought for developing counter measures.
- Structural depth: With TAKE-10 being a start-up organizational issues were not so developed in the business plan. In the MVP however the IC Value Scheme activity forced a much deeper focus on not only the organization but all aspects defined under IC.
- Well defined strengths: In the business plan TAKE-10 explained the product assortment they were planning on offering their future customers. While descriptions on how these products would be developed were well defined, the MVP took this a step further through identifying core competencies within the firm. These core competencies were also connected to the products offered in a way to reveal the financial value of the same.

Since this is an initial attempt, it is expected for there to be some weaknesses. Our observations were able to identify three key cons. These are:

- Lack of Executive summary: This was due more to an oversight on our account vs. any conscious effort to negate this aspect of planning.
- Fussy format: Given that we have spent considerable time researching the field of intellectual capital, we have become accustomed to viewing the planning process from an IC perspective. Even though we have taken measures to provide a pedagogical working process with the uninitiated in mind, we became aware of the potential for the MVP to be more difficult to digest for those unfamiliar with the IC models we have worked with.
- Unrefined process: Here humility must reign. This template must be considered rough around the edges and therefore subject to a refinement process.

Our observations of the business plan also revealed the list of pros illustrated in figure 6a above. This more detailed description clarifies the strengths that this template possesses.

- Refined established process: many aspects of the TAKE-10 business plan as created through Business Plan Pro were readily recognizable. The process is one that can be found on many established templates.
- Clarifies vision and objectives: When producing the TAKE-10 business plan key focus was made on developing the vision of the company as well as its objectives. This was then well projected in the executive summary.
- Provides potential financial picture: While there was no conscious focus on IC issues the various established financial reports were developed. With these it was easy to gain an understanding of the financial potential growth of the firm.
- Explains established business concepts: Traditional business concepts such as marketing, strategy, etc. were organized in a way to make developing these fairly simple.
- Executive summary: The executive summary can be considered integral to any business plan, and Business Plan Pro was able to readily convert key data into one for the TAKE-10 business plan.

Since developing the MVP we have become aware of aspects in the planning process that have revealed certain weaknesses in the business plan. These weaknesses are:

- Lacks detail concerning competencies: The focus in the business plan dealt largely with the products to be marketed, how they were to be produced sans detailed operational descriptions, and the market said products would reach. While the software allowed flexibility to develop each section to ones liking, there was no conscious pedagogy leading business planner to expound core competencies.

- Financial net worth focus: During the development of TAKE-10's financial plan, the attention was focused on traditional accounting practices that served to reveal the potential net worth of the company without any consideration to the value IC would have added.
- Risk assessment: Business Plan Pro license used to develop TAKE-10 business plan does not possess a module that handles risk assessment. There is not only a lack of risk assessment, but there is also a lack of sensitivity analysis which serves to validate the strength of a business idea by looking at worst case scenarios.
- Key success factors: Focus in the TAKE-10 business plan was geared towards what was offered to the market vs. both that as well as the resources within the firm.

## **7. Validation**

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*Validation here will serve two purposes. First of all analysis of key informant responses will help us reveal the overall strength of the MVP. Secondly the business driver feedback provides potential issues of correlation between successful business ventures and the value of IC.*

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### **7.1 Key informants**

Validity

Strengths

Weaknesses

Insights

Future Potential

### **7.2 Business drivers**

In order to understand the potential value of the MVP, we felt it prudent to identify potential correlations between how successful businesses were run and the value of IC. The knowledge disparity between the two business drivers firms only serves to strengthen any correlations that might exist.

#### **7.2.1 IC Value**

Our first question was an attempt to force the two business drivers to consider what really mattered within their respective companies. Once they understood the weight of the question as to the value of their firm there was little hesitation from either of them in answering in kind their 'employees'. Henri Saffer

referred to them as his staff whereas Erik von Schenk referred to them as the collective knowledge within his company.

This was an interesting result given that the two firms in question reside on the opposite sides of the 'knowledge pendulum'. We might expect a cutting edge bio-tech company such as Jolife to value knowledge workers, but it might seem unusual for a facilities management company like Blueberry to value the same.

Henri Saffer's value and understanding of knowledge workers may have played a key role in turning Blueberry from a two employee one client cleaning company at the end of 1999 to one of the largest regionals in 2006 with revenues exceeding 40 MSEK per year prior its sale to an international company.

Due to the responses of our business drivers we feel motivated in implementing the IC Value Scheme in the MVP. Our reasoning is that if Henri Saffer's and Erik von Schenk's understanding of greatest value in the firm is representative of other successful business drivers, than the IC Value Scheme serves to prepare entrepreneurs to identifying greatest value in their firms. Accepting this means accepting the possibility that such an exercise in the planning stages provides potential success for new businesses down the road.

### **7.2.2 Vision and Strategy**

The next few questions were related to the vision and strategy of the firm and how these effected the distribution of valuable resources. Here we were looking for a correlation to the Wissensbilanz process of providing nourishment to the root capital within the firm.

It was apparant during this line of questioning that our selected business drivers were leading companies from two quite different perspectives. Henri Saffer never dreamed of establishing his own cleaning company, but had taken over

for a cash-strapped colleague whereas Erik von Schenk had a clear vision of developing Lucas.

Regardless of their different perspectives both had clearly defined visions. Regarding their strategies both applied focused communication activities. Both relied more on direct sales contact with a niche demographic vs. broad advertising campaigns. The two companies work from limited budgetary issues. One as a start-up the other due to liquidity.

The affects on resources or capital in this case differed. Blueberry due to their business stratgy was met by the need to slow down growth at times to maintain quality assurance which demanded recruiting more staff and losing middle management due to the demands of the job. Jolife on the other hand, is resource sensitive due to their dependance on strategic alliances. The majority of their work organization according to Erik von Schenk is outsourced.

We see a potential value in the MVP through the use of Wissenbilanz in the planning process considering the challenges that Henri Saffer and Erik von Schenk have shared regarding allocation of capital within the firm to meet their objectives. In spite of these challenges, the two companies have been able to adjust to maintain sustainability.

The value we see lie in the reality that even successful companies such as these deal with capital distribution issues that need to be dealt with in a way to protect sustainability of the firm. It is not a question of a static vision with specific milestones, but a continual process that is constantly forced to adapt. Applying Wissensbilanz to the MVP establishes a living vision from the beginning that requires constant care.

### **7.2.3 Strengths and Weaknesses**

The motivation behind the questions relating to strengths and weaknesses, was

to identify eventual ties to core competencies as well as intellectual liabilities. Since both play key roles in the MVP relating to its value as a planning tool, we felt that by identifying these among our business drivers would further legitimize market value planning.

Both parties were able to readily describe what their firms were 'best at'. Without going into specifics of each core competency, it suffices to state that those named had clear correlations with the products/services that Blueberry and Jolife provides. It is this correlation that we find vital in motivating exercises in valuation of said competencies.

Without further research it is impossible to state that all firms core competencies provide sustainability to their firms. We can however rely on the work already done by Andriessen et al, in regards to this issue. What our business drivers have simply done is confirm what has already been researched. This further legitimizes the need for identifying core competencies within the firm. Not only to ensure the firm is applying capital correctly in line with their vision and objectives, but also as an aid to identify the market value of the firm.

In regards to intellectual liabilities, both parties readily admitted to weaknesses within the firm although they provided little specification as to what they were. The few that were mentioned revealed the vulnerability both firms had. Blueberry due to its contractual system with customers constantly had to deal with liquidity issues which was managed through the use of factoring services. Jolife's strong dependance on outsourcing makes them vulnerable if they were to lose key personnel. This as explained by Erik von Schenk is countered by an attractive incentive program for those working for the company proper.

Their recognition of certain liabilities as well as the counter measures involved in dealing with these supports the need to identify the potential for such when planning a new business. When building the MVP, we took this issue under

consideration and feel due to the feedback from our selected business drivers that the IL application fulfills a key function in preparing entrepreneurs to plan and prepare for potential IL as another step towards maintaining sustainability.

#### 7.2.4 Value Assessment

The motivation behind the final question was to identify any correlations with IC valuation concepts. The MVP has adopted the use of the Value Explorer<sup>®</sup> in producing money valuations of the IC within the firm. Any feedback on behalf of business drivers supporting this would again strengthen the concept of the MVP as a planning template. Regarding this issue, both Henry Saffer and Erik von Schenk were negative in their responses. No such efforts to apply a tangible value to their IC has ever been made.

In spite of this negative response, we feel that such IC valuation tools do in fact have a considerable worth. This area of research in IC is still in its infancy and therefore our responses may reflect the lack of exposure this research has had in the business community. It is difficult to imagine adoption of said valuation tools within the business community if there is not sufficient exposure.

Our decision to adopt the Value Explorer<sup>®</sup> as part of the MVP may serve to provide the exposure necessary to begin increasing awareness within the business community.

For this reason we are encouraged as to the value of the MVP. If the values represented by our business drivers are standard for other successful entrepreneurs than we have reason to believe that the MVP process has value in increasing the potential for success for all entrepreneurs. However for this to be proven a wider study consisting of a larger cohort of successful business drivers in various industries would be needed.



## 8. Outcome

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*The conclusions the follow are based on the comparison of the two plans and feedback from the interviews. This is all tied to the purpose in presenting the MVP as a possible solution for business plans.*

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We have developed the MVP through the adoption of five relevant IC-theories and models. By adopting these into our template, we feel that we have successfully begun building the foundation of a planning concept that in our opinion needs to be developed to meet the challenges of the future of business in the Knowledge Economy.

In our efforts to develop an eventual replacement to the business plan, we discovered through the use of the applied theories and models the value of the business plan to the extent that it was a necessary part of the MVP. While it was not our intention, the theories and models guided us through a process that in the end was not exclusive of the business plan, but inclusive. What grew from there was a template that we deem as being more complete.

The MVP provides a higher market value due to both the financial value and the IC value are combined vs. relying solely on net worth values. We have proven through our MVP the positive relationship between valuation of IC and an increased market value of the firm. This should be seen as a positive to adapting the MVP. Firms looking to identify their worth by using the MVP can gain a complete valuation.

The depth of risk assessment via the utilization of intellectual liability models is another factor in supporting our claim that such a tool (MVP) is superior to what is being used today.

**OBS-Key Informant Interview Info will be placed here!!!!**

The business driver interviews confirmed many of the issues present in the MVP. The issues of Human Capital had a strong impact on the companies in question. This is an area that tends to receive a less prominent role in the business plan and can even as in the case of TAKE-10 be relegated to a few comments about leadership and a personnel “cost” list. Erik von Schenk of Jolife explained the vulnerability of losing a vital member of his staff. These issues are necessary to consider on a deeper level than in terms of cost accounting and resource management. In the MVP issues like this have been foreseen, such as the value of converting human capital into structural capital within the company to withstand the natural migration of resources from the firm.

The business drivers for the most part had their minds directed towards issues defined and resolved in the MVP in directing their companies. We take this as a sign that our efforts in developing the MVP are headed in the right direction in regards to how business can achieve sustainability. On the other hand, the key area of IC valuation through core competencies needs more exposure. By presenting the MVP to both academics in the field of IC as well as business drivers this can produce greater insight within the corporate community regarding these valuations.

As has been discussed earlier, the MVP should still be considered an unrefined template that requires further study and development. The importance of the MVP at this juncture is to increase exposure of the value planning process and the IC valuation possibilities.

The MVP in the long term helps open up the thinking process in which IC value is visible already in the planning stages instead of just a measurement exercise for accounting reports. As discussed in this thesis, the issue of a complete picture that the MVP provides allows for improved decision making

based on better access to information. It also provides a better measurement of the real value of the firm.

Again, the development of the MVP will need to go through several processes over time. It is not inconceivable to expect an iteration of the MVP to be represented through a software application to as with Business Plan Pro, aid in efficiently building MVP's for future entrepreneurs. This would actually enhance the exposure over time and help solidify the MVP as a planning standard, which we regard as a logical step for the future.

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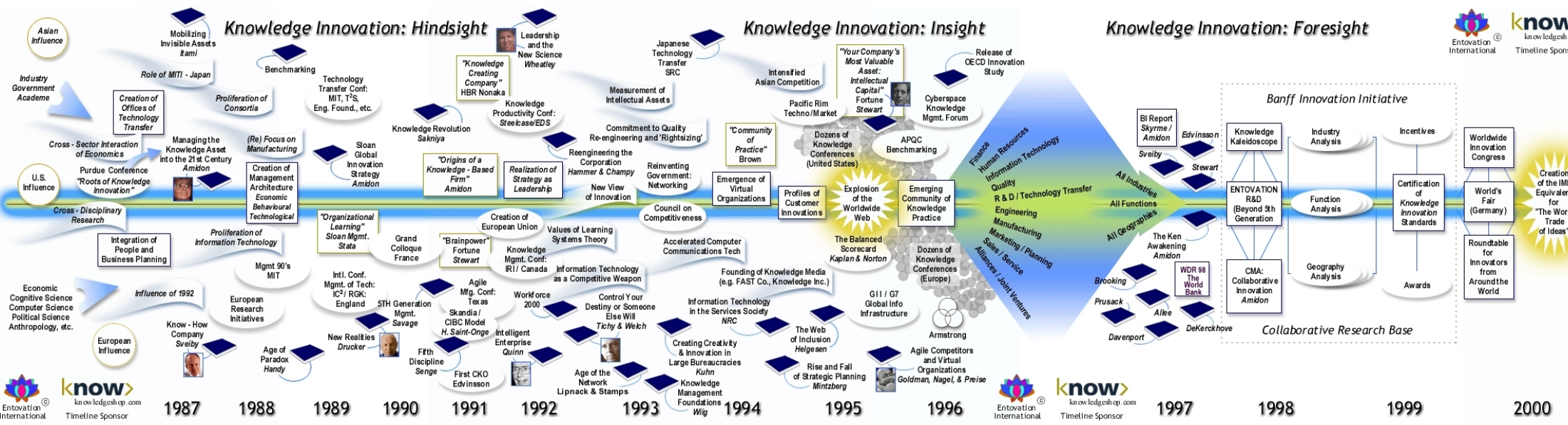
### **Interview guide – Key informants**

Opinions on:

- if the model is valid
- strengths and weaknesses
- insights
- the future potential of the market value plan

### **Interview guide – Business drivers**

- What possesses the greatest value in the business You are running/ran?
- What is/was the vision and why?
- What is/was the marketing strategy and why?
- How is/was the vision and market strategy effected how You have structured Your resources in the company?
- Are/where you ever aware of any weaknesses in how your business was run? If so what if any counter measures did you implement?
- What few things do You feel Your firm is/was best at? Is/was there a conscious effort to maintain the resources responsible for these “best at” abilities?
- Has Your company ever consciously attempted to assign tangible value to Your intangible assets?





(Take10) Digital Readers Publishing House

LETTERATE Media & Publishing  
Musikantvägen 28a  
Lund, Sweden. 224 68  
+46 (0)46 305153  
djross@letterate.net

## Confidentiality Agreement

The undersigned reader acknowledges that the information provided by \_\_\_\_\_ in this business plan is confidential; therefore, reader agrees not to disclose it without the express written permission of \_\_\_\_\_.

It is acknowledged by reader that information to be furnished in this business plan is in all respects confidential in nature, other than information which is in the public domain through other means and that any disclosure or use of same by reader, may cause serious harm or damage to \_\_\_\_\_.

Upon request, this document is to be immediately returned to \_\_\_\_\_.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name (typed or printed)

\_\_\_\_\_  
Date

This is a business plan. It does not imply an offering of securities.

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## 1.0 Executive Summary

### Introduction

**Take10** bridges the gap between Ebooks and the reading experience. While ebook sales have increased over the past ten years, the industry has struggled due to the lack of understanding the digital reading experience vs traditional book reading. Sales for ebooks have been most robust in non fiction and reference type literature which is the logical result of digital media being dominated by information needs based reading vs leisure reading. For fictional literature to truly have a digital presence in the future, it needs to embrace and adapt to the modern habits of today's readership.

The focus of this business plan is to illustrate Take10 objectives on our ambition to taking digital reading to the next level and spear-heading the growth of this industry. This is to be done through the establishment of a new company, acquisition of new and upcoming authors, ramping up a publishing portal, community building, and network based branding activities. All this is to be done on a shoestring budget with every intention of becoming profitable by the end of year one.

### The Company

Take10's mission is to provide affordable stimulating entertainment to digital readers everywhere.

Take10, is a concept generated by Douglas J Ross over the course of the past two years. This was borne out of the recognition of the popularity of digital community building over any topic of interest, the current trend in high user involvement in media entertainment as well as the continued struggling of the ebook industry.

Take10 will be registered as a privately held corporation with several major principles who will also be actively involved in ramping up the business.

Take10 does not currently have a domicile, and efforts to expedite this need will be undertaken prior to March of 2006.

The growth of the company will be determined by how accurately and efficiently the company is able to implement the facets of this business plan.

### The Products

Take10 will provide serialized fictional material for reading through a subscription based model. Novels, novelas, short stories, etc will be available to subscribers who will receive regularly updated portions of their chosen book(s).

Take10 will provide digital publication services for qualified authors to update and enhance our offerings to Take10 readership. These services include digital publishing in various established formats, a dashboard for manuscript access for authors making on the fly changes, marketing services to profile their books for increased readership, and pulp publication for authors whose works have reached a sufficient readership level to motivate the cost.

Take10 will also provide a digital publication "vanity" service for (non qualified) authors who wish to market their own books through a subscription or single purchase channel. These authors will be charged a subscription fee for the use of the forum, and will be able to either set up a readership subscription based revenue option or a one off purchase option. Authors own fees to Take10 will consist of both a base fee and a percentage of revenues generated.

# Take 10 Digital Readers Publishing House

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## The Market

The IDPF (International Digital Publishing Forum) is the premiere trade and standards organization for the digital publishing sector. Their latest reports show that even after ten years of ebook sales, that the market has not grown to the point where barriers to entry are significant.

From their report release Jan 12, 2005

- Revenues: \$3,227,972 in sales have been logged by retailers in Q3 2004, a 25% increase over the same period in 2003 during which time retailers reported \$2,591,469 on sales of eBooks.
- Unit Sales: A total of 419,962 eBooks were sold in Q3 2004 alone, an 11% increase over the same period in 2003, during which time 377,095 units were sold.

Take10's products appeal to digital readers (those who use cell phones, pda's and computers) to access information and who enjoy reading via these tools. This market is growing as the use of said tools has become commonplace especially among the younger set (under 30 crowd). The market for ebooks is currently limited in less than 2 million downloads per year. Comparing that to the over 2 billion books sold in the United States every year (based on BISG data), that is a market penetration of 1/10th of 1%.

There is plenty of room to grow, and considering that Take10 is not a standard online bookstore, we are confident that we can enter the market with relative ease.

Our serialization concept can act as a hindrance to piracy which has been one of the greatest stumbling blocks for the large publishing houses like Random House or Harper Collins in entering full throttle the ebook publishing industry.

Competitively Take10 is not currently aware of any digital publishing company producing ebooks using a serialization strategy complete with community building. After extensive research, we are not aware of any digital publishing company applying any type of serialization strategy. The closest applications we have found are ebook stores selling chapters or parts of books that have already been published, or issued on behalf of an established author, or individual authors offering their unfinished manuscripts for reading via the Web. Neither of these applications are considered a major threat to what Take10 offers in services and products.

## Financial path to Success

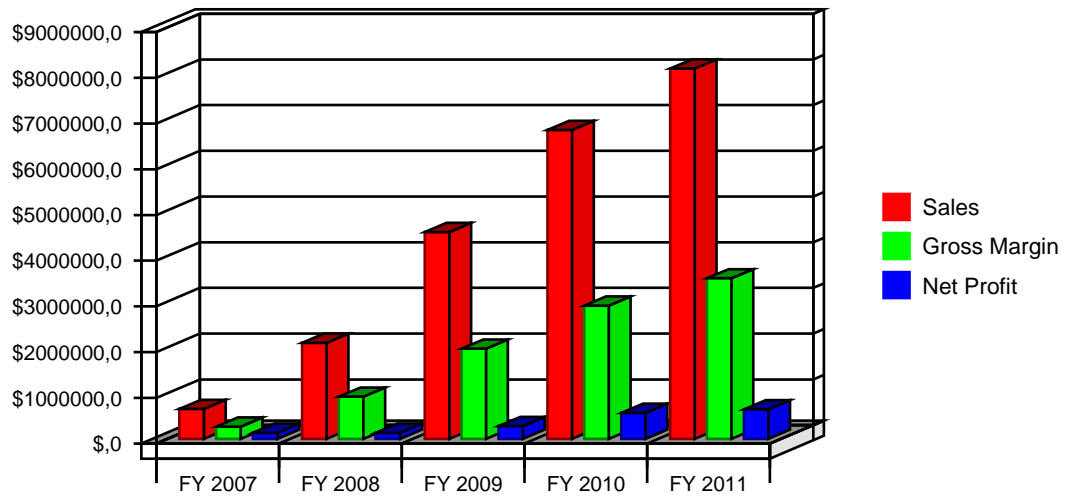
Take10 expects to adapt and adjust to changes as ramp up provides a clearer picture of just how rapidly we can achieve our financial goals.

Take10 initially expects a rapid establishment growth only to come more into line with industry levels over five years. First year revenues are expected to exceed 1 million USD. Revenues are expected to grow over 100% between years one and two only to taper down to 13% growth levels year five. Net Profit is expected to initially be over 15% to being over 6% by year five.

Funding issues will be dealt with through private capital provided by founders of company. The key to staving off financing needs lie in the ability of founders to maintain their current economic situations thus allowing Take10 to avoid the initial wage burden by those dependant on an income from work performed on behalf of Take10.



## Highlights



## 1.1 Objectives

Take10 Digital Reader Publishing House has the following objectives:

Produce and increase the sales of ebooks by:

- providing high quality serialized "as it happens" written fiction that can be read quickly and easily using network devices such as cell phones, pda's, and computers.
- providing a streamlined cost efficient digital publishing service for authors who write fiction, who are looking for increased control of rights to their work, and who desire a larger percentage of sales revenues through royalties agreements.
- Building a readership community that takes an active participatory role in influencing what is written, including any changes to manuscripts already "gone to press"

## 1.2 Mission

Take10's mission is to provide affordable stimulating entertainment to digital readers everywhere.

## 1.3 Keys to Success

Take10 has decided to focus its attention on breaking down the size of digital reading material as a means of energizing the slow growing ebook sector. The attraction value of reading an ebook is limited by the cultural bias towards the traditional reading experience as well as the optical ergonomics of staring at digital screens for extended periods of time. Take10's focus of providing serialized reading material is key in creating a shift in reading habits more conducive to the digital reading experience.

Today's publishing industry is at the cusp of a major shift in how it does business. Digital media is fast becoming the norm for many people in how they watch TV, read newspapers, listen to music and communicate with each other. The weighted infrastructure that exists to publish even one hardcover is cost prohibitive which is why authors find it so hard to break into the business. Take10's focus of providing a streamlined cost effective digital publishing service for authors is key in breaking new territory of the A as well as the B and C writer who may sell only a 1000 copies of their work vs 100000. Profitability sans the traditional infrastructure can be achieved with lower copy sales which is a strong motivator to why we believe this is key.

With the advent of reality television, the push is for viewers to take an active role in determining the outcome of events. Take10 is focused on harnessing that participative energy and tying it too the fiction that we sell. Allowing the community of readers to have an influence in the outcome of what they are reading can serve to stimulate interest as a marketing tool to increase sales.

## 2.0 Company Summary



**Take 10 Digital Publishing**

Take10 is a digital publishing start up (launch date April 2006) that seeks to capitalize on the efficiencies available in e-publishing through the serialization of fictional literature. The company founders are Managing Director Douglas J Ross and Editor-in-Chief Tiffany Wacaser.

# Take 10 Digital Readers Publishing House

## 2.1 Company Ownership

Take10 will be privately-held [C corporation] owned in majority by the founding body as well as two other principals to be named at a later date. Registration of incorporation will be initially done in the state of Utah.

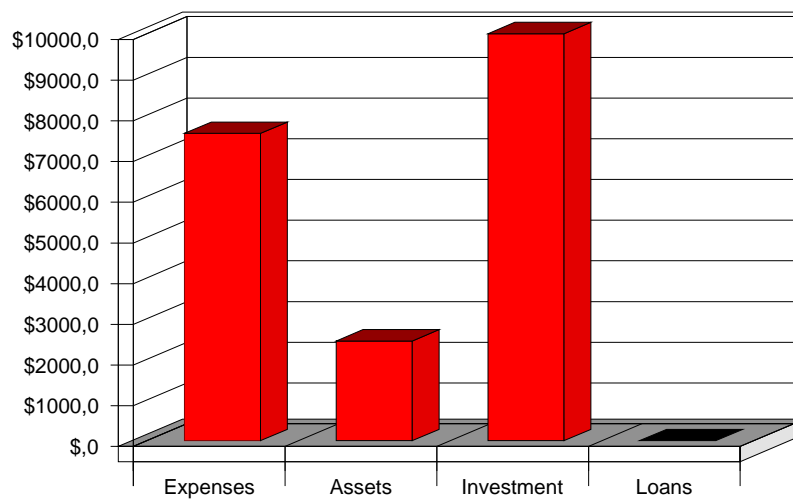
## 2.2 Start-up Summary

Take10 start-up costs come to \$5,850, which is mostly for legal costs for incorporation in the United States, and website development. The start-up costs are to be financed by direct owner investment.

**Table: Start-up**

Start-up	
Requirements	
<u>Start-up Expenses</u>	
Legal	\$2 000
Stationery etc.	\$100
Insurance	\$200
Rent	\$300
Website Development	\$3 500
Hosting (Rent)	\$400
Merchant Account Services	\$500
Domain Registration	\$50
Other	\$500
<b>Total Start-up Expenses</b>	<b>\$7 550</b>
<u>Start-up Assets</u>	
Cash Required	\$2 000
Other Current Assets	\$450
Long-term Assets	\$0
<b>Total Assets</b>	<b>\$2 450</b>
<b>Total Requirements</b>	<b>\$10 000</b>

**Start-up**



## 3.0 Products and Services

Take10 will provide serialized fictional material for reading through a subscription based model. Novels, novelas, short stories, etc will be available to subscribers who will receive regularly updated portions of their chosen book(s).

The books will initially be original works from up and coming authors. Once readership reaches sufficient levels, attempts at signing established authors will be made.

The books will go through several phases which begin with Author's Cut which is the original manuscript. The Adapted Cut which is the book as it develops based on readership influence. Pulp Cut which is the printed publication of any book that has achieved sufficient readership to motivate the cost of printing a paperback edition.

Each of these options or "Cuts" will be available with the Author's and Pulp cuts as complete non subscription based products.

Take10 will provide digital publication services for qualified authors to update and enhance our offerings to Take10 readership. These services include digital publishing in various established formats, a dashboard for manuscript access for authors making on the fly changes, marketing services to profile their books for increased readership, and pulp publication for authors whose works have reached a sufficient readership level to motivate the cost.

Take10 will also provide a digital publication "vanity" service for (non qualified) authors who wish to market their own books through a subscription or single purchase channel. These authors will be charged a subscription fee for the use of the forum, and will be able to either set up a readership subscription based revenue option or a one off purchase option. Authors own fees to Take10 will consist of both a base fee and a percentage of revenues generated.

Non qualified authors who achieve sufficient readership may be offered by Take10 a contract to market and publish future titles of said author.

## 4.0 Market Analysis Summary

The IDPF (International Digital Publishing Forum) is the premiere trade and standards organization for the digital publishing sector. Their latest reports show that even after ten years of ebook sales, that the market has not grown to the point where barriers to entry are significant.

From their report release Jan 12, 2005

- Revenues: \$3,227,972 in sales have been logged by retailers in Q3 2004, a 25% increase over the same period in 2003 during which time retailers reported \$2,591,469 on sales of eBooks.
- Unit Sales: A total of 419,962 eBooks were sold in Q3 2004 alone, an 11% increase over the same period in 2003, during which time 377,095 units were sold.

The top ten list for 2004 showed that 4 titles belonged to one author while several others were reference books.

1. *The Da Vinci Code* by Dan Brown (Doubleday - \$14.95)

## Take 10 Digital Readers Publishing House

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2. *Angels & Demons* by Dan Brown (PocketBooks - \$6.99)
3. *Deception Point* by Dan Brown (PocketBooks - \$6.99)
4. *Digital Fortress* by Dan Brown (St. Martin's Press - \$5.99)
5. *Darwin's Radio* by Greg Bear (Del Rey - \$6.99)
6. *Holy Bible, New International Version* - International Bible Society (Zondervan - \$14.99)
7. *I, Robot* by Isaac Asimov (Spectra - \$4.99)
8. *Electronic Pocket Oxford English Dictionary & Thesaurus Value Pack* (Oxford University Press - \$19.95)
9. *Darwin's Children* by Greg Bear (Del Rey - \$6.99)
10. *Merriam-Webster's Collegiate® Dictionary* (Merriam-Webster - \$25.95)

The main competitors in the ebook arena are:

- eBooks.com
- eReader.com
- Fictionwise.com
- Mobipocket.com
- OverDrive

The first four are the established "giants" of classic ebook store setups. They all started in 2000. The fifth is an audio-book store with over 25 audio production companies supplying them with titles as a reseller. eBooks, the obvious leader, is currently averaging between 40 and 50 thousand titles sold per month.

Take10's products appeal to digital readers (those who use audio-book, pda's and computers) to access information and who enjoy reading via these tools. This market is huge potential for growth as the use of said tools has become commonplace especially among the younger set (under 30 crowd). The market for ebooks is currently limited to less than 2 million downloads per year. Comparing that to the over 2 billion books sold in the United States every year (based on BISG data), that is a market penetration of 1/10th of 1%.

There is plenty of room to grow, and considering that Take10 is not a standard online bookstore, we are confident that we can enter the market with relative ease.

Our serialization concept can act as a hindrance to piracy which has been one of the greatest stumbling blocks for the large publishing houses like Random House or Harper Collins in entering full throttle the ebook publishing industry.

Competitively Take10 is not currently aware of any digital publishing company producing ebooks using a serialization strategy complete with community building. After extensive research, we are not aware of any digital publishing company applying any type of serialization strategy. The closest applications we have found are ebook stores selling chapters or parts of books that have already been published, or issued on behalf of an established author, or individual authors offering their unfinished manuscripts for reading via the Web. Neither of these applications are considered a major threat to what Take10 offers in services and products.

We have found several digital publishers who offer authors just in time publishing and distribution of their work, however they do not provide any marketing, dashboard, or community building services which they leave to the author to handle.

# Take 10 Digital Readers Publishing House

Take10 for all tense and purposes provides a unique bridge between all the parts to create a synergy for boosting sales of digital reading material.

## 4.1 Market Segmentation

Take10 segmentation strategy is simplified in first identifying readers, and than identifying readers who are regular digital tool users. Readers tend to be educated, and goal oriented. It is more likely that to find avid readers among those who are either currently involved in academics or who have earned their degrees and are using them in the workplace. Retirees provide an interesting demographic, and may warrant a separate category for development. Within the next ten years, this will most definitely be a key segment as the aging population will more represent those who are IT savvy.

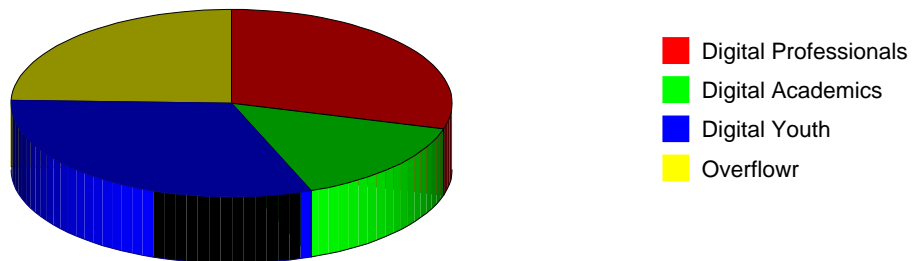
Digital Professionals	Educated professionals who are daily users of computers, definitely and/or pda's	This demographic often finds themselves in situations were they are waiting for short periods of 15 to 20 minutes for a phone call, appointment, sitting in a boring meeting, commuting to and from work.
Digital Academics	College Students who are daily users of computers, definitely and/or pda's	This demographic often finds themselves with short breaks between classes, lunching with classmates, applying digital tech to enhance their social network.
Digital Youth	Grade School and High School students who are daily users of computers, definitely and/or pda's	This demographic often finds themselves with short breaks between classes, lunching with classmates, applying digital tech to enhance their social network.
Overflow	Trade or non degreed employed, retirees, others who regularly use computers, definitely and/or pda's	This demographic is diverse enough to encompass those who participate in similar activities as mentioned above, without a clear socio-behavioral consensus.

# Take 10 Digital Readers Publishing House

**Table: Market Analysis**

Market Analysis		2006	2007	2008	2009	2010	
Potential Customers	Growth						CAGR
Digital Professionals	10%	30 000 000	33 000 000	36 300 000	39 930 000	43 923 000	10,00%
Digital Academics	10%	15 000 000	16 500 000	18 150 000	19 965 000	21 961 500	10,00%
Digital Youth	10%	32 000 000	35 200 000	38 720 000	42 592 000	46 851 200	10,00%
Overflow	10%	25 000 000	27 500 000	30 250 000	33 275 000	36 602 500	10,00%
Total	10,00%	102 000 000	112 200 000	123 420 000	135 762 000	149 338 200	10,00%

US Market Analysis (Pie)



## 4.2 Target Market Segment Strategy

Digital Professionals	Educated professionals who are daily users of computers, definitely and/or pda's	This demographic often finds themselves in situations where they are waiting for short periods of 15 to 20 minutes for a phone call, appointment, sitting in a boring meeting, commuting to and from work.
Digital Academics	College Students who are daily users of computers, definitely and/or pda's	This demographic often finds themselves with short breaks between classes, lunching with classmates, applying digital tech to enhance their social network.
Digital Youth	Grade School and High School students who are daily users of computers, definitely and/or pda's	This demographic often finds themselves with short breaks between classes, lunching with classmates, applying digital tech to enhance their social network.

## Take 10 Digital Readers Publishing House

Overflow	Trade or non degreed employed, retirees, others who regularly use computers, definitely and/or pda's	This demographic is diverse enough to encompass those who participate in similar activities as mentioned above, without a clear socio-behavioral consensus.
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Digital Professionals are constantly on the move during their workday, going from meetings, to their office, to lunch appointments, to traveling to conventions, etc. The number of opportunities for such a person to be sitting 15 minutes here or there waiting are numerous. This down time provides an excellent opportunity for a short break or relaxed moment where the reader can enjoy a book without the issue of carrying it around or having the entire volume on hand (even digitally) to get lost in the story and waste too much time. The balance is perfect. Just enough reading material to whet the appetite and not so much as to sink their performance on the job. For commuters, the serialized book provides a nice pick me up, or an end of day relaxer after a hard work schedule.

Digital Academics are also hounded by tough class schedules trying to juggle several subjects(US system) at once. The added pressure of a suddenly adult social life makes enjoying a nice book on a lazy Saturday afternoon even more limiting. The serialized book helps satisfy the need for leisure reading in bite size portions. The community building aspect of Take10 is a welcome opportunity to the under 30 academic set who have spent much of their young lives chatting, message boarding and blogging on the Internet.

Digital Youth have literally grown up with definitely in their hands, and would rather SMS/MMS friends than actually talk to them via the same device. The Internet and Chat society is second nature to the digital youth reader, and they would rather read anything and everything from a blogsite than actually open a book or page through a newspaper. The entertainment value of an episodal or cliffhanger type story in their environment appeals to digital readers in this demographic due to the small amount of text being processed. The community building function is appealing if not for the chance to influence the story, for the classic reason behind the fact that teenagers tend to enjoy sharing their opinions on matters.

Overflow is a group that is too difficult to quantify, and thus any specific marketing efforts towards this end will not be pursued. The only exception would be in the case of retirees from academically demanding professional careers. Readership in this demographic is interesting only in that marketing efforts focused on the others will tend to bleed into this area somewhat and attract a small percentage.

### 4.3 Service Business Analysis

Today books are primarily sold over the counter as hard or paperback copies. Bulk or volume sales are limited to retailers buying from distribution or wholesalers, and government contracts for public library exposure. Ebook sales are still in their infancy and have yet to reach levels to be considered a threat to traditional publishing and sales.

Online shopping however has reached established levels to make efforts in this area worthwhile. Today ebooks are almost exclusively sold as complete files to be download and read at leisure. Competitors in the ebook market are limited to distributing other publishing houses books, while Take10 will be responsible for both. This gives Take10 both control over pricing and distribution.

As discussed in the Market segment of this plan, Take10 has identified three specific demographics in the U.S market to focus on initially.



# Take 10 Digital Readers Publishing House

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While the main effort will be to acquire authors for providing reading material, and individual customers paying for readership rights, there are other potential revenue streams for Take10 products and services.

Public Libraries looking to enhance their value through weekly updates of our hottest authors, by creating a readers discussion group. The same could be said for book clubs.

Airlines, Trains and other public transportation companies can create value add by subsidizing Take10 products to certain categories of travelers, or by providing access for account holders through their existing computer network.

Schools can adopt reading initiatives to motivate students to begin reading books a little at a time through serialization.

Hospitals can provide access to a digital library of Take10 works available

Companies can sponsor a private label novel which features descriptions of their services or products as a form of advertising in order to reach Take10 readership.

## 4.3.1 Competition and Buying Patterns

Digital readers tend to be loyal to successful purchase history. They buy their ebooks where it has worked before. Given that the major ebook retailers provide basically the same lists, it becomes an issue of habit, success in purchase and price.

Other competition to Take10 is the "freezone" web sites dedicated to writing, or authors who promote their own work for free, the blogosphere where anyone can become a "writer" The issue here becomes what does Take10 provide that is worth paying for. This means that sorting through the slush pile of manuscripts becomes vital in providing story material worthy of customer dollars.

Take10 is also challenged by other digital entertainment. Video and Audio productions, streaming entertainment, podcasts, etc compete for the digital users attention. Take10 needs a sound marketing plan to successfully penetrate and retain a position in this sector.

Word of Mouth is perhaps the strongest format via the Internet that a company can utilize to generate interest. This is synergized by how well known the company is when attracting customers. Take10 being a startup will not have that advantage, but word of mouth still is king in generating interest.

With reality television and the need for recognition(15 minutes of fame) high in the minds of consumers, message board communities serve a powerful function in creating a buzz on a specific author or novel that Take10 provides.

## 5.0 Strategy and Implementation Summary

Take10 starts small on a shoestring budget, and works word of mouth, MBT, as well as other niche strategies such as interest-to-genre directed trials to increase brand recall and recognition.

Take10 means a bridge between digital readers and the reading experience

Take10 means pushing the envelope of the reading experience though community building

Take10 means synergies of community building that enhance the authorship process to provide dynamic reading material for customers.

# Take 10 Digital Readers Publishing House

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Take10 means forming the fictional reading medium into a rich marketing tool to benefit other companies wishing to market their brands

## 5.1 Competitive Edge

Take10's competitive edge vs eBooks.com, eReader.com, Fictionwise.com and Mobipocket.com will be a ownership of the entire value chain. The Ebook online stores are dependant upon publishing houses to provide them with books that they must buy and than resale. Take10 actually produces the books they sale through authors who are under contract with Take10. Given that many titles sold by Ebook retailers are published by traditional publishing houses, they (the retailers) are paying a price that includes costs related to maintaining a large infrastructure including those generated through pulp production. Take10 can enjoy a price advantage while maintaining higher margins. Distribution is also improved through JIT-Just In Time availability.

What will differentiate Take10 over the competition outside of the value chain will be the way in which Take10 pushes the envelope in what motivates book sales. The concept of community building around a particular story is not new, and currently exists through message boards, news groups, etc. The difference however is that current communities are built on what has been written or completed. Where this deviates is in communities that are based on an incomplete series of books. Robert Jordans Wheel of Time series is a classic example. Newsgroups dedicated to this writer's WOT series have existed over ten years, and they have grown to millions of participants. Some have even developed IRC communities which are text based "worlds" where individuals can roll play with others through chat functions. Take10 seeks to create a synergy where users or citizens interactions with each other within the story's community can be used by the author to integrate changes in the manuscript of what has yet to be released to said readership, as well as create spin -offs based on community interest in particular aspects of an existing story. This dynamic has yet to be harnessed, by any publisher, which is what will separate Take10 from the rest.

The further into the future we go the more likely the digital community will expand. Twenty years ago the paper based daily planner was a popular item for corporate, academic and personal use. Companies like Franklin and Covey (Now merged) focused energy on sales of their binders, planner types, etc. When the PDA was first introduced, it took five years before it was harnessed by these types of companies to provide a digital option using software vs. paper. Today the digital planner is a standard function in all PDAs, -offs and Laptop computers. Great efforts are being made by major corporations like Sony and Microsoft to create hardware and software to provide the "classic" reading experience. Even efforts to create a laptop device with a screen that turns like a page, and special cell-plastic screens that do not fatigue the eyes have garnered huge sums of capital for their development.

Take10 does not see a future where technology adapts to classic behavior (such as comfortably reading a book, turning the pages, etc). The future according to Take10 lie in technology helping readers to adapt to new ways of performing classic functions. Classic function of contacting a relative many miles away was to send a letter, which was replaced by sending a telegram, which was replaced by an operated assisted phone call, which was replaced by cellphone access, etc,etc. Digital readers are not looking for the realism of the classic book experience. **They are looking for practical ways to access great stories.**

Given that understanding, Take10 is confident in sustaining the value of serialized literature. Serialization has existed since the 16th century, and is still with us today.

## 5.2 Marketing Strategy

Take10's strategy is based on the A-T-A-R model. (Awareness, Trial, Availability, Repeat)

Books are a high involvement product which require a deeper interest in purchasing vs a bar of chocolate at the check out stand (impulse buying), The community aspects to Take10 books increases the potential involvement aspect even higher.

Take10 needs to create awareness of its serialized fiction. This will be done through a focus on Recall and Recognition activities. Through word of mouth and MBT(Message Board Trapping) initially, and then through online based interest focused advertising (running banner ads on a sports information site promoting the latest sports related novel). Finally attempts at co-branding service through its conduit network will be made. Companies selling PDAs, cell-phones, service operators such as internet information providers, telecoms, those who have control of the stream make logical co-branding partners.

Take10 will implement an initial trial or trials allowing a small number of less than 500 subscribers to try out the subscription service and provide feedback through community building tools of what they think about the product as well as the service. Access to a sizeable target group of several thousand is already available once launch is activated. The trial will last long enough for readers to get "into" the story they are reading. Once the trial is over those who wish to continue will be offered a rebated subscription rate as an incentive to keep reading. Those not renewing into a pay subscription will be given another opportunity to join a second trial for another novel and provide Take10 another chance at securing them as a paying customer.

Trial incentives will continue as the product and service expand. Trial incentive formats will change however to introduce new users to the service and to allow them a chance to read the first few pages of any and all novels available.

Take10 Availability will be limited to the digital marketplace. This means 24/7 as long as potential users have access to cable, satellite, radio, and/or telephony signals. Since Take10 will focus on the English speaking market, European and Asian access will be limited by those potential customers whose english skills are sufficient to motivate them to subscribe.

Repeat usage is important, and Take10 will implement three keys in securing repeat customers.

- Quality of Literature. One thing readers demand is a good story. Regardless of the bells and whistles surrounding the story, if it is not well written, it will quickly lose readership interest. Unlike bound book sales, digital readers are not looking for coffee table decorations to impress friends. They are actually looking for something to read. Thus it is imperative that our authors are top quality, even if they may not initially be widely known.
- Genre friendly. Many publishing houses limit the type of books they put out. Major houses tend to create smaller subsidiaries focused on certain genres as a type of line extension or even multi-branding. Take10 is more about the service provided than the literature itself. Take10 therefore will not be limiting which genres they will or will not market, with certain exceptions. Literature that pushes the envelope towards graphic content descriptions related to dark abusive fiction or pornography are not accepted. This will be a step taken over time as Take10's author stable will be limited at launch.
- Community Dynamic: Authors today need to wait sometimes up to a year of book sales before they can gauge the market of their readership as far as what they

# Take 10 Digital Readers Publishing House

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connect to in the book written. Digital readers through community building are able to provide immediate response to what they like and dislike about a character, plotline, story in general. This allows the author to make revisions on the fly before readership has had full access to the entire story. It also provides the author rapid insight as to areas of his/her story that have really caught reader interest for potential spin -offs or follow -ups in later novels. These spin -offs and follow -ups can be implemented immediately unlike with traditional or even ebook publishing.

## 5.3 Sales Strategy

Our focus will be on branding Take10. Creating an image of what Take10 is generates interest in digital reading vs trying to sell individual authors or genres. It also makes it easier to attract quality authors via Recall and Recognition. Take10 or Read IT Now is much easier to apply publishing ambitions vs "that website where I can publish my book...."

Take10's marketing plan deals with driving potential sales to our website where all purchase transactions are to take place. The purchase transaction will be simple for ease of use as internet shoppers tend to lack patience for multi-step processes that require detailed background histories. Take10 merchant software solution will provide the flexibility of payment to accommodate customers preferences.

Monies received through digital transactions will automatically be divided up so that each author can receive an up to the minute account report on royalties accrued. Payouts to authors will occur on a monthly basis.

Pricing will be superior to that of established ebook stores given that Take10 controls production, distribution as well as retail without a considerable infrastructure that hinders pulp publishers. Take10 sales prices will be lower with the ability to maintain a better than industry margin.

### 5.3.1 Sales Forecast

Over the first fiscal year, Take10 expects Adapted Cuts, Authors Cuts and Pulp Cuts to grow at a a pace of 25% per month. This level of growth cannot be maintained over the long term, and growth rates over the course of the following five years are expected to taper off according to the following formula. Year two achieves 75% of year one growth. Year three 50%, Year four 25% and Year five 12%. 12% growth per annum for subsequent years thereafter are expected as they reflect the publishing industry standard for book sales.

Vanity subscriptions are forecasted to grow at 10% per month over the first fiscal year. Take10 is basing this prognosis on the principle that it is often more popular to talk about becoming a writer than to actually roll up ones sleeves and grind out quality work. Vanity subscription growth may be much higher due to customers jumping in at the beginning, but Take10 would rather err on the side of caution as to just how many self publishing subscriptions can be sold. Again growth rates in following years are based on the same tapered achievement formula as explained above.

Private Label subscriptions are contract based, and are more difficult to quantify a prognosis. Given that this is a new and unique product leveraging a companies brand into fictional literature, Take10 has based growth projections on a conservative level. The process to achievement these rates lay in Take10s ability to sell the idea to companies looking for unique ways to differentiate themselves.

Take10 is projecting subscription totals based on an initial portfolio of ten authors

## Take 10 Digital Readers Publishing House

averaging 100 readers over the first month. This figure is based on a 3 month marketing campaign to attract authors both published and unpublished to sign on with Take10. Over a 60 day period expectations of generating a "slush" pile of manuscripts between 250-500 is quite common for activities of this kind in the publishing sector. Using averages, it would translate to 2.6% of submitted manuscripts.

Early adoption is not really a factor in inhibiting sales growth forward. E-books have been around long enough, and growth projections of the industry have been rather aggressive. The missing link or bridge for transition into mainstream readership, is adjusting to the technology available. The Take10 product provides that bridge in adapting to and understanding the digital reader. This primarily is the driving force behind the sales forecast. Another strong factor is Take10's focus on community building to enhance the reading experience. Finally Take10's focus on the English speaking market enlarges its potential reach thus producing higher totals within the same procentual framework.

Given the size of the fictional book market, the sales forecast is rather conservative. Even if focus were limited to E-book buyers alone, first year projections represent only 1% of the current market share.

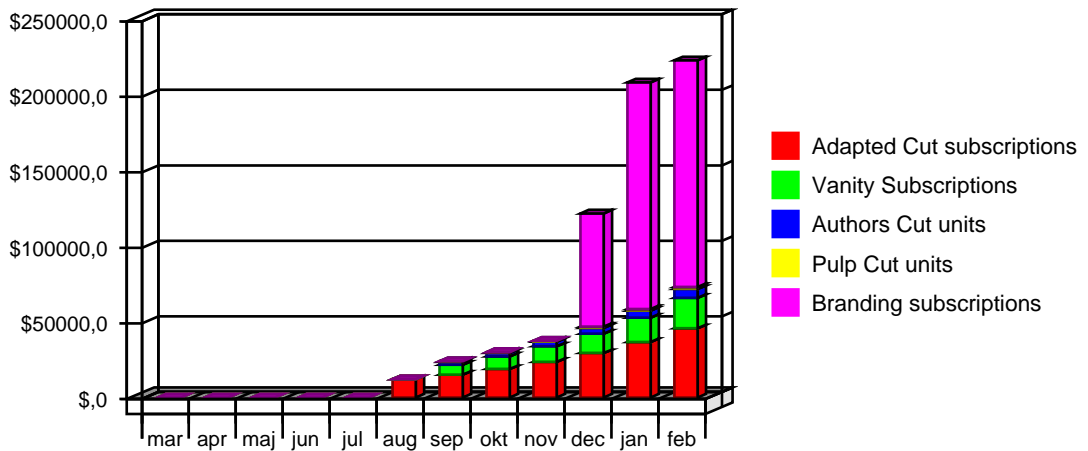
Caveats to current forecast are the ease of application by competitors, dramatic shifts in reading interest and force majeure. Imitation is always a risk, especially if the competitor enjoys economies of scale for a quick ramp up and market share from which to introduce the new product. A quick launch and branding ability is key to thwarting such actions. Reading for enjoyment is at risk given the popularity of audio and video media. SMS are being replaced by MMS technology, and the ability to watch a movie vs reading a book is always a threat. Force Majeur can attack any industry, and is not a factor that can be prepared for.

**Table: Sales Forecast**

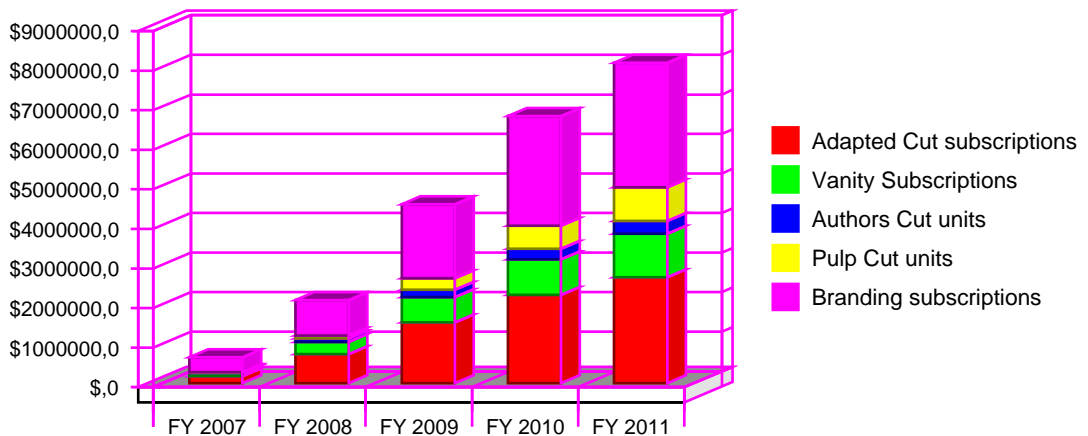
Sales Forecast					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Unit Sales</b>					
Adapted Cut subscriptions	18 088	74 000	154 000	223 000	268 000
Vanity Subscriptions	338	1 400	2 900	4 100	5 000
Authors Cut units	2 702	11 000	23 000	33 000	40 000
Pulp Cut units	394	5 700	24 000	49 000	71 000
Branding subscriptions	5	12	25	37	42
<b>Total Unit Sales</b>	<b>21 527</b>	<b>92 112</b>	<b>203 925</b>	<b>309 137</b>	<b>384 042</b>
<b>Unit Prices</b>					
Adapted Cut subscriptions	\$10,00	\$10,00	\$10,00	\$10,00	\$10,00
Vanity Subscriptions	\$220,00	\$220,00	\$220,00	\$220,00	\$220,00
Authors Cut units	\$8,00	\$8,00	\$8,00	\$8,00	\$8,00
Pulp Cut units	\$12,00	\$12,00	\$12,00	\$12,00	\$12,00
Branding subscriptions	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00
<b>Sales</b>					
Adapted Cut subscriptions	\$180 882	\$740 000	\$1 540 000	\$2 230 000	\$2 680 000
Vanity Subscriptions	\$74 308	\$308 000	\$638 000	\$902 000	\$1 100 000
Authors Cut units	\$21 617	\$88 000	\$184 000	\$264 000	\$320 000
Pulp Cut units	\$4 729	\$68 400	\$288 000	\$588 000	\$852 000
Branding subscriptions	\$375 000	\$900 000	\$1 875 000	\$2 775 000	\$3 150 000
<b>Total Sales</b>	<b>\$656 535</b>	<b>\$2 104 400</b>	<b>\$4 525 000</b>	<b>\$6 759 000</b>	<b>\$8 102 000</b>
<b>Direct Unit Costs</b>					
Adapted Cut subscriptions	\$4,00	\$4,00	\$4,00	\$4,00	\$4,00
Vanity Subscriptions	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00
Authors Cut units	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20
Pulp Cut units	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80
Branding subscriptions	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00
<b>Direct Cost of Sales</b>					
Adapted Cut subscriptions	\$72 353	\$296 000	\$616 000	\$892 000	\$1 072 000
Vanity Subscriptions	\$0	\$0	\$0	\$0	\$0
Authors Cut units	\$8 647	\$35 200	\$73 600	\$105 600	\$128 000
Pulp Cut units	\$1 891	\$27 360	\$115 200	\$235 200	\$340 800
Branding subscriptions	\$187 500	\$450 000	\$937 500	\$1 387 500	\$1 575 000
<b>Subtotal Direct Cost of Sales</b>	<b>\$270 391</b>	<b>\$808 560</b>	<b>\$1 742 300</b>	<b>\$2 620 300</b>	<b>\$3 115 800</b>

# Take 10 Digital Readers Publishing House

### Sales Monthly



### Sales by Year



## 5.4 Milestones

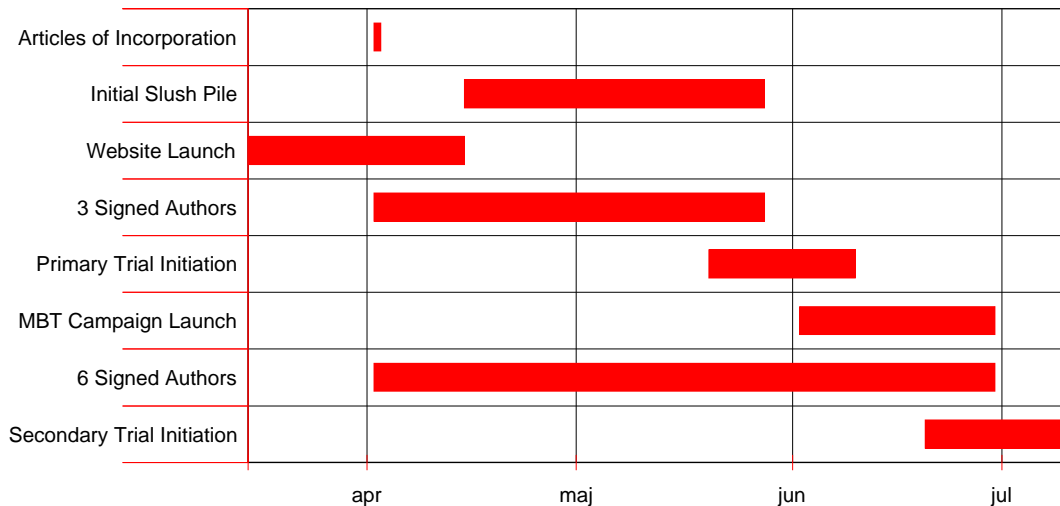
The following table represents the initial phase in getting Take10 off the ground. Achieving these milestones is essential to being successful with the stages to come. Management, IT and Editorial divisions will all work together for this to happen.

# Take 10 Digital Readers Publishing House

**Table: Milestones**

Milestone	Start Date	End Date	Budget	Manager	Department
Articles of Incorporation	2006-4-2	2006-4-3	\$1 000	DJR/HS	Management
Initial Slush Pile	2006-4-15	2006-5-28	\$50	DJR, TW	Editorial
Website Launch	2006-3-15	2006-4-15	\$3 500	DJR, JHC	IT
3 Signed Authors	2006-4-2	2006-5-28	\$200	DJR	Management
Primary Trial Initiation	2006-5-20	2006-6-10	\$200	JHC, TW	IT/Editorial
MBT Campaign Launch	2006-6-2	2006-6-30	\$200	???	Marketing
6 Signed Authors	2006-4-2	2006-6-30	\$200	DJR	Management
Secondary Trial Initiation	2006-6-20	2006-7-10	\$200	JHC, TW	IT/Editorial
<b>Totals</b>			<b>\$5 550</b>		

**Milestones**



## 6.0 Web Plan Summary

The Take10 website is where it all happens. Product in and product out all stems from a central digital hub where subscribers can access materials they wish to read, and where authors work can be stored for sale. The site must be database intensive complete with secure socket technology to handle merchant or purchase transactions, product storage, excessive data transfer as well as message board communities. The site needs to adapt well to user needs in several media.

## 6.1 Website Marketing Strategy

Given that Take10 is a web-based business, the entire marketing plan is also web-based and a deeper explanation can be found in Marketing Strategy Summary.

## 6.2 Development Requirements

Take10 Website will be developed using database web solutions. Hosting services will be used initially until subscriber base reaches critical levels that may require Take10 to host locally. If corporate service solutions are available that are both economical and maintain quality of service, those will be considered. The website will be built in two phases.

The initial phase will be a basic shell that provides information and storage facilities for potential authors to begin building the primary Management. This will also provide leader info to inform potential readers of what is coming, launch date and applicable promotions.

The second phase will be the merchant secure socket services, payment structures, database structures for communities tied to each novel, customer registration database, scripting tools for various subscriptions options.

The site will be built by Take10 staff web developers, and managed by them as well.

## 7.0 Management Summary

Take10 management consists of individuals with extensive experience in various fields that encompass the entire Take10 project. These areas are:

- Web development and Programming
- Management
- Marketing
- Financial Analysis and Accounting
- Publishing
- Editing
- Communications

Take10 has plans to contractually tie in a stable of authors to produce the novels to be marketed and sold through subscriptions.

There are currently four individuals who make up the founding force behind Take10. There are currently no other employees or staff resources allocated to this project at this time. Personnel issues will be broached once a need establishes itself through in increase in management need due to customer growth, product development and marketing expansion.

## 7.1 Personnel Plan

Staffing levels are commensurate upon maintaining the same quality of service as subscriber base expands. Given the Internet based nature of Take10, the need for an extensive number of staff is buffered by the effective nature of the database web solutions implemented in running the business. The product is also not produced in house, which further eliminates the need for more employees. Customer service, editing and site maintenance are key areas that need to be addressed as subscriber base grows. Eventually there may need to be an increase in accounting and marketing.

Prognosis listed in personnel table is based on Sales Forecast, and is subject to change.



# Take 10 Digital Readers Publishing House

**Table: Personnel**

Personnel Plan	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Managing Director - Douglas J Ross	\$3 316	\$48 000	\$100 000	\$120 000	\$126 000
Finance Director - Henri Saffer	\$2 713	\$39 000	\$82 000	\$98 000	\$103 000
IT Director - Paul Strange	\$3 015	\$44 000	\$91 000	\$109 000	\$115 000
Editor in Chief - Tiffany Wacaser	\$0	\$32 000	\$66 000	\$79 000	\$84 000
CS Manager	\$0	\$26 000	\$55 000	\$60 000	\$63 000
CS Assistant Manager	\$0	\$0	\$26 000	\$31 000	\$38 000
Customer Service Rep	\$11 760	\$21 000	\$24 000	\$26 000	\$28 000
Customer Service Rep	\$0	\$21 000	\$24 000	\$26 000	\$28 000
Customer Service Rep	\$0	\$21 000	\$24 000	\$26 000	\$28 000
Customer Service Rep	\$0	\$0	\$21 000	\$24 000	\$26 000
Customer Service Rep	\$0	\$0	\$21 000	\$24 000	\$26 000
Customer Service Rep	\$0	\$0	\$21 000	\$24 000	\$26 000
Customer Service Rep	\$0	\$0	\$0	\$0	\$21 000
Site Developer	\$0	\$15 000	\$36 000	\$40 000	\$44 000
Site Developer	\$0	\$15 000	\$36 000	\$40 000	\$44 000
Site Developer	\$0	\$0	\$0	\$15 000	\$36 000
Art Director	\$0	\$0	\$60 000	\$72 000	\$76 000
Marketing Sales Rep	\$0	\$0	\$0	\$45 000	\$55 000
Copy Editor	\$1 507	\$22 000	\$26 000	\$29 000	\$32 000
Copy Editor	\$0	\$0	\$22 000	\$26 000	\$29 000
Copy Editor	\$0	\$0	\$0	\$22 000	\$26 000
Marketing Assistant	\$0	\$21 000	\$24 000	\$28 000	\$33 000
Marketing Assistant	\$0	\$0	\$0	\$21 000	\$24 000
Book Agent	\$0	\$0	\$0	\$0	\$60 000
Book Agent	\$0	\$0	\$0	\$0	\$60 000
Senior Editor	\$1 733	\$25 000	\$52 000	\$63 000	\$66 000
	\$0	\$0	\$0	\$0	\$0
<b>Total People</b>	<b>7</b>	<b>12</b>	<b>16</b>	<b>23</b>	<b>26</b>
<b>Total Payroll</b>	<b>\$24 045</b>	<b>\$350 000</b>	<b>\$832 000</b>	<b>\$1 072 000</b>	<b>\$1 323 000</b>

## 8.0 Financial Plan

It is important to understand the Take10 is a start up based on traditional cottage industry financial strategies. In a word, the company will be started on a shoestring budget avoiding any real need for financing other than the eventual application and utilization of a credit line to manage payment issues that may arise.

This means that the current five year timeline may be adapted to less or more time as is needed. Milestones are not to be circumvented to maintainance those further down the line.

This is often considered a difficult road to hoe financially, but the dedication and expertise of the founders eliminates many of the basic cash dependant barriers to entry from the startup.

### 8.1 Start-up Funding

#### Owner

Douglas J Ross will invest \$10,000 in cash, benefits and labor to the start up.

#### Investors

*Take10 is not currently seeking investors.*

#### Bank Financing

*Take10 will not be approaching financial institutions in regards to financing. However an application for check credit will be made once revenue stream is sufficient to motivate such*

# Take 10 Digital Readers Publishing House

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*an action.*

**Table: Start-up Funding**

Start-up Funding	
Start-up Expenses to Fund	\$7 550
Start-up Assets to Fund	\$2 450
Total Funding Required	\$10 000
Assets	
Non-cash Assets from Start-up	\$500
Cash Requirements from Start-up	\$2 000
Additional Cash Raised	\$0
Cash Balance on Starting Date	\$2 000
Total Assets	\$2 500
Liabilities and Capital	
Liabilities	
Current Borrowing	\$0
Long-term Liabilities	\$0
Accounts Payable (Outstanding Bills)	\$0
Other Current Liabilities (interest-free)	\$0
Total Liabilities	\$0
Capital	
Planned Investment	
Douglas J Ross	\$5 000
Henri Saffer	\$2 500
Jason Ho Ching	\$2 500
Additional Investment Requirement	\$0
Total Planned Investment	\$10 000
Loss at Start-up (Start-up Expenses)	(\$7 550)
Total Capital	\$2 450
Total Capital and Liabilities	\$2 450
Total Funding	\$10 000

## 8.2 Important Assumptions

The financial plan depends on important assumptions. The key underlying assumptions are:

1. Take10 assumptions are based on a base of operations in the United States.
2. Take10 assumes a continued stability in the current growth economy, without major recessions. Inflationary measures are assumed to remain under the control mechanisms established by the federal reserve
3. Take10 assumes that technological changes will be embraced and utilized to maintain as well as grow future operations.
4. Take10 assumed tax rates are based on current prime levels. Long term rate is 10 year. Corporate tax rate is based on a straight pre-deduction assessment.
5. Take10 assumes that financial projections will allow the company to avoid seeking investors as well as financing packages outside of the individual investments made by the founders.

## 8.3 Break-even Analysis

TAKE-10 assumed monthly fixed costs of \$29,894 includes estimations of payroll, rent, and utilities, as well as other running costs. TAKE-10 as a startup has no historical rates to gauge actual future costs. Assumed Margins have been based on a very conservative view. Most industrial corporations look to make between 5% and 7% annually, while many Internet based companies enjoy margins that are 3 to 5 times higher. Basing initial margins on industrial standards with an extreme fixed and variable cost view provide a strong argument for sustainability. TAKE-10 is confident that actual margins will exceed projections.

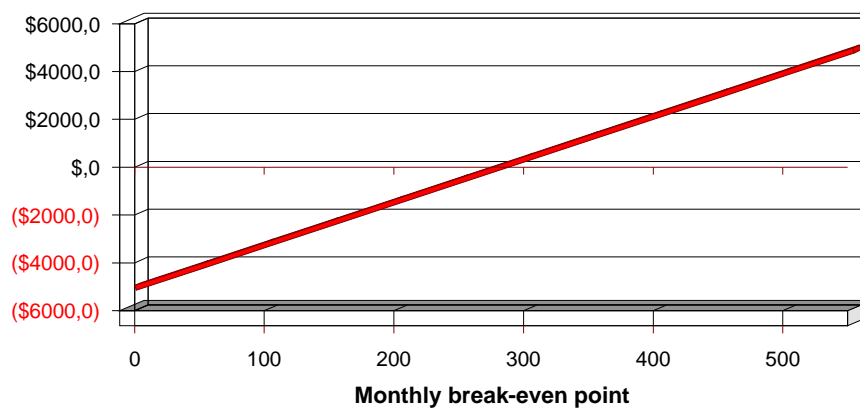
The average break-even unit sales per month of 3729 will be difficult to stability over the first 6 months which is why Take10 is motivated to cut all costs even wages to founders in order to avoid the need to finance start with borrowed monies.

The chart shows that we need to sell about \$56,255 per month to break even, according to these assumptions. This is approximately 53% of planned first year sales, which provides a considerable buffer to handle events that may impact sales negatively.

**Table: Break-even Analysis**

Break-even Analysis	
Monthly Units Break-even	283
Monthly Revenue Break-even	\$8 627
Assumptions:	
Average Per-Unit Revenue	\$30,50
Average Per-Unit Variable Cost	\$12,56
Estimated Monthly Fixed Cost	\$5 074

**Break-even Analysis**



Break-even point = where line intersects with 0

### 8.4 Projected Profit and Loss

The Profit and Loss table is summed up below:

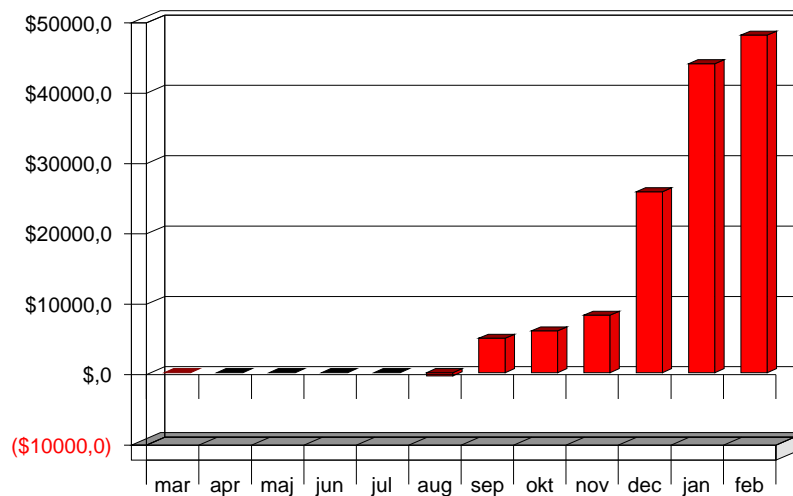
- **Rent:** Rent is based on a cost of \$16 per square foot per year. The nature of the business does not require a large office space, and initially no office space will be required until the employment positions outside the founders are filled.
- **Depreciation:** Short term Depreciation(not recorded in balance sheet) of computers and printing equipment is over three years. Total provision for depreciation comes to \$5,000 in year 1 and will increase up to 10,000 in year three commensurate upon acquiring more printing and computer equipment to satisfy the needs of increased capacity. Due to the fact that TAKE-10 is a startup, costs such as (Goodwill, Non-Compete, and some organizational) cannot be quantified at this time and therefore no amortization rates will be given. After the first fiscal year, such costs can be added to the future years of this plan based on actual year one costs.
- **Utilities:** A security alarm system costing \$50/month. Electricity averages \$225/monthly. Water \$35/month. T1 line \$150/monthly. Telephony \$750 Total comes to \$1210 per month. Initial costs prior to opening up office will be \$660/month. Expansion will require increases in these costs which are represented in years 3 through 5.
- **Medical and Dental:** Single Blue Cross Blue Shield is \$219, family plan runs \$619. Company pays 60% for 4 singles, 100% for 1 single and 100% for 2 family plans. Total monthly is \$1,982.60 for medical. Dental runs \$23 for a single and \$68 for the family plan. Company will pay 50% for 1 family plan and 4 singles and 100% for one family and one single. Total for dental comes to \$171.
- **Insurance:** Manager's life insurance is \$210 per quarter. Workers' Compensation and liability comes to \$350 monthly. Total monthly is \$550.
- **Postage:** Normal postage (is limited due to Internet communication model) cost \$150 per month

# Take 10 Digital Readers Publishing House

**Table: Profit and Loss**

Pro Forma Profit and Loss					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Sales	\$656 535	\$2 104 400	\$4 525 000	\$6 759 000	\$8 102 000
Direct Costs of Goods	\$270 391	\$808 560	\$1 742 300	\$2 620 300	\$3 115 800
Other Costs of Goods	\$118 791	\$371 500	\$809 900	\$1 226 100	\$1 474 000
<b>Cost of Goods Sold</b>	<b>\$389 182</b>	<b>\$1 180 060</b>	<b>\$2 552 200</b>	<b>\$3 846 400</b>	<b>\$4 589 800</b>
Gross Margin	\$267 353	\$924 340	\$1 972 800	\$2 912 600	\$3 512 200
Gross Margin %	40,72%	43,92%	43,60%	43,09%	43,35%
<b>Expenses</b>					
Payroll	\$24 045	\$350 000	\$832 000	\$1 072 000	\$1 323 000
Marketing/Promotion	\$11 645	\$169 000	\$350 000	\$506 000	\$609 000
Depreciation	\$0	\$0	\$0	\$0	\$0
Rent	\$1 750	\$48 000	\$78 000	\$78 000	\$78 000
Utilities (Includes IT Network costs)	\$1 750	\$14 520	\$25 000	\$35 000	\$45 000
Insurance	\$2 660	\$12 000	\$24 000	\$48 000	\$96 000
Payroll Taxes	\$3 607	\$52 500	\$124 800	\$160 800	\$198 450
Medical and Dental	\$14 040	\$60 840	\$93 600	\$117 000	\$140 400
401K	\$812	\$2 790	\$5 580	\$11 160	\$13 375
Other	\$582	\$8 400	\$17 000	\$25 000	\$30 000
<b>Total Operating Expenses</b>	<b>\$60 891</b>	<b>\$718 050</b>	<b>\$1 549 980</b>	<b>\$2 052 960</b>	<b>\$2 533 225</b>
Profit Before Interest and Taxes	\$206 463	\$206 290	\$422 820	\$859 640	\$978 975
EBITDA	\$206 463	\$206 290	\$422 820	\$859 640	\$978 975
Interest Expense	\$0	\$0	\$0	\$0	\$0
Taxes Incurred	\$70 197	\$70 139	\$143 759	\$292 278	\$332 852
<b>Net Profit</b>	<b>\$136 266</b>	<b>\$136 151</b>	<b>\$279 061</b>	<b>\$567 362</b>	<b>\$646 124</b>
Net Profit/Sales	20,76%	6,47%	6,17%	8,39%	7,97%

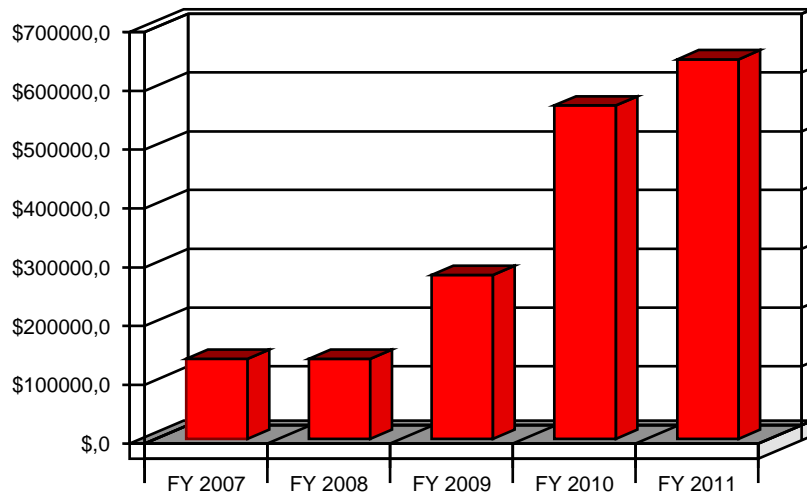
## Profit Monthly



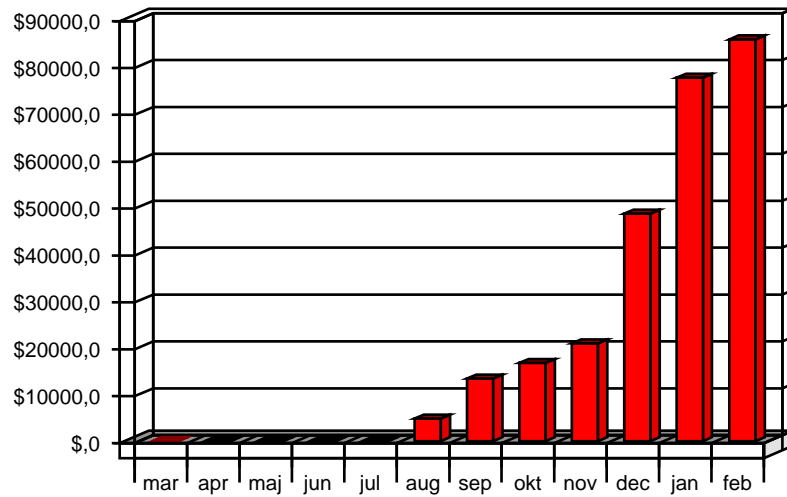
# Take 10 Digital Readers Publishing House

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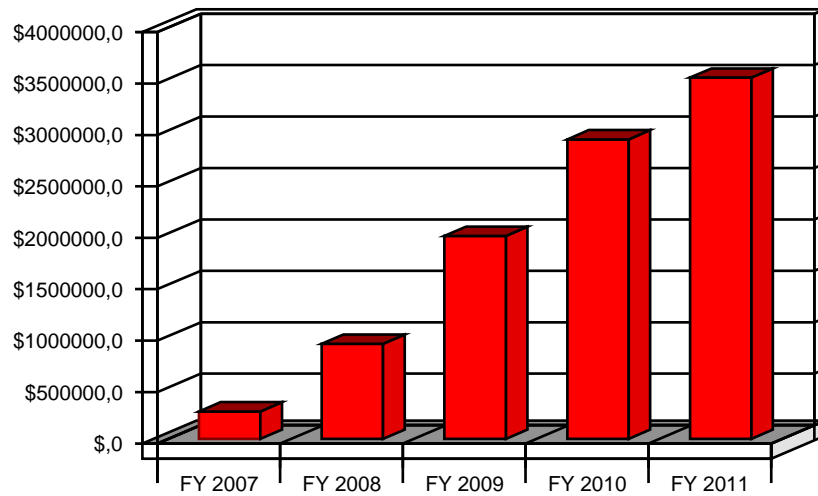
### Profit Yearly



### Gross Margin Monthly



## Gross Margin Yearly

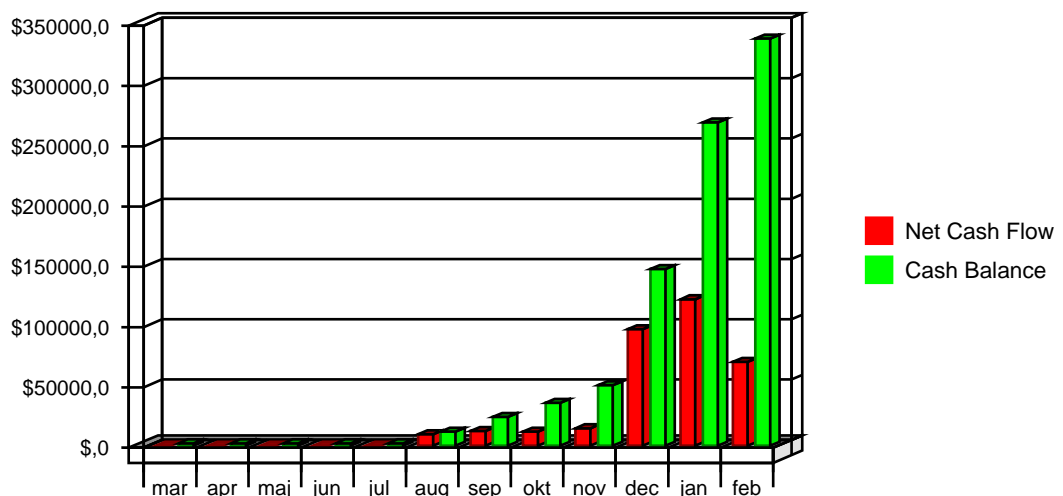


## 8.5 Projected Cash Flow

Take10 is a new company as a start-up, the cash flow for FY2007 is somewhat skewed by the lack of expenditures commensurate with traditional company constructs. The vital fact that the founders are able to support the burden of expense at their own cost through start capital and more importantly through the ability to work without the immediate need for reimbursement that would tax initial revenues, aid in staving off the demand for the use of credit lines and/or loans.

Take10 assumes that initial fiscal year projections will be met or exceeded, therefore no further private funding via founders has been included into this plan. Suffice to say that founder are capable of adding any more "seed" capital to support the business should actual sales prove less than projected, and if the need for a capital infusion proves necessary.

## Cash



## Take 10 Digital Readers Publishing House

**Table: Cash Flow**

Pro Forma Cash Flow	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Cash Received</b>					
<b>Cash from Operations</b>					
Cash Sales	\$656 535	\$2 104 400	\$4 525 000	\$6 759 000	\$8 102 000
Subtotal Cash from Operations	\$656 535	\$2 104 400	\$4 525 000	\$6 759 000	\$8 102 000
<b>Additional Cash Received</b>					
Sales Tax, VAT, HST/GST Received	\$42 675	\$136 786	\$294 125	\$439 335	\$526 630
New Current Borrowing	\$0	\$0	\$0	\$0	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0	\$0	\$0
New Investment Received	\$0	\$0	\$0	\$0	\$0
Subtotal Cash Received	\$699 210	\$2 241 186	\$4 819 125	\$7 198 335	\$8 628 630
<b>Expenditures</b>					
<b>Expenditures from Operations</b>					
Cash Spending	\$24 045	\$350 000	\$832 000	\$1 072 000	\$1 323 000
Bill Payments	\$331 632	\$1 649 835	\$3 266 348	\$4 979 443	\$6 049 597
Subtotal Spent on Operations	\$355 677	\$1 999 835	\$4 098 348	\$6 051 443	\$7 372 597
<b>Additional Cash Spent</b>					
Sales Tax, VAT, HST/GST Paid Out	\$7 752	\$19 381	\$38 763	\$58 144	\$65 412
Principal Repayment of Current Borrowing	\$0	\$0	\$0	\$0	\$0
Other Liabilities Principal Repayment	\$0	\$0	\$0	\$0	\$0
Long-term Liabilities Principal Repayment	\$0	\$0	\$0	\$0	\$0
Purchase Other Current Assets	\$0	\$0	\$0	\$0	\$0
Purchase Long-term Assets	\$0	\$0	\$0	\$0	\$0
Dividends	\$0	\$0	\$0	\$0	\$0
Subtotal Cash Spent	\$363 429	\$2 019 216	\$4 137 111	\$6 109 587	\$7 438 009
Net Cash Flow	\$335 781	\$221 970	\$682 014	\$1 088 748	\$1 190 621
Cash Balance	\$337 781	\$559 751	\$1 241 765	\$2 330 513	\$3 521 135

### 8.6 Projected Balance Sheet

The Projected Balance Sheet is viable. Take10 does not project any difficulties in avoiding any reliance on debt obligations--as long as established objectives are met.



## Take 10 Digital Readers Publishing House

**Table: Balance Sheet**

Pro Forma Balance Sheet					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$337 781	\$559 751	\$1 241 765	\$2 330 513	\$3 521 135
Other Current Assets	\$450	\$450	\$450	\$450	\$450
<b>Total Current Assets</b>	<b>\$338 231</b>	<b>\$560 201</b>	<b>\$1 242 215</b>	<b>\$2 330 963</b>	<b>\$3 521 585</b>
<b>Long-term Assets</b>					
Long-term Assets	\$0	\$0	\$0	\$0	\$0
Accumulated Depreciation	\$0	\$0	\$0	\$0	\$0
<b>Total Long-term Assets</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Assets</b>	<b>\$338 231</b>	<b>\$560 201</b>	<b>\$1 242 215</b>	<b>\$2 330 963</b>	<b>\$3 521 585</b>
<b>Liabilities and Capital</b>					
<b>Current Liabilities</b>					
Accounts Payable	\$164 593	\$133 007	\$280 598	\$420 792	\$504 072
Current Borrowing	\$0	\$0	\$0	\$0	\$0
Other Current Liabilities	\$34 922	\$152 327	\$407 689	\$788 880	\$1 250 098
<b>Subtotal Current Liabilities</b>	<b>\$199 516</b>	<b>\$285 334</b>	<b>\$688 287</b>	<b>\$1 209 673</b>	<b>\$1 754 170</b>
<b>Long-term Liabilities</b>					
<b>Total Liabilities</b>	<b>\$199 516</b>	<b>\$285 334</b>	<b>\$688 287</b>	<b>\$1 209 673</b>	<b>\$1 754 170</b>
Paid-in Capital	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000
Retained Earnings	(\$7 550)	\$128 716	\$264 867	\$543 928	\$1 111 291
<b>Earnings</b>	<b>\$136 266</b>	<b>\$136 151</b>	<b>\$279 061</b>	<b>\$567 362</b>	<b>\$646 124</b>
<b>Total Capital</b>	<b>\$138 716</b>	<b>\$274 867</b>	<b>\$553 928</b>	<b>\$1 121 291</b>	<b>\$1 767 414</b>
<b>Total Liabilities and Capital</b>	<b>\$338 231</b>	<b>\$560 201</b>	<b>\$1 242 215</b>	<b>\$2 330 963</b>	<b>\$3 521 585</b>
<b>Net Worth</b>	<b>\$138 716</b>	<b>\$274 867</b>	<b>\$553 928</b>	<b>\$1 121 291</b>	<b>\$1 767 414</b>

### 8.7 Business Ratios

The table below presents common business ratios as a reference. This reference however is tied to the traditional publishing industry and therefore is not a very good comparison. Internet Publishing is a more correct industrial comparison. Industry Profile is not available in this database for comparison.

Editor's Note: SIC code needs to be accessed for viewing in sample plan browser. Take10 chose, SIC 2731 (NAICS 516110) Internet Publishing and Broadcasting, as the closest option.

## Take 10 Digital Readers Publishing House

**Table: Ratios**

Ratio Analysis						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Industry Profile
Sales Growth	0,00%	220,53%	115,03%	49,37%	19,87%	9,79%
<b>Percent of Total Assets</b>						
Other Current Assets	0,13%	0,08%	0,04%	0,02%	0,01%	36,85%
Total Current Assets	100,00%	100,00%	100,00%	100,00%	100,00%	84,64%
Long-term Assets	0,00%	0,00%	0,00%	0,00%	0,00%	15,36%
Total Assets	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Current Liabilities	58,99%	50,93%	55,41%	51,90%	49,81%	35,50%
Long-term Liabilities	0,00%	0,00%	0,00%	0,00%	0,00%	7,47%
Total Liabilities	58,99%	50,93%	55,41%	51,90%	49,81%	42,97%
Net Worth	41,01%	49,07%	44,59%	48,10%	50,19%	57,03%
<b>Percent of Sales</b>						
Sales	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Gross Margin	40,72%	43,92%	43,60%	43,09%	43,35%	50,66%
Selling, General & Administrative Expenses	19,97%	37,45%	37,43%	34,70%	35,37%	25,84%
Advertising Expenses	0,00%	0,00%	0,00%	0,00%	0,00%	1,49%
Profit Before Interest and Taxes	31,45%	9,80%	9,34%	12,72%	12,08%	5,35%
<b>Main Ratios</b>						
Current	1,70	1,96	1,80	1,93	2,01	2,06
Quick	1,70	1,96	1,80	1,93	2,01	0,99
Total Debt to Total Assets	58,99%	50,93%	55,41%	51,90%	49,81%	57,94%
Pre-tax Return on Net Worth	148,84%	75,05%	76,33%	76,67%	55,39%	6,60%
Pre-tax Return on Assets	61,04%	36,82%	34,04%	36,88%	27,80%	15,70%
<b>Additional Ratios</b>						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
Net Profit Margin	20,76%	6,47%	6,17%	8,39%	7,97%	n.a
Return on Equity	98,23%	49,53%	50,38%	50,60%	36,56%	n.a
<b>Activity Ratios</b>						
Accounts Payable Turnover	3,01	12,17	12,17	12,17	12,17	n.a
Payment Days	27	34	22	25	28	n.a
Total Asset Turnover	1,94	3,76	3,64	2,90	2,30	n.a
<b>Debt Ratios</b>						
Debt to Net Worth	1,44	1,04	1,24	1,08	0,99	n.a
Current Liab. to Liab.	1,00	1,00	1,00	1,00	1,00	n.a
<b>Liquidity Ratios</b>						
Net Working Capital	\$138 716	\$274 867	\$553 928	\$1 121 291	\$1 767 414	n.a
Interest Coverage	0,00	0,00	0,00	0,00	0,00	n.a
<b>Additional Ratios</b>						
Assets to Sales	0,52	0,27	0,27	0,34	0,43	n.a
Current Debt/Total Assets	59%	51%	55%	52%	50%	n.a
Acid Test	1,70	1,96	1,80	1,93	2,01	n.a
Sales/Net Worth	4,73	7,66	8,17	6,03	4,58	n.a
Dividend Payout	0,00	0,00	0,00	0,00	0,00	n.a

### 8.8 Long-term Plan

## Appendix

**Appendix Table: Sales Forecast**

Sales Forecast													
		mar	apr	maj	jun	jul	aug	sep	okt	nov	dec	jan	feb
<b>Unit Sales</b>													
Adapted Cut subscriptions	0%	0	0	0	0	0	1 200	1 500	1 875	2 344	2 930	3 662	4 578
Vanity Subscriptions	0%	0	0	0	0	0	0	30	38	47	59	73	92
Authors Cut units	0%	0	0	0	0	0	0	240	300	375	469	586	732
Pulp Cut units	0%	0	0	0	0	0	0	35	44	55	68	85	107
Branding subscriptions	0%	0	0	0	0	0	0	0	0	0	1	2	2
<b>Total Unit Sales</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1 200</b>	<b>1 805</b>	<b>2 256</b>	<b>2 820</b>	<b>3 526</b>	<b>4 409</b>	<b>5 510</b>
<b>Unit Prices</b>													
Adapted Cut subscriptions		\$10,00	\$10,00	\$10,00	\$10,00	\$10,00	\$10,00	\$10,00	\$10,00	\$10,00	\$10,00	\$10,00	\$10,00
Vanity Subscriptions		\$220,00	\$220,00	\$220,00	\$220,00	\$220,00	\$220,00	\$220,00	\$220,00	\$220,00	\$220,00	\$220,00	\$220,00
Authors Cut units		\$8,00	\$8,00	\$8,00	\$8,00	\$8,00	\$8,00	\$8,00	\$8,00	\$8,00	\$8,00	\$8,00	\$8,00
Pulp Cut units		\$12,00	\$12,00	\$12,00	\$12,00	\$12,00	\$12,00	\$12,00	\$12,00	\$12,00	\$12,00	\$12,00	\$12,00
Branding subscriptions		\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00
<b>Sales</b>													
Adapted Cut subscriptions		\$0	\$0	\$0	\$0	\$0	\$12 000	\$15 000	\$18 750	\$23 438	\$29 297	\$36 621	\$45 776
Vanity Subscriptions		\$0	\$0	\$0	\$0	\$0	\$0	\$6 600	\$8 250	\$10 313	\$12 891	\$16 113	\$20 142
Authors Cut units		\$0	\$0	\$0	\$0	\$0	\$0	\$1 920	\$2 400	\$3 000	\$3 750	\$4 688	\$5 859
Pulp Cut units		\$0	\$0	\$0	\$0	\$0	\$0	\$420	\$525	\$656	\$820	\$1 025	\$1 282
Branding subscriptions		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$75 000	\$150 000	\$150 000
<b>Total Sales</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$12 000</b>	<b>\$23 940</b>	<b>\$29 925</b>	<b>\$37 406</b>	<b>\$121 758</b>	<b>\$208 447</b>	<b>\$223 059</b>
<b>Direct Unit Costs</b>													
Adapted Cut subscriptions	40,00%	\$6,75	\$4,00	\$4,00	\$4,00	\$4,00	\$4,00	\$4,00	\$4,00	\$4,00	\$4,00	\$4,00	\$4,00
Vanity Subscriptions	0,00%	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00
Authors Cut units	40,00%	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20
Pulp Cut units	40,00%	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80
Branding subscriptions	50,00%	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00
<b>Direct Cost of Sales</b>													
Adapted Cut subscriptions		\$0	\$0	\$0	\$0	\$0	\$4 800	\$6 000	\$7 500	\$9 375	\$11 719	\$14 648	\$18 311
Vanity Subscriptions		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Authors Cut units		\$0	\$0	\$0	\$0	\$0	\$0	\$768	\$960	\$1 200	\$1 500	\$1 875	\$2 344
Pulp Cut units		\$0	\$0	\$0	\$0	\$0	\$0	\$168	\$210	\$263	\$328	\$410	\$513
Branding subscriptions		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$37 500	\$75 000	\$75 000
<b>Subtotal Direct Cost of Sales</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4 800</b>	<b>\$6 936</b>	<b>\$8 670</b>	<b>\$10 838</b>	<b>\$51 047</b>	<b>\$91 934</b>	<b>\$96 167</b>

## Appendix

**Appendix Table: Personnel**

Personnel Plan		mar	apr	maj	jun	jul	aug	sep	okt	nov	dec	jan	feb
Managing Director - Douglas J Ross	0%	\$0	\$0	\$0	\$0	\$0	\$220	\$275	\$344	\$430	\$537	\$671	\$839
Finance Director - Henri Saffer	0%	\$0	\$0	\$0	\$0	\$0	\$180	\$225	\$281	\$352	\$439	\$549	\$687
IT Director - Paul Strange	0%	\$0	\$0	\$0	\$0	\$0	\$200	\$250	\$313	\$391	\$488	\$610	\$763
Editor in Chief - Tiffany Wacaser	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CS Manager	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CS Assistant Manager	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Service Rep	0%	\$0	\$0	\$0	\$0	\$0	\$1 680	\$1 680	\$1 680	\$1 680	\$1 680	\$1 680	\$1 680
Customer Service Rep	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Service Rep	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Service Rep	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Service Rep	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Service Rep	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Service Rep	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Service Rep	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Site Developer	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Site Developer	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Site Developer	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Art Director	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Marketing Sales Rep	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Copy Editor	0%	\$0	\$0	\$0	\$0	\$0	\$100	\$125	\$156	\$195	\$244	\$305	\$381
Copy Editor	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Copy Editor	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Marketing Assistant	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Marketing Assistant	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Book Agent	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Book Agent	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Senior Editor	0%	\$0	\$0	\$0	\$0	\$0	\$115	\$144	\$180	\$225	\$281	\$351	\$439
Senior Editor	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total People</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Total Payroll</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2 495</b>	<b>\$2 699</b>	<b>\$2 953</b>	<b>\$3 272</b>	<b>\$3 670</b>	<b>\$4 167</b>	<b>\$4 789</b>

## Appendix

**Appendix Table: Profit and Loss**

Pro Forma Profit and Loss												
	mar	apr	maj	jun	jul	aug	sep	okt	nov	dec	jan	feb
Sales	\$0	\$0	\$0	\$0	\$0	\$12 000	\$23 940	\$29 925	\$37 406	\$121 758	\$208 447	\$223 059
Direct Costs of Goods	\$0	\$0	\$0	\$0	\$0	\$4 800	\$6 936	\$8 670	\$10 838	\$51 047	\$91 934	\$96 167
Other Costs of Goods	\$0	\$0	\$0	\$0	\$0	\$2 400	\$3 675	\$4 600	\$5 745	\$22 182	\$38 968	\$41 221
Cost of Goods Sold	\$0	\$0	\$0	\$0	\$0	\$7 200	\$10 611	\$13 270	\$16 583	\$73 229	\$130 902	\$137 388
Gross Margin	\$0	\$0	\$0	\$0	\$0	\$4 800	\$13 329	\$16 655	\$20 824	\$48 529	\$77 546	\$85 671
Gross Margin %	0,00%	0,00%	0,00%	0,00%	0,00%	40,00%	55,68%	55,66%	55,67%	39,86%	37,20%	38,41%
<b>Expenses</b>												
Payroll	\$0	\$0	\$0	\$0	\$0	\$2 495	\$2 699	\$2 953	\$3 272	\$3 670	\$4 167	\$4 789
Marketing/Promotion	\$0	\$0	\$0	\$0	\$0	\$420	\$609	\$883	\$1 280	\$1 857	\$2 692	\$3 904
Depreciation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rent	\$0	\$0	\$0	\$0	\$0	\$250	\$250	\$250	\$250	\$250	\$250	\$250
Utilities (Includes IT Network costs)	\$0	\$0	\$0	\$0	\$0	\$250	\$250	\$250	\$250	\$250	\$250	\$250
Insurance	\$0	\$0	\$0	\$0	\$0	\$380	\$380	\$380	\$380	\$380	\$380	\$380
Payroll Taxes	\$0	\$0	\$0	\$0	\$0	\$374	\$405	\$443	\$491	\$550	\$625	\$718
Medical and Dental	\$0	\$0	\$0	\$0	\$0	\$1 170	\$1 170	\$2 340	\$2 340	\$2 340	\$2 340	\$2 340
401K	\$0	\$0	\$0	\$0	\$0	\$116	\$116	\$116	\$116	\$116	\$116	\$116
Other	\$0	\$0	\$0	\$0	\$0	\$21	\$30	\$44	\$64	\$93	\$135	\$195
Total Operating Expenses	\$0	\$0	\$0	\$0	\$0	\$5 476	\$5 909	\$7 660	\$8 443	\$9 506	\$10 955	\$12 942
Profit Before Interest and Taxes	\$0	\$0	\$0	\$0	\$0	(\$676)	\$7 420	\$8 995	\$12 381	\$39 023	\$66 591	\$72 729
EBITDA	\$0	\$0	\$0	\$0	\$0	(\$676)	\$7 420	\$8 995	\$12 381	\$39 023	\$66 591	\$72 729
Interest Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Taxes Incurred	\$0	\$0	\$0	\$0	\$0	(\$230)	\$2 523	\$3 058	\$4 209	\$13 268	\$22 641	\$24 728
Net Profit	\$0	\$0	\$0	\$0	\$0	(\$446)	\$4 897	\$5 937	\$8 171	\$25 755	\$43 950	\$48 001
Net Profit/Sales	0,00%	0,00%	0,00%	0,00%	0,00%	-3,72%	20,46%	19,84%	21,84%	21,15%	21,08%	21,52%

## Appendix

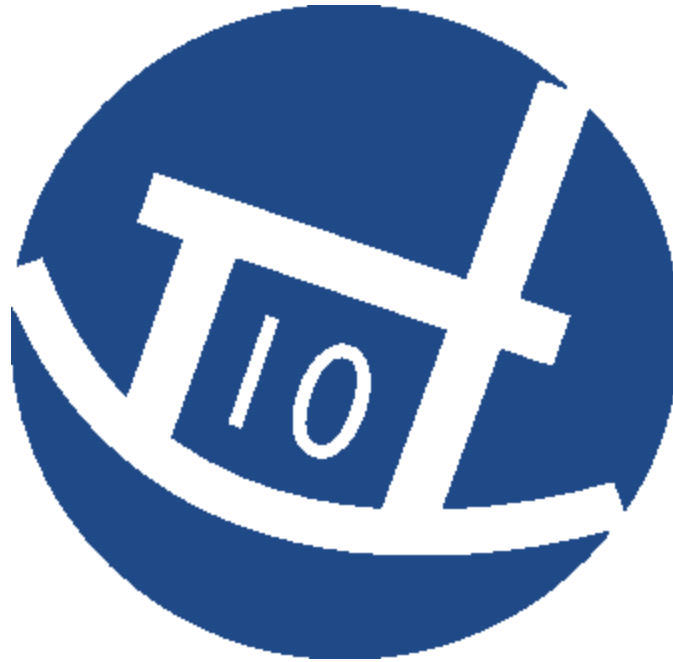
**Appendix Table: Cash Flow**

Pro Forma Cash Flow												
	mar	apr	maj	jun	jul	aug	sep	okt	nov	dec	jan	feb
<b>Cash Received</b>												
<b>Cash from Operations</b>												
Cash Sales	\$0	\$0	\$0	\$0	\$0	\$12 000	\$23 940	\$29 925	\$37 406	\$121 758	\$208 447	\$223 059
Subtotal Cash from Operations	\$0	\$0	\$0	\$0	\$0	\$12 000	\$23 940	\$29 925	\$37 406	\$121 758	\$208 447	\$223 059
<b>Additional Cash Received</b>												
Sales Tax, VAT, HST/GST Received	6,50%	\$0	\$0	\$0	\$0	\$780	\$1 556	\$1 945	\$2 431	\$7 914	\$13 549	\$14 499
New Current Borrowing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
New Investment Received	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Cash Received	\$0	\$0	\$0	\$0	\$0	\$12 780	\$25 496	\$31 870	\$39 838	\$129 672	\$221 996	\$237 558
<b>Expenditures</b>												
<b>Expenditures from Operations</b>												
Cash Spending	\$0	\$0	\$0	\$0	\$0	\$2 495	\$2 699	\$2 953	\$3 272	\$3 670	\$4 167	\$4 789
Bill Payments	\$0	\$0	\$0	\$0	\$0	\$332	\$10 164	\$16 500	\$21 199	\$28 175	\$94 599	\$160 661
Subtotal Spent on Operations	\$0	\$0	\$0	\$0	\$0	\$2 827	\$12 863	\$19 454	\$24 471	\$31 845	\$98 766	\$165 450
<b>Additional Cash Spent</b>												
Sales Tax, VAT, HST/GST Paid Out	\$0	\$0	\$0	\$0	\$0	\$325	\$455	\$637	\$892	\$1 249	\$1 748	\$2 447
Principal Repayment of Current Borrowing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Liabilities Principal Repayment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long-term Liabilities Principal Repayment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Purchase Other Current Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Purchase Long-term Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Cash Spent	\$0	\$0	\$0	\$0	\$0	\$3 152	\$13 318	\$20 091	\$25 363	\$33 094	\$100 514	\$167 898
<b>Net Cash Flow</b>	\$0	\$0	\$0	\$0	\$0	\$9 628	\$12 178	\$11 779	\$14 475	\$96 578	\$121 482	\$69 660
<b>Cash Balance</b>	\$2 000	\$2 000	\$2 000	\$2 000	\$2 000	\$11 628	\$23 806	\$35 585	\$50 061	\$146 639	\$268 121	\$337 781

## Appendix

**Appendix Table: Balance Sheet**

Pro Forma Balance Sheet													
Assets	Starting Balances	mar	apr	maj	jun	jul	aug	sep	okt	nov	dec	jan	feb
<b>Current Assets</b>													
Cash	\$2 000	\$2 000	\$2 000	\$2 000	\$2 000	\$2 000	\$11 628	\$23 806	\$35 585	\$50 061	\$146 639	\$268 121	\$337 781
Other Current Assets	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450
<b>Total Current Assets</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$12 078</b>	<b>\$24 256</b>	<b>\$36 035</b>	<b>\$50 511</b>	<b>\$147 089</b>	<b>\$268 571</b>	<b>\$338 231</b>
<b>Long-term Assets</b>													
Long-term Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accumulated Depreciation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Long-term Assets</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Assets</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$12 078</b>	<b>\$24 256</b>	<b>\$36 035</b>	<b>\$50 511</b>	<b>\$147 089</b>	<b>\$268 571</b>	<b>\$338 231</b>
<b>Liabilities and Capital</b>													
<b>Current Liabilities</b>													
Accounts Payable	\$0	\$0	\$0	\$0	\$0	\$0	\$9 620	\$15 799	\$20 333	\$25 098	\$89 255	\$154 986	\$164 593
Current Borrowing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Current Liabilities	\$0	\$0	\$0	\$0	\$0	\$0	\$455	\$1 556	\$2 864	\$4 404	\$11 070	\$22 871	\$34 922
<b>Subtotal Current Liabilities</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$10 075</b>	<b>\$17 355</b>	<b>\$23 198</b>	<b>\$29 502</b>	<b>\$100 325</b>	<b>\$177 857</b>	<b>\$199 516</b>
<b>Long-term Liabilities</b>													
Long-term Liabilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Liabilities</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$10 075</b>	<b>\$17 355</b>	<b>\$23 198</b>	<b>\$29 502</b>	<b>\$100 325</b>	<b>\$177 857</b>	<b>\$199 516</b>
<b>Capital</b>													
Paid-in Capital	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000
Retained Earnings	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)	(\$7 550)
Earnings	\$0	\$0	\$0	\$0	\$0	\$0	(\$446)	\$4 451	\$10 388	\$18 559	\$44 314	\$88 264	\$136 266
<b>Total Capital</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 004</b>	<b>\$6 901</b>	<b>\$12 838</b>	<b>\$21 009</b>	<b>\$46 764</b>	<b>\$90 714</b>	<b>\$138 716</b>
<b>Total Liabilities and Capital</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$12 078</b>	<b>\$24 256</b>	<b>\$36 035</b>	<b>\$50 511</b>	<b>\$147 089</b>	<b>\$268 571</b>	<b>\$338 231</b>
<b>Net Worth</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 450</b>	<b>\$2 004</b>	<b>\$6 901</b>	<b>\$12 838</b>	<b>\$21 009</b>	<b>\$46 764</b>	<b>\$90 714</b>	<b>\$138 716</b>



**TAKE-10 Digital Story House**

**TAKE-10**  
**Venturelab, Scheelevägen 17**  
**Lund 22370, Sweden**  
**+46 (0)8-50004612**  
**[info@take-10.net](mailto:info@take-10.net)**



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## **Introduction**

The following Intellectual Capital Value Plan (ICVP) is an exercise in using several established IC theories and models to create a planning tool for entrepreneurs who are starting a business as well as existing firms who are looking to launch a new venture.

The case company, TAKE-10, used in this ICVP is a real company currently in the start-up stages. Much of the data in this plan has been culled from an existing business plan that was produced using Business Plan Pro software®.

TAKE-10 is a digital story house that produces stories in text formats. The company is preparing for a fall launch to kick off its concept.

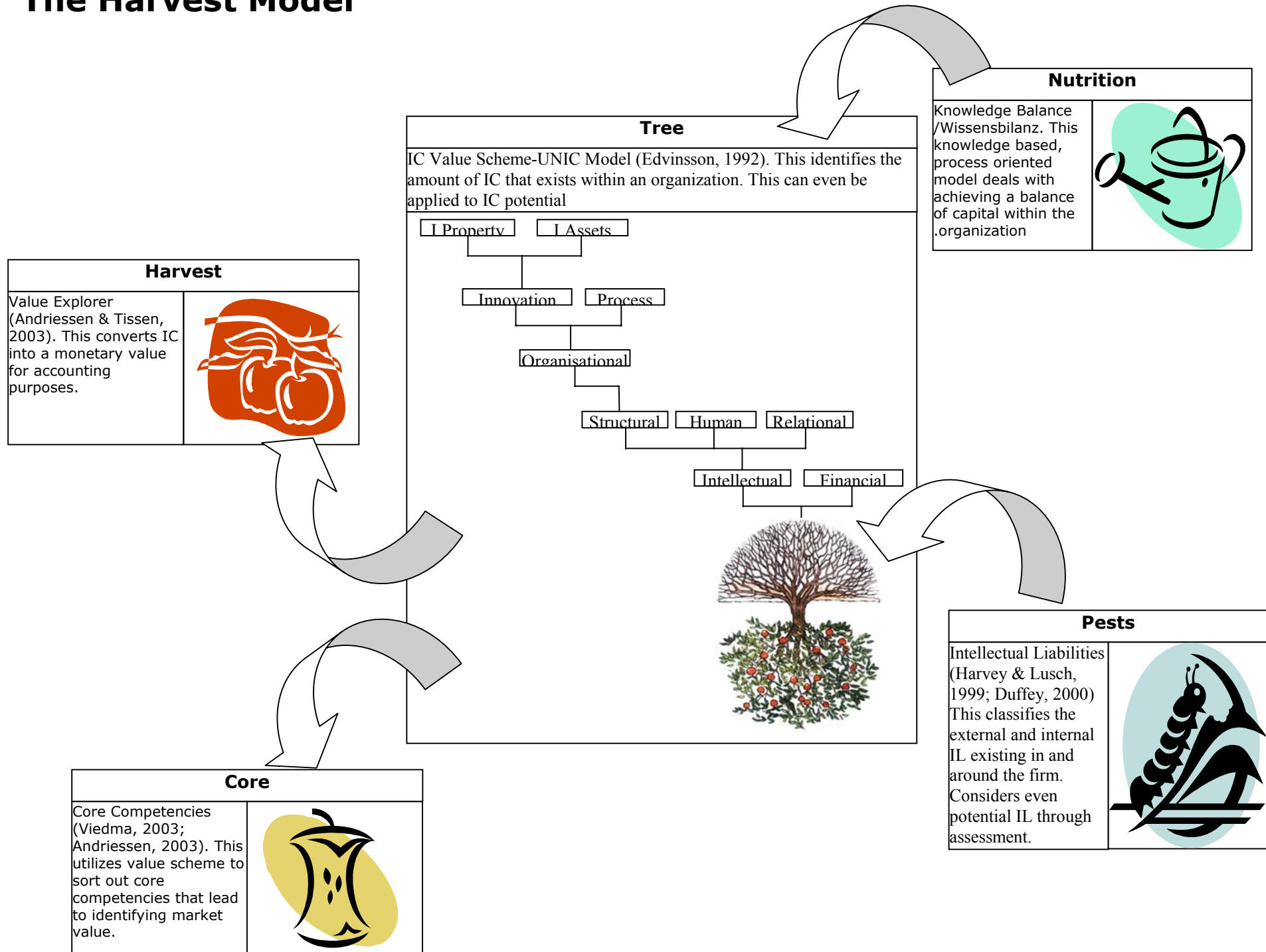
The models used in this exercise have been adapted to certain extents from their original construct. This was done as an effort to combine them into one dynamic planning tool. A pragmatic diagram at the beginning of this case exercise illustrates the analogy of a Harvest Cycle. Much of the language is steered in this direction as a pedagogical means of explaining the theories and models used as well as the process an entrepreneur goes through when planning his business. The exercise has been written from a perspective of an entrepreneur using template software. As you read you will see instructive comments that might exist in a program catering to start-ups.

Remember when reading to focus on the alternative valuation methods. These IC theories and models have been developed over the past two decades. The effort to provide concrete valuations of IC in economic terms has provided us with an excellent opportunity to begin determining the complete value of companies.

We hope you find the case exercise interesting and insightful.

Douglas J Ross and Malin Jepson.

# The Harvest Model



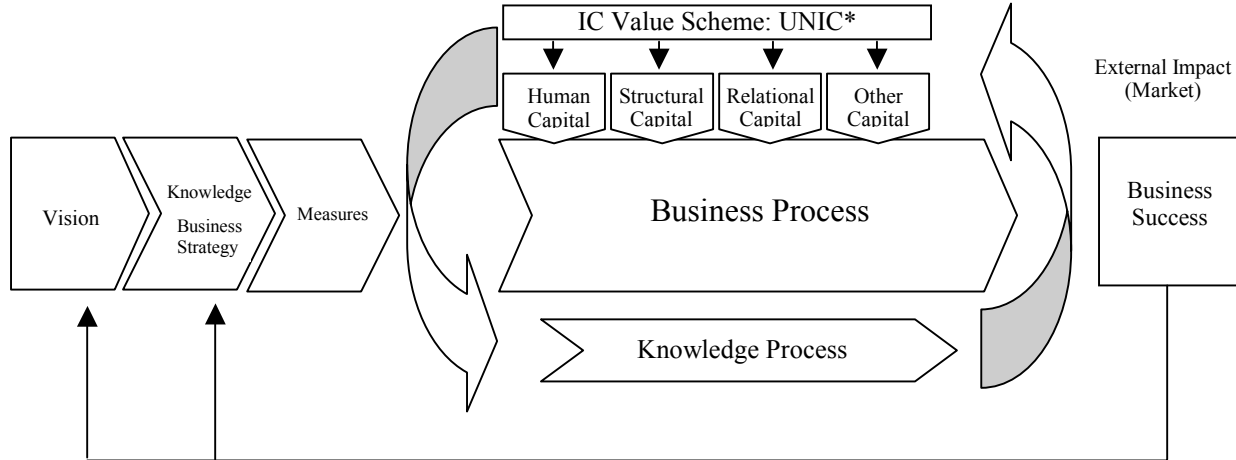
# 1. Knowledge Balance/Wissensbilanz (Nutrition)

When planting, every seed needs water, fertilizer and sunlight to have the greatest chance to survive, grow strong and produce fruit. This is where it all starts. A farmer will look over his fields to determine the impact the elements and other factors will have on his future harvest. The firm will look out over the market to determine the external impact this market will have on future business success.

The farmer can see in his mind the neat rows of trees burdened with beautiful ripe fruit. The firm has to have a vision of where it is headed, and the gains to be had there. The farmer after weighing this situation, begins to work out a plan on how to best till the soil, prepare planting, irrigation, etc. The firm after defining their vision needs to develop a business strategy in which to realize the vision..

The farmer will during the process periodically take a look over his fields to examine the progress. He will recognize certain positive events between removing the first rock to plucking the first fruit. The firm needs to have key milestones as a means of measuring the progress towards realizing the vision.

The figure below illustrates the orientation of the knowledge balance process.



\* The original Wissensbilanz model does not include the UNIC model, but we have included it as implied by the capital resources included in the original model. We feel that the IC Value Scheme better defines which resources need balancing.

This is where a firm starts off. Define the Market to determine the playing field. Define a vision, the business strategy to achieve said vision and list key milestones that lead to realizing this vision.

## 1.1 Market

The IDPF (International Digital Publishing Forum) is the premiere trade and standards organization for the digital publishing sector. Their latest reports show that even after ten years of e-book sales, that the market has not grown to the point where barriers to entry are significant.

From their report release Jan 12, 2005

- Revenues: \$3,227,972 in sales have been logged by retailers in Q3 2004, a 25% increase over the same period in 2003 during which time retailers reported \$2,591,469 on sales of e-books.
- Unit Sales: A total of 419,962 e-books were sold in Q3 2004 alone, an 11% increase over the same period in 2003, during which time 377,095 units were sold.

The top ten list for 2004 showed that 4 titles belonged to one author while several others were reference books.

1. *The Da Vinci Code* by Dan Brown (Doubleday - \$14.95)
2. *Angels & Demons* by Dan Brown (PocketBooks - \$6.99)
3. *Deception Point* by Dan Brown (PocketBooks - \$6.99)
4. *Digital Fortress* by Dan Brown (St. Martin's Press - \$5.99)
5. *Darwin's Radio* by Greg Bear (Del Rey - \$6.99)
6. *Holy Bible, New International Version* - International Bible Society (Zondervan - \$14.99)
7. *I, Robot* by Isaac Asimov (Spectra - \$4.99)
8. *Electronic Pocket Oxford English Dictionary & Thesaurus Value Pack* (Oxford University Press - \$19.95)
9. *Darwin's Children* by Greg Bear (Del Rey - \$6.99)
10. *Merriam-Webster's Collegiate® Dictionary* (Merriam-Webster - \$25.95)

The main competitors in the e-book arena are:

- e-books.com
- eReader.com
- Fictionwise.com
- Mobipocket.com

- OverDrive

The first four are the established "giants" of typical e-book store setups. They all started in 2000. The fifth is an audio-book store with over 25 audio production companies supplying them with titles as a reseller. E-books.com, the obvious leader, is currently averaging between 40 and 50 thousand titles sold per month.

TAKE-10's products appeal to digital readers, those who use audio-book, PDAs and computers, to access information and who enjoy reading via these tools. This market has huge potential for growth as the use of said tools has become commonplace especially among the younger set (under 30 crowd). The market for e-books is currently limited to less than 2 million downloads per year. Comparing that to the over 2 billion books sold in the United States every year (based on BISG data) that is a market penetration of 1/10th of 1%.

There is plenty of room to grow, and considering that TAKE-10 is not a standard online bookstore, we are confident that we can enter the market with relative ease.

Our serialization concept can act as a hindrance to piracy which has been one of the greatest stumbling blocks for the large publishing houses like Random House or Harper Collins in entering full throttle the e-book publishing industry.

Competitively TAKE-10 is not currently aware of any digital publishing company producing stories using a serialization strategy complete with community building. After extensive research, we are not aware of any digital publishing company applying any type of serialization strategy. The closest applications we have found are e-book stores selling chapters or parts of books that have already been published, or issued on behalf of an established author, or individual authors offering their unfinished manuscripts for reading via the Web. Neither of these applications are considered a major threat to what TAKE-10 offers in services and products.

We have found several digital publishers who offer authors just in time publishing and distribution of their work, however they do not provide any marketing, dashboard, or community building services which they leave to the author to handle.

TAKE-10 for all tense and purposes provides a unique bridge between all the parts to create a synergy for boosting sales of digital reading material.

## **1.2 Vision**

TAKE-10's vision is to provide affordable stimulating entertainment to digital readers everywhere.

TAKE-10 bridges the gap between E-books and the fictional reading experience. While e-book sales have increased over the past ten years, the industry has struggled due to the lack of understanding the digital reading experience vs. traditional book reading. Sales for e-books have been most robust in non fiction and reference type literature which is

the logical result of digital media being dominated by information needs based reading vs. leisure reading.

For fictional literature to truly have a digital presence in the future, it needs to embrace and adapt to the modern habits of today's readership. This means thinking past the e-book concept. This will be accomplished by focusing not on books, but on **the story**. To do this we have to change the entire process as well as the nature of the fictional literature reading experience.

We have the following objectives:

Produce and increase the sales of stories by:

- providing high quality serialized "as it happens" written fiction that can be read quickly and easily using network devices such as cell phones, PDAs, and computers.
- providing a streamlined cost efficient digital publishing service for authors who write fiction, who are looking for increased control of rights to their work, and who desire a larger percentage of sales revenues through royalties agreements.
- Building a readership community that takes an active participatory role in influencing what is written, including any changes to manuscripts already "gone to press"

### 1.3 Strategy

TAKE-10 has decided to focus its attention on breaking down the size of digital reading material as a means of energizing the slow growing e-book sector. The attraction value of reading an e-book is limited by the cultural bias towards the traditional reading experience as well as the optical ergonomics of starting at digital screens for extended periods of time. TAKE-10's focus of providing serialized reading material is key in creating a shift in reading habits more conducive to the digital reading experience.

Today's publishing industry is at the cusp of a major shift in how it does business. Digital media is fast becoming the norm for many people in how they watch TV, read newspapers, listen to music and communicate with each other. The weighted infrastructure that exists to publish even one hardcover is cost prohibitive which is why authors find it so hard to break into the business.

TAKE-10's focus of providing a streamlined cost effective digital publishing service for authors is key in breaking new territory of the A as well as the B and C writer who may sell only a 1000 copies of their work vs. 100 000. Profitability sans the traditional infrastructure can be achieved with lower copy sales which is a strong motivator to why we believe this is key.

With the advent of reality television, discussion options on news articles, etc, the push is for viewers to take an active role in determining the outcome of events, providing

consensus or just plain ranting. TAKE-10 is focused on harnessing that participative energy and tying it too the fiction that we sell. Allowing the community of readers to have an influence in the outcome of what they are reading can serve to stimulate interest as a marketing tool to increase sales.

This is to be done through the establishment of a new company, acquisition of new and upcoming authors, ramping up a publishing portal, community building, and network based branding activities. All this is to be done on a shoestring budget with every intention of becoming profitable by the end of year one.

### ***1.3.1 Products***

TAKE-10 will provide serialized fictional material for reading through a subscription based model. Novels, novellas, short stories, etc. will be available to subscribers who will receive regularly updated portions of their chosen stories.

The stories will initially be original works from up and coming authors. Once readership reaches sufficient levels, attempts at signing established authors will be made.

The stories will go through several phases which begin with Author's Cut which is the original manuscript. The Adapted Cut which is the book as it develops based on readership influence. The Pulp Cut which is the printed publication of any story that has finished its live run. The Pulp Cut will be a Just in Time (JIT) solution to accommodate even a single order of 1 volume

Each of these options or "Cuts" will be available with the Author's and Pulp cuts being complete non subscription based products.

TAKE-10 will provide digital publication services for qualified authors to update and enhance our offerings to TAKE-10 readership. These services include digital publishing in various established formats, a dashboard for manuscript access for authors making on the fly changes, marketing services to profile their books for increased readership, and pulp publication for authors whose stories have finished their live runs.

TAKE-10 will also provide a digital publication “vanity” service for (non qualified) authors who wish to market their own books through a subscription or single purchase channel. These authors will be charged a subscription fee for the use of the forum, and will be able to either set up a readership subscription based revenue option or a one off purchase option. Authors own fees to TAKE-10 will consist of both a base fee and a percentage of revenues generated.

Non qualified authors who achieve sufficient readership may be offered by TAKE-10 a contract to market and publish future titles of said author.



### ***1.3.2 Sales***

Our focus will be on branding TAKE-10. Creating an image of what TAKE-10 is, generates interest in digital reading vs. trying to sell individual authors or genres. It also makes it easier to attract quality authors via Recall and Recognition. TAKE-10 or Read IT Now is much easier to apply publishing ambitions vs. "that website where I can publish my book...."

TAKE-10's marketing plan deals with driving potential sales to our website where all purchase transactions are to take place. The purchase transaction will be simple for ease of use as internet shoppers tend to lack patience for multi-step processes that require detailed background histories.

TAKE-10 merchant software solution will provide the flexibility of payment to accommodate customers preferences.

Monies received through digital transactions will automatically be divided up so that each author can receive an up to the minute account report on royalties accrued. Payouts to authors will occur immediately upon purchase transaction clearing.

Pricing will be superior to that of established e-book stores given that TAKE-10 controls production, distribution as well as retail without a considerable infrastructure that hinders pulp publishers. TAKE-10 sales prices will be competitive with the ability to maintain a better than industry margin.

### ***1.3.3 Forecast***

Over the first fiscal year, TAKE-10 expects Adapted Cuts, Authors Cuts and Pulp Cuts to grow at a pace of 25% per month. This level of growth cannot be maintained over the long term, and growth rates over the course of the following five years are expected to taper off according to the following formula. Year two achieves 75% of year one growth. Year three 50%, Year four 25% and Year five 12%. 12% growth per annum for subsequent years thereafter are expected as they reflect the publishing industry standard for book sales.

Vanity subscriptions are forecasted to grow at 10% per month over the first fiscal year. TAKE-10 is basing this prognosis on the principle that it is often more popular to talk about becoming a writer than to actually roll up ones sleeves and grind out quality work. Vanity subscription growth may be much higher due to customers jumping in at the beginning, but TAKE-10 would rather err on the side of caution as to just how many self publishing subscriptions can be sold. Again growth rates in following years are based on the same tapered achievement formula as explained above.

Private Label subscriptions are contract based, and are more difficult to quantify a

prognosis. Given that this is a new and unique product that leverages a companies brand into fictional literature, TAKE-10 has based growth projections on a conservative level. The process to achieving these rates lie in TAKE-10's ability to sell the idea to companies looking for unique ways to differentiate themselves.

TAKE-10 is projecting subscription totals based on an initial portfolio of 6 authors averaging 167 readers over the first month. This figure is based on a 3 month marketing campaign to attract authors both published and unpublished to sign on with TAKE-10. Over a 60 day period expectations of generating a "slush" pile of manuscripts between 250-500 is quite common for activities of this kind in the publishing sector. Using averages, it would translate to 1.25% of submitted manuscripts.

Early adoption is not really a factor in inhibiting sales growth forward. E-books have been around long enough, and growth projections of the industry have been rather aggressive. The missing link or bridge for transition into mainstream readership, is adjusting to the technology available. The TAKE-10 product provides that bridge in adapting to and understanding the digital reader. This primarily is the driving force behind the sales forecast. Another strong factor is TAKE-10's focus on community building to enhance the reading experience. Finally TAKE-10's initial focus on the English speaking market enlarges its potential reach thus producing higher totals within the same procentual framework.

Given the size of the fictional book market, the sales forecast is rather conservative. Even if focus were limited to E-book buyers alone, first year projections represent only 1% of the current market share.

Caveats to current forecast are the ease of application by competitors, dramatic shifts in reading interest and force majeure. Imitation is always a risk, especially if the competitor enjoys economies of scale for a quick ramp up and market share from which to introduce the new product. A quick launch and branding ability is key to thwarting such actions. Reading for enjoyment is at risk given the popularity of audio and video media. SMS are being replaced by MMS technology, and the ability to watch a movie in contrast to reading a book is always a threat. Force majeure can attack any industry, and is not a factor that can be prepared for. These risks have existed in other formats for decades, and the traditional book industry has continued to thrive, even expand. Therefore in spite of these risks, we are confident that we will be able to succeed.

#### ***1.3.4 Marketing***

TAKE-10's competitive edge vs. eBooks.com, eReader.com, Fictionwise.com and Mobipocket.com will be a ownership of the entire value chain. The E-book online stores are dependant upon publishing houses to provide them with books that they must buy and than resale. TAKE-10 actually produces the books they sell through authors who are under contract with TAKE-10. Given that many titles sold by E-book retailers are published by traditional publishing houses, they (the retailers) are paying a price that includes costs related to maintaining a large infrastructure including those generated

through pulp production. TAKE-10 can enjoy a price advantage while maintaining higher margins. Distribution is also improved through JIT availability.

What will differentiate TAKE-10 over the competition outside of the value chain will be the way in which TAKE-10 pushes the envelope in what motivates book sales. The concept of community building around a particular story is not new, and currently exists through message boards, news groups, etc. The difference however is that current communities are built on what has been written or completed. Where this deviates is in communities that are based on an incomplete series of books. Robert Jordan's Wheel of Time series is a classic example. Newsgroups dedicated to this writer's WOT series have existed over ten years, and they have grown to millions of participants. Some have even developed IRC communities which are text based "worlds" where individuals can roll play with others through chat functions. TAKE-10 seeks to create a synergy where users or citizens interactions with each other within the story's community can be used by the author to integrate changes in the manuscript of what has yet to be released to said readership, as well as create spin-offs based on community interest in particular aspects of an existing story. This dynamic has yet to be harnessed, by any publisher, which is what will separate TAKE-10 from the rest.

The further into the future we go the more likely the digital community will expand. Twenty years ago the paper based daily planner was a popular item for corporate, academic and personal use. Companies like Franklin and Covey (Now merged) focused energy on sales of their binders, planner types, etc. When the PDA was first introduced, it took five years before it was harnessed by these types of companies to provide a digital option using software instead of paper. Today the digital planner is a standard function in all PDAs and Laptop computers. Great efforts are being made by major corporations like Sony and Microsoft to create hardware and software to provide the "classic" reading experience. Even efforts to create a laptop device with a screen that turns like a page, and special cell-plastic screens that do not fatigue the eyes have garnered huge sums of capital for their development.

TAKE-10 does not see a future where technology adapts to classic behavior (such as comfortably reading a book, turning the pages, etc.). The future according to TAKE-10 lie in technology helping readers to adapt to new ways of performing classic functions. A classic function of contacting a relative many miles away was to send a letter, which was replaced by sending a telegram, which was replaced by an operated assisted phone call, which was replaced by cell phone access and e-mails, etc.

Digital readers are not looking for the realism of the classic book experience. They are looking for practical ways to access great stories. Given that understanding, TAKE-10 is confident in sustaining the value of serialized literature. Serialization kicked off the literary industry during the 16th century, and will kick off the literary industry of the 21 century.

### ***1.3.5 Website***

The TAKE-10 website is where it all happens. Product in and product out all stems from

a central digital hub where subscribers can access materials they wish to read, and where authors work can be stored for sale. The site must be database intensive complete with secure socket technology to handle merchant or purchase transactions, product storage, excessive data transfer as well as message board communities. The site needs to adapt well to user needs in several media.

The TAKE-10 website will be developed using database web solutions. Dedicated hosting services will be used initially until subscriber base reaches critical levels that may require TAKE-10 to host locally. If corporate service solutions are available that are both economical and maintain quality of service, those will be considered. The website will be built in two phases.

The initial phase will be a basic shell that provides information and storage facilities for potential authors to begin building the primary management. This will also provide leader info to inform potential readers of what is coming, launch date and applicable promotions.

The second phase will be the merchant secure socket services, payment structures, database structures for communities tied to each novel, customer registration database and scripting tools for various subscriptions options.

The site will be built by TAKE-10 staff web developers, and managed by them as well.

#### 1.4 Milestones

The following table represents the initial phase in getting TAKE-10 off the ground. Achieving these milestones is essential to being successful with the stages to come. Management, IT and Editorial divisions will all work together for this to happen.

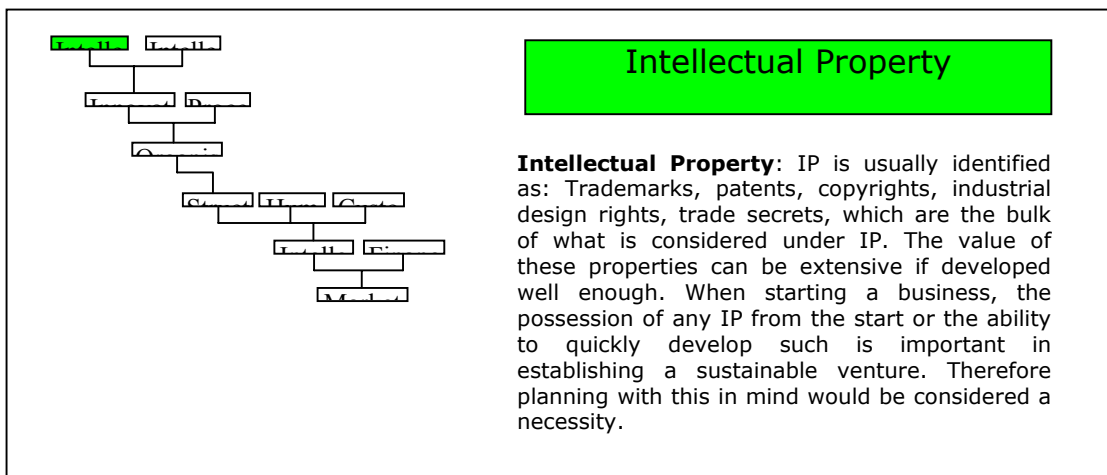
<b>Launch Milestones</b>	<b>Start Date</b>	<b>End Date</b>	<b>Budget</b>	<b>Managers</b>	<b>Department</b>
Articles of Incorporation LLC	2006-06-02	2006-06-03	\$200,00	DJR, PS	Management
Initial Slush Pile	2006-07-15	2006-08-28	\$50,00	TW, TS	Editorial
Website Launch	2006-08-01	2006-08-02	\$3 500,00	DJR, PS	IT
3 Signed Authors	2006-07-01	2006-08-15	\$500,00	DJR	Management
Primary Trial	2006-08-15	2006-08-28	\$200,00	PS, DJR	IT/Management
MBT Campaign Launch	2006-09-02	2006-09-30	\$200,00	???	Marketing
6 Signed Authors	2006-08-15	2006-10-01	\$700,00	DJR	Management
Secondary Trial Initiation	2006-10-01	2006-10-28	\$200,00	PS, DJR	IT/Management

## 2. IC Value Scheme (The roots of the tree)

Just like a tree, the firm can be said to have many roots. These roots also need nutrition. The farmer will use water, fertilizer, and even take advantage of the warmth of the sun to insure his/her trees are developing a strong root system. The firm by using the knowledge balance process above can identify the amount of nourishment each root capital has, and which of the same may be lacking in proper nourishment. Here is your opportunity to identify the potential levels of nourishment in the root capital needed for your firm to thrive.

Below each root capital is defined including examples. Use these definitions to describe below each root the firms nourishment level.

### 2.1 Intellectual property



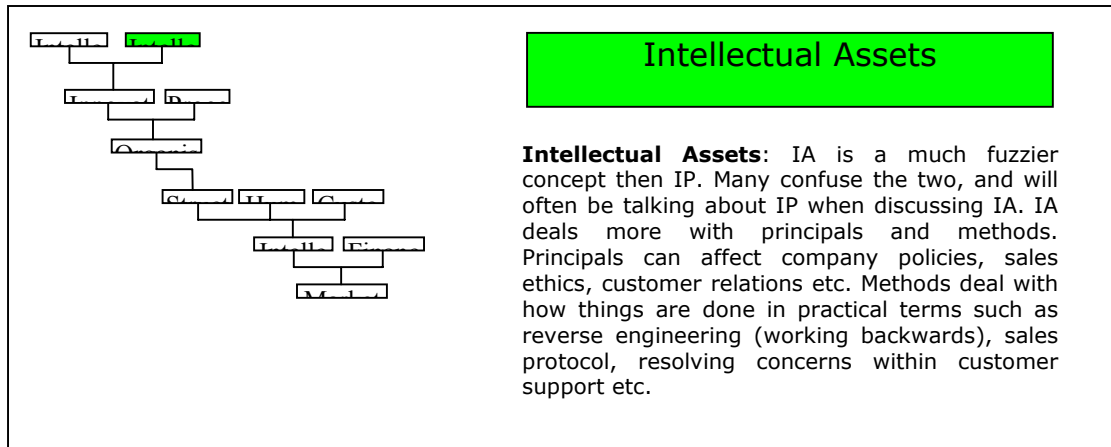
TAKE-10 is in the process of officially trade marking their corporate name and logo. Until that time TAKE-10 will continue to develop their brands as if that process had already accrued.

TAKE-10 has at this time no patents and does not expect to develop or secure any patents in the foreseeable future.

Given the nature of TAKE-10 as a story warehouse, we will act as stewards over the many copyrighted materials in our possession. These copyrights will be established for manuscripts submitted to us by creatives under contract with us.

Our concept and work methods for this unique distribution process can be considered to some extent trade secrets. However, they are subject to imitation by other competitors, which will be a clear sign of success. In spite of this vulnerability, TAKE-10 as the initiator has a real possibility of maintaining a leadership role in a niche sector.

## 2.2 Intellectual assets



TAKE-10 has taken great caution to insure that its founders possess high ethical standards. We value such standards as being a hallmark for good business. Relationships of trust are built on a genuine desire to help others. This desire is paramount to our success.

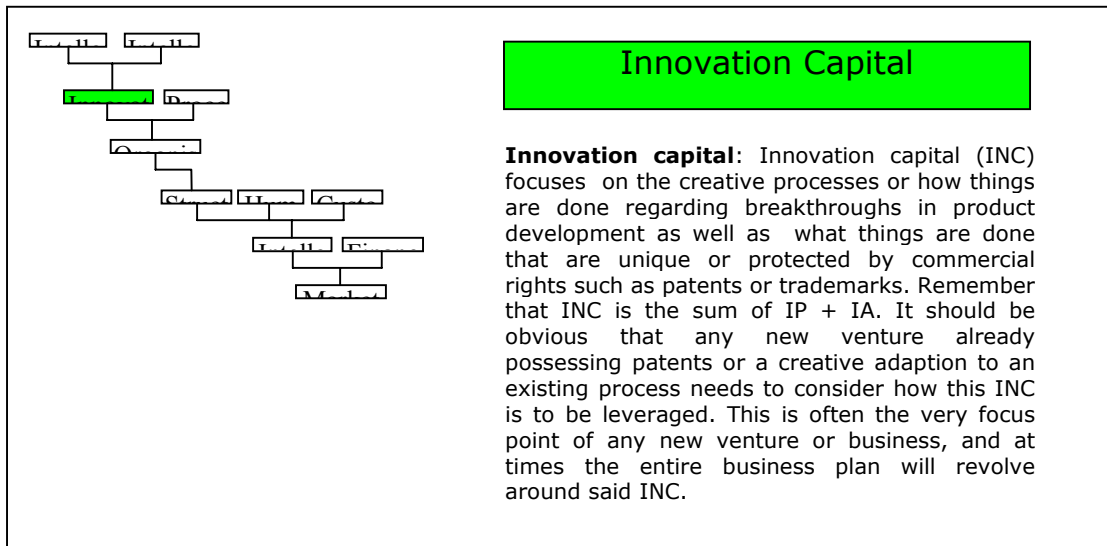
TAKE-10 has made the choice to avoid supporting or profiting from manuscripts, audio files and film that are pornographic, exhibit excessive violence or in any other way can be construed as morally or ethically offensive to the bulk of our customers. The key is to focus on good stories not sensationalism.

TAKE-10 will through a method of serialization produce stories available to subscribers. This serialization process is specifically adapted with the digital reader in mind. This process also serves as a security asset due to the extended nature of the story telling which frustrates piracy efforts.

TAKE-10 has recognized the value of the co-creative process and has emphasized this through a methodology to maximize said process. This entails attaching our stories to digital communities where subscriber involvement provides instant feed-back to our authors and film producers. We are convinced that this dynamic will change the way people experience the story as well as provide a powerful tool in the hands of our creatives to better satisfy our customers.

TAKE-10 has decided to implement a marketing methodology of “focused communication”. In simple terms we will be preaching to the choir.

## 2.3 Innovation capital



TAKE-10's innovations are the following:

A modern application of a centuries old literary process. As mentioned earlier we plan to serialize stories to adapt to the demands of the modern digital reader. This innovation considers the rapid transfer of data, the need for format flexibility and micro-term reader behavior.

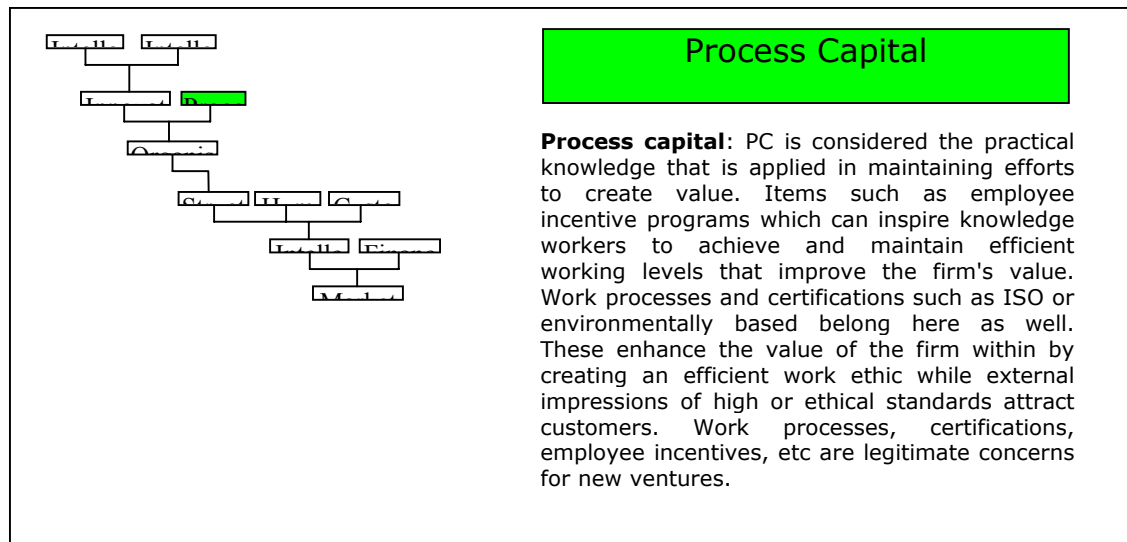
A community building process that enhances the literary creative process through more than just simple discussion. This innovation acts as a transfer agent moving authors from their role as writer to a role as storyteller. This innovation also creates a dynamic that increases manuscript control by the authors. Finally the co-creative process within these communities allows for a sustained advantage through “as it happens” feed-back that serves to shorten lead-times on eventual sequels, spin-offs and even new material.

Due to our authors ability to edit live stories on the fly, we are able to expand our product assortment from just stories to variations thereof. Just as the film industry in recent years has begun releasing directors cuts of their films so can we by releasing authors cuts in both digital and pulp formats.

A unique product placement channel that provides corporations the possibility of communicating their products and services through the entertaining venue of literature.

A simultaneous logistics system that eliminates lead-time issues in story production and royalty payments. This system also eliminates the need for a physical warehousing of printed product. This system is literally a JIT umbrella satisfying all aspects of the production process from the point of manuscript submission.

## 2.4 Process capital



Due to the JIT nature of our product system, TAKE-10 is able to increase the financial incentives for our authors in a way that is far superior to that of our traditional peers. Not only are we able to drastically increase the percentage of royalties paid out to our authors, but we are also able to ensure immediate point of purchase/ subscription payments.

TAKE-10 works strictly through digital networks. All processes such as editing, manuscript submissions, readership access, point of purchase, community building, etc. are web based. Considering that the Internet serves as the backbone of our business as the prime communication tool, we feel it imperative to adapt all working processes to it.

TAKE-10 will seek to apply any and all certifications that may be relevant to the firm. TAKE-10 is currently in the process of identifying standards for file format distribution such as .odt for smart phones, new pdf standards etc. Standards such as these will become more relevant as the business grows.

TAKE-10 currently seeks environmental awards and certifications based on their digital-first policy. TAKE-10 will apply digital-first before paper work processes day-to-day. We plan to keep ourselves abreast of monitor and screen technology in an effort to improve efficiency among our employees. Any step towards a truly paper-free corporate environment is considered a priority in how we work.

TAKE-10 will employ a dashboard system that will be used by editors as well as authors to manage and administrate the stories we provide.

TAKE-10's serialization process as described before is secured through a no access networking system. Given the lead-time savings due to our digital logistics we are prepared to incorporate quasi-old school processes to protect our authors manuscripts.



This translates to having two distinctive networks. One will be an isolated storage network with limited access by those in charge of editing said manuscripts. The other, will be our working environment.

TAKE-10's marketing process is based on the A-T-A-R model (Awareness, Trial, Availability, Repeat). Books are a high involvement product which require a deeper interest in purchasing vs. a bar of chocolate at the check-out stand (impulse buying). The community aspects to TAKE-10 increases the potential involvement even higher.

TAKE-10 will create Awareness through a focus on Recall and Recognition activities, word of mouth and MBT (Message Board Trapping) initially. Internet community focused campaigns such as advertising the latest veterinary hero story on "pets.com" will follow. Finally co-branding efforts will be made with companies providing a natural connection to our service such as cell-phone and cell-phone service providers.

During launch phase, we will initiate two considerable beta trials of no less than 10 000 test users to try subscription service and provide feed-back through community building tools regarding their thoughts about the product as well as service.

Availability will be limited to the digital market place. This means 24/7 as long as potential users have access to cable, satellite, radio and/or telephony signals. Since we will focus on the English speaking market and select Asian market access will be limited to subscribers who's language skills are sufficient to motivate them to subscribe.

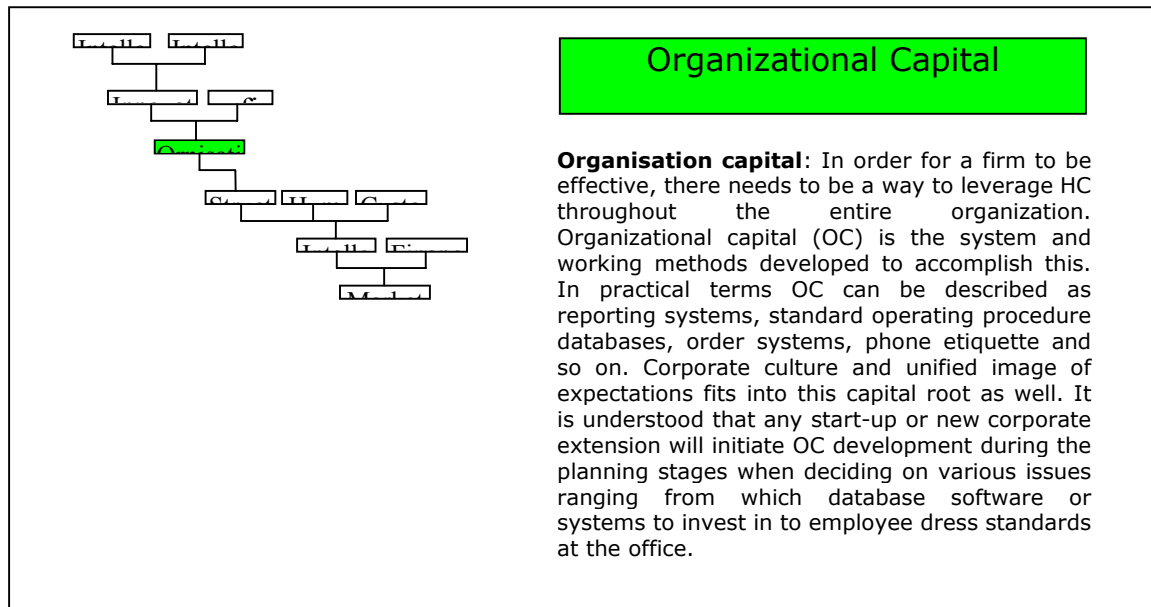
Repeat is important and TAKE-10 will implement three keys in securing repeat customers. These are quality of literature, being genre friendly and community dynamics.

TAKE-10's sales process or strategy will be focused on branding the TAKE-10 concept. The key is to sell good stories to great people instead of focusing on specific authors or genres. Since readership is tantamount to success for authors it is much easier to apply this concept to publishing ambitions vs. "that website where I can publish my book...".

TAKE-10's point of purchase will be directly via our website where subscribers will be introduced to a slim process bereft of multi-step processes that require detailed background histories. TAKE-10's merchant software will provide the flexibility of payment to accommodate customers preferences.

TAKE-10's sales prices will be competitive allowing us to maintain a better than industry margin.

## 2.5 Organizational capital



SOP databases will be developed as the projected procedures are allowed time to adapt to what works well. We are in the initial stages of development and are therefore prepared for an adaptive process to convert our concepts into standard operating procedures.

All software systems sans our own web structure will be purchased with an emphasis on what works best in our organization. We are of the school of thought that flexibility is the best policy regarding said systems.

TAKE-10 will work from a flexible and flat organization. First of all, it is flexible due to the work from anywhere structure since we seek to penetrate all English speaking markets, China, South Korea and Japan. Our authors who represent these cultures will in all likelihood be spread across the globe. Secondly, the flat nature of the organization will demand a flexible type of worker that is prepared to shoulder varying areas of responsibility.

TAKE-10's corporate culture is defined by a high moral and ethical standard. The unified image of expectations can be described as one where Judeo- Christian values are at the forefront. One vital aspect of this image is the extreme importance placed on the family, individual needs, and the law of abundance.

- The family: Each of the founding five have large families and have had many of the same experiences within these families. This priority brings with it an understanding of the values of co-operation, selflessness, and the need to consider others feelings.

- Individual needs: The founding five's life experiences have all led them to an understanding of the true value of those with whom they work with. This understanding has been gained through observing the negative effects business has often had on the demands of those employed. What this means is that TAKE-10 values its members enough to be a resource in their times of need vs. being a business that is all about the clock.
- Law of abundance: In a business world burdened by the concept of scarcity, TAKE-10 has chosen to focus more on abundance. In a word the more you give the more you get. This affects all aspects of the business. By treating our customers, suppliers, strategic partners as well as our employees with a giving attitude, we create an immense body of good will which translates to greater co-operation, participation, and consumption.

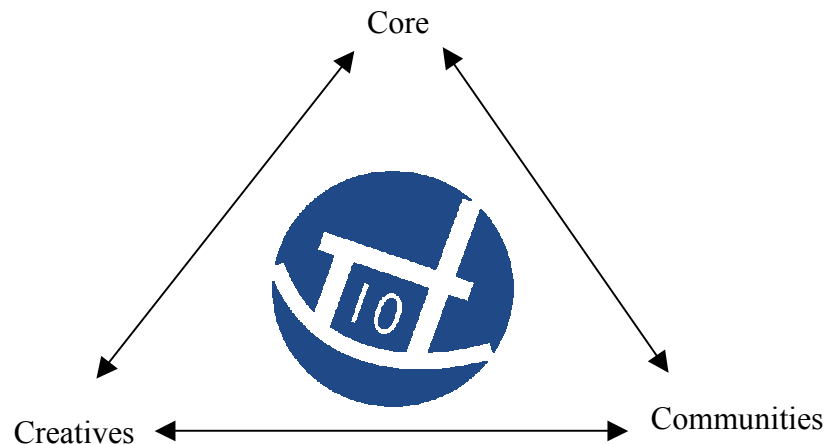
TAKE-10's initial organizational structure is the following:

Managing Director – Douglas J Ross  
 Finance Director – Henri Saffer  
 IT Director – Paul Strange  
 Chief Editor – Tiffany Wacaser  
 Editor – Thane Sinclair

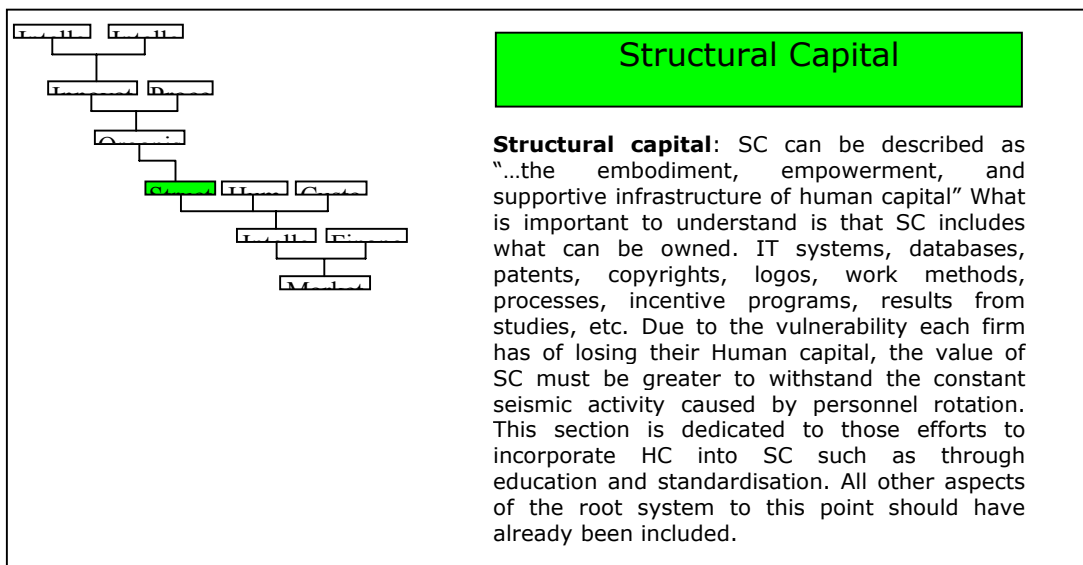
As the organization is forced to expand due to customer growth areas involving human resources, customer service, site development, tech support, marketing and sales, copy editing and book agents will be added.

Where typical on-line book stores and e-book specialists are limited to retail sales, TAKE-10 as an organization will be responsible for production, distribution and pricing.

TAKE-10's organization also includes the external networks of our digital communities that are built on the foundation on each story we provide. This part of the organization is vital to our success as it is the catalyst of the co-creative process. Our society of authors represents the third major part of our organizational network.



## 2.6 Structural capital



TAKE-10 is sensitive to the competitive market place for quality computer programming and systems development. Therefore, we have adopted a certification format for all new developers we hire to enhance their current knowledge base with the systems that we have already developed. This certification process is fluid in that each new developer is provided an opportunity to teach as well as learn. To clarify teaching is a required part of the certification process. This certification process is attached to an inspiration system that includes financial, personal interest and other rewards.

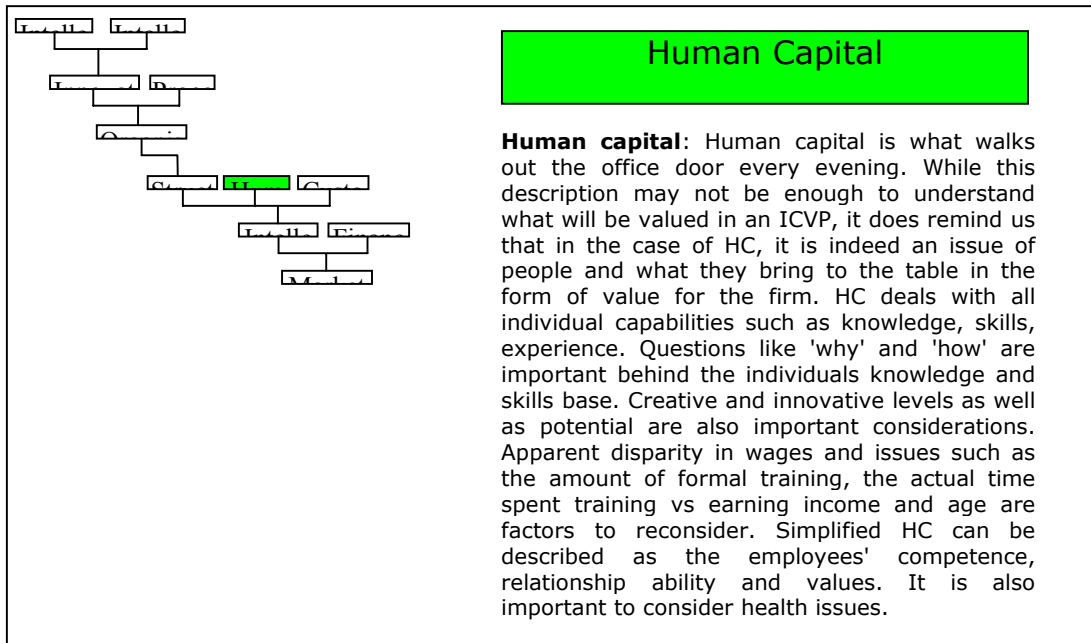
TAKE-10 as an organization possesses a knowledge worker focus. The question we ask is how do we capture knowledge? To do this, we have implemented a culture of monthly brainstorming parties. These parties are for the entire organization, and their purpose is to allow anyone and everyone in the organization an opportunity to share any knowledge or ideas that they have irregardless of whether these ideas are directly related to the company. These ideas will be recorded and stored, and any of these that may have value for the company will be considered. The goal is to turn these ideas into concrete value for TAKE-10. Inspiration for sharing these ideas again involves involvement by the originators as well as other incentives.

Within the publishing industry there is an inherent weakness to converting author capital into the publishing houses structural capital. It is unrealistic for us to expect any author who seeks to leave our organization to have educated other authors as a means for transferring any talent they possess. This vulnerability can best be strengthened through classical recruiting efforts

The publishing industry however, enjoys the benefits of transferring author capital to the company in work already completed. The key to maximizing this transference lie in the

negotiation of rights. The party-line within the publishing industry is to secure as many rights as possible at the expense of the author. TAKE-10 feels that by maintaining a co-creative line of negotiation with our authors we can inspire them to remain with us and produce superior content. This line of negotiation entails securing core rights such as story ownership while sharing perimeter rights with our authors. These perimeter rights such as for film are of usually great interest to them.

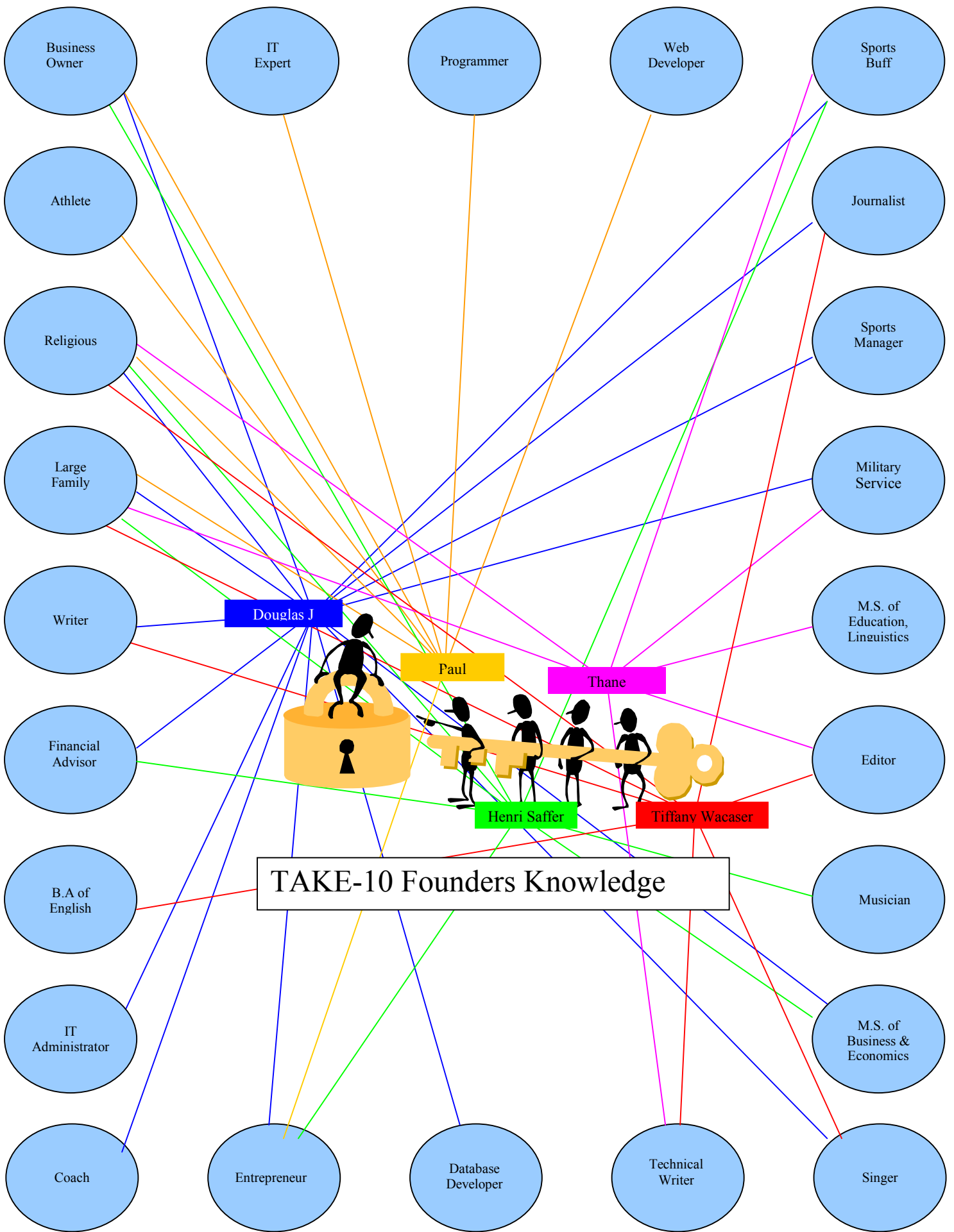
## 2.7 Human capital



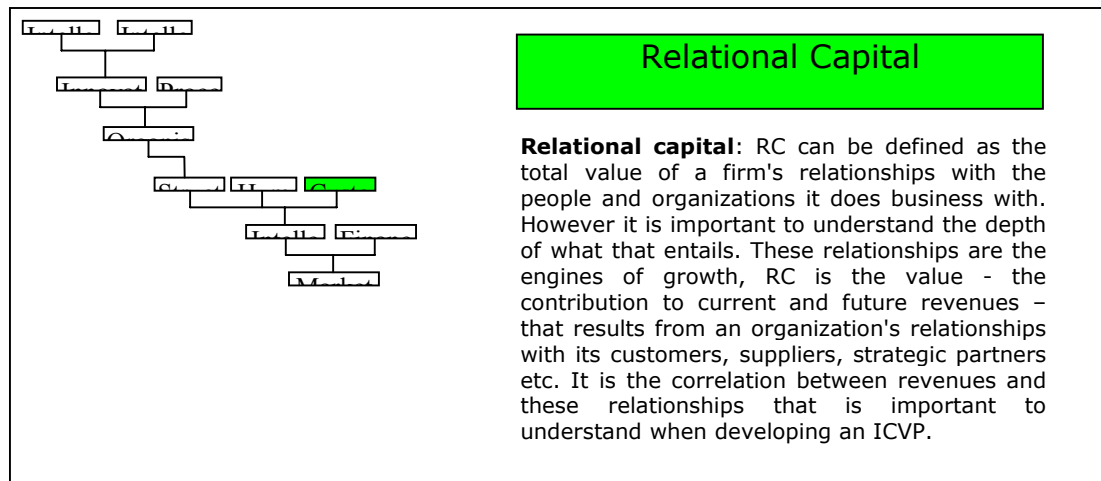
As a startup, TAKE-10 is motivated to succeed in implementing its concept. We feel it is vital for the survival and success of our company to think in terms of knowledge worker vs. payroll sensitive personnel plans. Therefore our initial team is a group that contains a multifaceted portfolio of talent.

Managing Director – Douglas J Ross  
Finance Director – Henri Saffer  
IT Director – Paul Strange  
Chief Editor – Tiffany Wacaser  
Editor – Thane Sinclair

To better understand this founding group, we have prepared a connective model that illustrates how we all fit together:



## 2.8 Relational capital



TAKE-10 understands the need to appreciate the relationships we have with our customers. Those relationships need to be based on our fulfilling their needs, therefore our segmentation strategy is simplified in first identifying reader, and identifying readers who are regular digital tool users. Readers tend to be educated and goal oriented. It is more likely to find avid readers among those who are either currently involved in academics or who have earned their degrees and are using them in the workplace. Retirees provide an interesting demographic, and may warrant a separate category for development. Within the next ten years this will most definitely be a key segment as the aging population will represent those who are IT savvy.

Digital professionals: Educated professionals who are daily users of computers, cell phones and or PDAs. This demographic often finds themselves in situations where they are waiting for short periods of 15 to 20 minutes for a phone call, appointment, sitting in a boring meeting and commuting to and from work.

Digital professionals are constantly on the move during their workday, going from meetings, to their office, to lunch appointments, to traveling to conventions, etc. The number of opportunities for such a person to be sitting 15 minutes here or there waiting is numerous. This down time provides an excellent opportunity for a short break or relaxed moment where the reader can enjoy a story without the issue of carrying it around or having the entire volume on hand (even digitally) to get lost in the story and waste too much time. The balance is perfect; just enough reading material to whet the appetite and not so much as to sink their performance on the job. For commuters, the serialized story provides a nice pick me up or an end of day relaxer after a hard work schedule.

Digital academics: College students who are daily users of computers, cell phones and or PDAs. This demographic often finds themselves with short breaks between classes, lunching with classmates, and applying digital technology to enhance their social network.

Digital academics are also hounded by tough class schedules trying to juggle several subjects at once. The added pressure of a suddenly adult social life makes enjoying a nice story on a lazy Saturday afternoon even more limiting. The serialized story helps satisfy the need for leisure reading in bite size portions. The community building aspect of TAKE-10 is a welcome opportunity to the under 30 academic set who have spent much of their young lives chatting, message boarding and blogging on the Internet.

Zap Generation: Grade school and high school students who are firmly entrenched in digital society. This demographic often finds themselves often finds themselves with short breaks between classes, lunching with classmates, and applying digital technology to enhance their social network. They are also most inclined to spend the bulk of their disposable time engaged in digital entertainment activities such as network gaming, chatting, experiencing video and audio downloads etc.

The Zap Generation have literally grown up with digital technology in their hands, and would rather SMS/MMS friends or chat with them than actually talk to them via the same devices. The Internet and chat society is second nature to the zap generation readers, and they would rather read anything and everything from a blogsite than actually open a book or page through the newspaper. The entertainment value of an episodal or cliffhanger type story in their environment appeals to them due to the small amount of text being processed. The key is that it happens now. The community building function is appealing if not for the chance to influence the story, for the classic reason behind the fact that teenagers tend to enjoy sharing their opinions on matters.

Overflow: Trade or non degreed employees, retirees and other who regularly use computers, cell phones and or PDAs. This demographic is diverse enough to encompass those who participate in similar activities as mentioned above, without a clear socio-behavioral consensus.

Overflow as a group is too difficult to quantify, and thus any specific marketing efforts towards this end will not be pursued. The only exception would be in the case of retirees from academically demanding professional careers. Readership in this demographic is interesting only in that marketing efforts focused on the others will tend to bleed into this area somewhat and attract a small percentage.

TAKE-10's relationships with our authors (suppliers) is vital to our success as a going firm. Without these creatives there is no product. The industry standards for author-publishing house relationships tend to focus on keeping a few stars happy while the rest are forced to negotiate rights that favor the publishing houses. This is not the way to do business. Building relationships of trust with our authors means treating them with respect and offering them a creative environment from which to establish their careers.

Our lack of legacy infrastructure and our reliance on the dynamics of the co-creative process with our customers allows us to offer our authors unique benefits. We can not



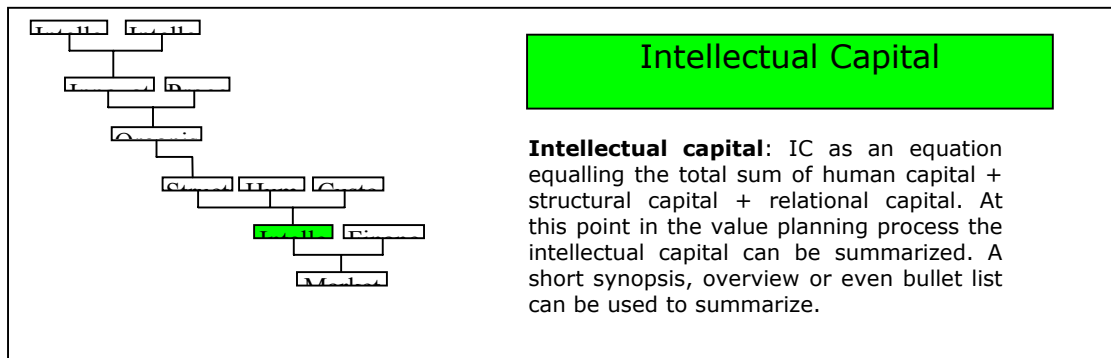
only offer royalty agreements far above industry standards, but also provide inspiration possibilities through concepts such as live feed-back, spin offs, wish-listing, etc. This relationship paradigm clearly separates us from the competition.

TAKE-10 during the launch process will be actively engaged in seeking relationships with strategic partners. We are especially interested in cell phone producers, mobile phone operators, etc. To date TAKE-10 currently has only one relationship with a strategic partner that relationship is with Lulu publishing which will provide the JIT solution for our customers desiring pulp versions of our stories. Our relationship with Lulu is beneficial to both parts ad Lulus focus is on the logistical solution whereas TAKE-10's focus is on creation where we meet is in distribution of certain products.

TAKE-10 has an interest post-launch to secure strategic agreements with public school districts as well as hospitals where our products can serve a pedagogical purpose to encourage reading among youth, aiding teachers in learning and stress relief for patients and their families with stimulating entertainment.

TAKE-10 has realized the potential value of product placements in films which is why we are intent on providing opportunities for prospective corporate clients to provide free stories to our customers that have been written by our authors as a marketing communications activity.

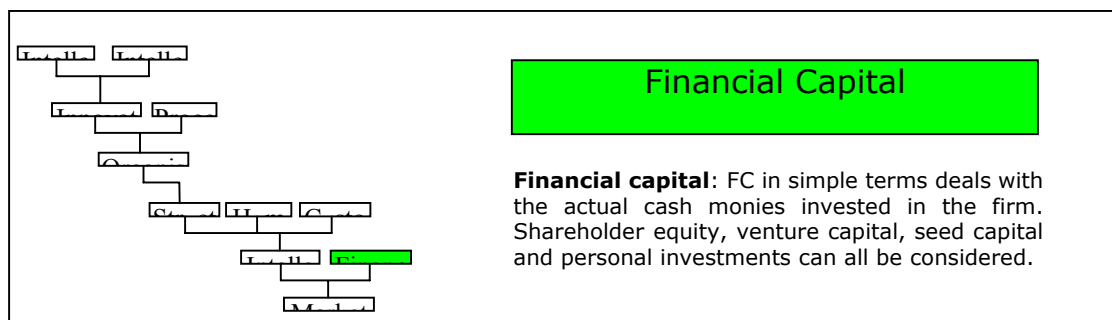
## 2.9 Intellectual capital



- Trademarking pending
- Copyright stewards
- High ethical standards
- Serialization process
- Piracy prevention
- Co-creative value
- Community focused marketing
- Community building
- Author dynamics – on the fly editing, live feed-back, etc.

- Product placement channels
- Complete lead time elimination (JIT)
- Financial and creative inspiration for authors
- Digital-first culture – environmentally friendly
- Intent on certifications applicable to organization
- Dashboard systems
- No access network (piracy prevention asset)
- A-T-A-R model for marketing
- Point of purchase control
- SOP database
- What works best policy on software
- Flexible and flat organization
- Production, distribution and pricing vs. e-book stores
- Digital communities founded on stories
- Pedagogical certification process for various personnel divisions
- Knowledge worker focus – brainstorming parties
- Co-creative inspiration of rights negotiation
- Human capital
- Customers: digital professionals, academics, zap gen, corporate product placers
- Suppliers: authors
- Strat. partners: JIT publisher (LuLu), seeking cell phone prod/serv. provider
- Publics: seeking school districts and hospitals

## 2.10 Financial capital

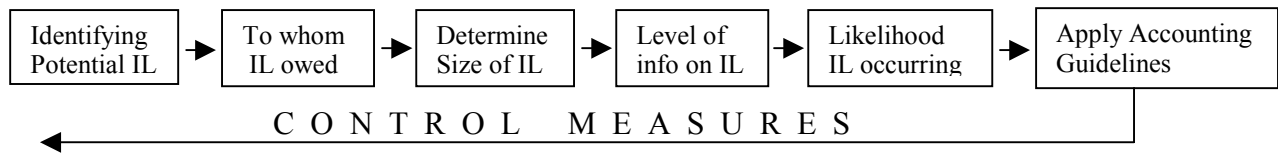


TAKE-10 has decided initially to develop and launch our business on a shoestring budget of 10 000 USD from personal investments. We are prepared to add to this capital if the need arises. All founding partners have agreed to forego any compensation for their involvement in the firm prior to revenue generation.

### 3. Intellectual liabilities (Pests)

In agriculture, once the seeds take root and trees begin to flourish, pests of all kinds are drawn to them. The savvy farmer prepares for these pests even prior to planting. Over the course of time, the firm acquires or creates intellectual assets, but this is countered by the acquisition and creation of liabilities (pests). It would be foolish to assume that a farmer could just plant a few saplings in his fields and expect a lush harvest in spite of the risks such as snails, caterpillars or leaf rot that could devastate his entire orchard. The same can be said for firms which fail to prepare to counter the intellectual liabilities that develop or could develop, which serve to harm or destroy the business.

In order to prepare or plan for potential Intellectual liabilities (IL), the use of an Assessment tool is recommended. This tool can be used to identify IL as well as assess the magnitude of IL for accounting purposes. The tool used here is called the PHIC model. PHIC stands for (Personal, Human, Informational and Configuration). These are issues are used to help identify where potential IL might occur. The 7-step assessment process looks like this:



#### 3.1 Step 1: Identifying Potential IL

Fill out this worksheet by checking those areas within the classification scheme that are applicable to the firm. Note that when considering potential IL vs. existing IL, look at it from a perspective of itemizing vulnerabilities today.

Potential IL issues	Internal IL	External IL
<b>P</b> rocess	Weak strategic planning Process <input type="checkbox"/>	Poor product/service quality <input checked="" type="checkbox"/>
	Inadequate R&D <input type="checkbox"/>	Low commitment/trust of <input type="checkbox"/>
	Antiquated manufacturing <input type="checkbox"/>	suppliers/distribution system <input type="checkbox"/>
	process <input type="checkbox"/>	High turnover of customers, <input checked="" type="checkbox"/>
	Poor new product development <input type="checkbox"/>	suppliers and distribution <input type="checkbox"/>
	system <input type="checkbox"/>	Potential litigation of gov't <input type="checkbox"/>
	not meeting regulations/laws <input type="checkbox"/>	Other (explain) <input type="checkbox"/>
	Other (explain) <input type="checkbox"/>	
<b>H</b> uman	High employee turnover <input type="checkbox"/>	Bad word-of-mouth among <input checked="" type="checkbox"/>
	Discrimination among <input type="checkbox"/>	among customers <input type="checkbox"/>
	employees <input type="checkbox"/>	Potential product liability <input type="checkbox"/>
	Inadequate training/development <input type="checkbox"/>	suits from customers harmed <input type="checkbox"/>
	Inexperienced top management <input type="checkbox"/>	team <input type="checkbox"/>
	Law based loyalty/awareness <input type="checkbox"/>	among growth market <input type="checkbox"/>
	segment <input type="checkbox"/>	Other (explain) <input type="checkbox"/>
	Other (explain) <input type="checkbox"/>	
<b>I</b> nformational	Lack of adequate information <input type="checkbox"/>	Negative brand/product <input type="checkbox"/>
	infrastructure <input type="checkbox"/>	information (recall) <input type="checkbox"/>
	Inability to turn data into <input type="checkbox"/>	Decreasing corporate <input type="checkbox"/>
	information (lack of analysis) <input type="checkbox"/>	reputation <input type="checkbox"/>
		Successful litigation against <input type="checkbox"/>
	company <input type="checkbox"/>	Unfavorable stock analyst <input type="checkbox"/>
	report on company/industry <input type="checkbox"/>	Other (explain) <input type="checkbox"/>
	Other (explain) <input type="checkbox"/>	
<b>C</b> onfiguration	Organizational structure (lack <input type="checkbox"/>	Inadequate distribution <input type="checkbox"/>
	of flexibility) <input type="checkbox"/>	channels to achieve growth <input type="checkbox"/>
	Lack of patents/copyrights <input type="checkbox"/>	Lack of strategic alliances to <input checked="" type="checkbox"/>
	Inadequate geographic location <input type="checkbox"/>	leverage resource base <input type="checkbox"/>
	of plants, warehouses, etc <input type="checkbox"/>	Inefficient location of <input type="checkbox"/>
	production facilities <input type="checkbox"/>	
	Other (explain) <input type="checkbox"/>	Other (explain) <input type="checkbox"/>

### 3.2 Step 2: To whom is IL owed?

Here the firm defines where the potential IL is directed. Who is owed the cost of the IL? That cost could be owed to consumers who have purchased substandard product or service, government agencies might be the debtors for regulations violations in production or illegal business practices. The key is to understand who is affected due to the liabilities accrued. All of the checked potential liabilities from the worksheet including any “others” that may apply are to be listed here accompanied with debtor identities.

1. **Poor product/service quality:** TAKE-10 is vulnerable in the same vein as traditional publishing companies in finding good to great authors. Contracting a poor author creates a liability where the cost is owed to the readers. Those who have subscribed to a poorly written story lose on their investment, and this in turn creates bad-will which would most likely get spread around through word-of-mouth thus effecting sales.
2. **High turnover of customer:** TAKE-10 is vulnerable to turnover issues that could occur for several reasons. Competitors entering our niche could sway customers with alternative offers, competing forces for entertainment dollar and time are always present, and of course any negative experiences by customers could make it easy for them to discontinue the service. The cost of the liability of the high turnover is owed to our authors who in trust contracted with us to expose their creative talent to the market.
3. **Bad word-of-mouth among customers:** As mentioned above, we are vulnerable to bad-will issues relating to potential bad experiences with our company. Word-of-mouth cuts both ways, and what can be a great vehicle for increasing our customer base can also act to curb and even decrease it. This liability cost is owed to existing as well as potential new customers. It is also owed to our authors who may feel cheated at having contracted with us vs. a traditional publishing house.
4. **Lack of strategic alliances to leverage resource base:** As a startup we are extremely vulnerable to overextension of our existing resources. Unlike an established giant, we cannot “do it all”. Strategic alliances are a valuable key in taking advantage of economies of scale normally not available to us. Without sufficient alliances to create a balance in the work process of the business, growth is limited. The cost of this liability is owed again to both our authors as well as our customers. The cost is also owed to our own personnel who suffer the consequences of overextension.

### 3.3 Step 3: Determine the size of IL

At this point the firm has to begin thinking in terms of measurement. Some IL issues are more easily quantified than others, and can even translate into money values. This from an accounting perspective eases things. What this measurement should contain is best served with a discussion between management, auditors and accounting personnel. Many things need to be considered in this determinative exercise. Are these measures consistent? Can they be modified if needed? Do they satisfy the internal and external

debtors (those owed)? Do they reflect changes in the organization (such as an ever in/decreasing turnover ratio over time)? Are they implemented correctly to determine if they are effective in representing the true picture of the firms condition? Consistency is the key here. These measures should be tested, monitored and audited by 3<sup>rd</sup> parties. They should also be modified as the firm gains access to more knowledge surrounding the liabilities in question. All of the defined liabilities and their cost owed should be listed below together with their defined size.

- 1. Poor product/service quality:** Using Book Industry Study Group standards as a litmus for determining the cost of a poor story, the average sales of a book in the US market where we will launch our services is 11800 copies per title. Our customer participation rate is based on a two title per year average considering that title runs (length of the story) will be on average 40 days. This includes two updates per diem at 5 pages of manuscript per update. Each update has an average sales value of \$0.125. Tolerance level has been determined at 2 updates prior to cancellation due to poor quality. Cost of subscription is \$10 per story.

Cost:  $11\ 800 \times \$10 = \$118\ 000 + \$118\ 000 - (11\ 800 \times (\$0.125 \times 2)) = \$233\ 050$

One poor quality story has a direct IL cost of \$233 050

This calculation considers that readers put off by the poor standard of one story will not likely subscribe to a second thus the loss of the two title per year average. It is possible that a subscriber could very well take a risk on the poor story being a one time event and subscribe again, and it is also likely that a subscriber could very well have a positive experience with their first title only to suffer a poor experience with the following one. We have however taken a worst case scenario approach to calculating the IL cost. We feel that a conservative outlook helps us to avoid nasty surprises, while helping us focus on the best possible resolutions to this issue.

- 2. High turnover of customer:** Bains & Company research shows that the turnover average for e-commerce companies is 20% - 30%. We are introducing an adaptation of an establish industry which we feel is superior in catering to the fictional needs of digital readers. However, because we are conservative in our outlook to potential liabilities, we have based on e-book vendors as well as film and CD retailers determined that a 30% turnover ratio is not unrealistic. This translates to the following:

1000 customers X .3 = 300 customers lost to turnover issues. Maintaining the two title per year average that means a maximum loss of 600 subscriptions or \$6 000 per 1000 customers per annum.

A five year perspective for TAKE-10:

Year 1:  $50\ 979 \text{ subscriptions} / 2 = 25\ 490 \times .30 = 7\ 647 \text{ lost subscribers}$

Year 2: 191 171 subscriptions / 2 = 95 586 X .30 = 28 676 lost subscribers  
Year 3: 525 721 subscriptions / 2 = 262 861 X .30 = 78 858 lost subscribers  
Year 4: 920 012 subscriptions / 2 = 460 006 X .30 = 230 003 lost subscribers  
Year 5: 1 380 017 subscriptions / 2 = 690 009 X .30 = 207 003 lost subscribers

- 3. Bad word-of-mouth among customers:** Although this is a very real IL, quantifying potential is extremely difficult. Recently the concept of Word-of-mouth (WOM) has generated enough interest to warrant an organization, Word of Mouth Marketing Association (WOMMA). To quantify this liability, we are relying on research done by Keller and Berry in their book “*The Influentials*”. Their research has shown that 42% of the American public are very likely to test a product or service based on the recommendation of a trusted individual. Assuming that our subscriber base represents a cross section of the American public, we then assume that bad WOM could put us at risk of losing up to 19% of our subscribers based on a collective average of four types of WOM. Of course bad WOM varies in degree. General complaints on service, or personal tastes in what dictates a great story allow for flexibility in just how many subscribers are at risk. The 19% represents the worst case scenario.

1000 customers X .19 = 190 customers lost to bad WOM. Maintaining the two title per year average that means a maximum loss of 380 subscriptions or \$3 800 per 1000 customers per annum

A five year perspective for TAKE-10:

Year 1: 25 490 X .19 = 4 843 lost subscribers  
Year 2: 95 586 X .19 = 18 161 lost subscribers  
Year 3: 262 861 X .19 = 49 944 lost subscribers  
Year 4: 460 006 X .19 = 87 401 lost subscribers  
Year 5: 690 009 X .19 = 131 102 lost subscribers

- 4. Lack of strategic alliances to leverage resource base:** This liability is not one that we can quantify today. Unfortunately this is one of those wait and see issues. TAKE-10 due to its chosen business structure seeks to establish strategic alliances, and this means finding the best fit for what we are doing. We currently have one vital alliance that will be responsible for our pulp publishing and pulp distribution. We can only recognize the potential for this to be a liability in the future if we are not able to “connect” with resources that would enhance our value.

### 3.4 Step 4: Level of information

This step is rather simple in that it involves taking the above IL issues and defining the amount of information the firm has in regards to these issues, their occurrence and their size. Issues that deal with accounts payable, employee or customer turnover are often issues that the firm has perfect information concerning, while issues such as

environmental cleanup, new technology, product tampering, etc are issues where the firm has imperfect knowledge concerning. All the IL issues should be listed below including the degree of knowledge regarding each of them.

1. **Poor product/service quality:** Given that TAKE-10 is a startup we are depending on industry data. The validity of this data will determine how closely “perfect” it is in determining the potential cost factors calculated above. We would have to categorize this and all subsequent IL issues listed in regards to our degree of knowledge as being imperfect.
2. **High turnover of customer:** see IL issue 1.
3. **Bad word-of-mouth among customers:** see IL issue 1.
4. **Lack of strategic alliances to leverage resource base:** While we have not relied on any industry or research data, the consensus is the same. Our degree of knowledge regarding this issue is imperfect at this present time.

### 3.5 Step 5: Likelihood of occurring

Here the key is to answer two questions. The first is what is the likelihood of the particular IL occurring, and the second is how does time effect this likelihood? For example: There is a 100% likelihood that you will die. What is the likelihood however of you dying within the next 12 months? It is much smaller than the likelihood of you dying within the next 30 years. What time frame does the firm wish to focus on? The IL issues should be listed below together with initial likelihood and the same over time. Remember to define time frame.

1. **Poor product/service quality:** We are looking at a 5 year time frame. Slush Pile dependency is the most inefficient method that will be used, and industry standards rate a .25% to .5% success in finding a quality manuscript.

Our second method is to actively solicit manuscripts from those whose writing meets high literary standards, yet who have yet to be published by a traditional house. The Internet allows for this harvesting activity. For publishing houses that currently have adopted this method, they have achieved a quality manuscript frequency rate of 3%.

Allowing unsolicited manuscripts to grow the slush pile and soliciting manuscripts through Internet harvesting activities will allow us to secure a quality manuscript rate of 1.25% total.

Since there is no shortage of manuscript material floating around, that translates to finding 1 to 2 quality stories for every hundred manuscripts. Our current resources



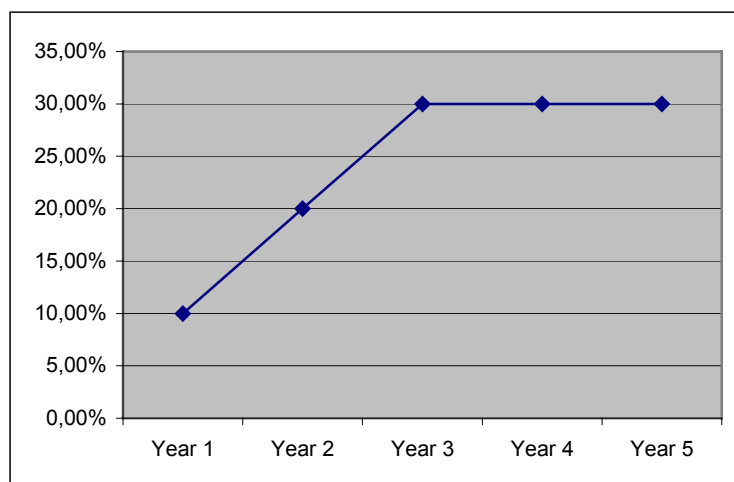
are capable of reviewing 400 manuscripts per month. This provides us a possible minimum of 5 quality stories per month. We are intent on securing contracts with 6 authors in our first year, so this rate as restricted as it is still can provide us up to 60 opportunities during the first fiscal year to sign 6 authors. Since we are initially interested in un-published authors (un-published in book form), we foresee few obstacles in attracting these candidates to our firm. 1 out of 100 could be considered a project in the risk zone of poor quality. While the stories themselves might not be interesting to our key focus group, the quality of the prose will most likely be high given our editing capital within the firm.

The author society growth over the span of five years will look like this:

Year 1: 6 authors → 6 titles → likelihood of bad quality is 0.06%  
 Year 2: 18 authors → 12 titles → likelihood of bad quality is 0.12%  
 Year 3: 54 authors → 34 titles → likelihood of bad quality is 0.34%  
 Year 4: 162 authors → 59 titles → likelihood of bad quality is 0.59%  
 Year 5: 486 authors → 88 titles → likelihood of bad quality is 0.88%

Our potential poor product liability is not significantly effected even during the fifth year.

- 2. High turnover of customer:** As already illustrated above, we are relying on industry data that puts our potential customer turnover at 30%. The likelihood of this occurring initially is probably not as high as later on. We are confident that the unique distribution and co-creative process will possess enough novelty to limit turnover. Without any specific activity to combat customer turnover a five year perspective could look like this:



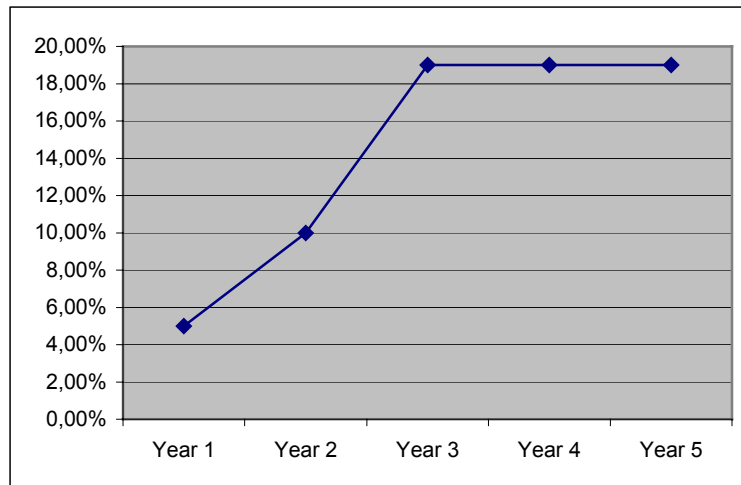
Once the novelty begins to wear off and other competitors jockey into the same niche, the industry levels of this liability will be reach. Again this is without any activity to combat customer turnover, only focusing on acquisition of new ones.

- 3. Bad word-of-mouth among customers:** As already illustrated above, we are relying on a collective average of WOM types which translates to 19% who would be very likely to follow the advice in a WOM event. A five year perspective looks like this:

With the extremely low risk of producing a poorly written story, the factors of bad WOM must lie elsewhere such as customer support issues, poor marketing activities, unforeseen scandals, image problems, etc.

Since our product is subject to artistic opinion, the issue of quality gain is subdued. Since the dominating WOM marketing activity is based on encouraging or discouraging use of a product/service based on its characteristics, the other possible factors mentioned above serve a secondary role. Given that, the likelihood of bad WOM resulting in such a significant loss of customers is lessened considerably.

We feel that as in the case with turnover, that sans a specific activity to combat bad WOM, that the initial novelty of what we offer will serve to lessen the effect and over time (five years), this liability will reach the collective average of 19%



- 4. Lack of strategic alliances to leverage resource base:** The likelihood that TAKE-10 will fail to secure strategic alliances over the next five years is rather small. The biggest issue we feel is that the onus is on us as a firm to be willing to work with other firms to achieve our goals. The entire nature of the business we are in demands that we value network building. Our authors are in a sense independent contractors. Our alliance with a JIT pulp publisher at this early stage shows our willingness to cooperate.

We are aware of several other areas where strategic partners will be needed. While the likelihood is rather small of failure to secure partners to leverage

resources, there is still a possibility given that we are a startup. Because of the wait and see nature of this liability, TAKE-10 cannot effectively judge the actual likelihood over a five year period of this happening.

### **3.6 Step 6: Apply Accounting Principles**

This step is a reminder that the measures created to assess size and likelihood of IL need to coincide with acceptable accounting principles such as found in GAAP guidelines. If necessary, calculations to prepare IL for inclusion in accounting reports can be done here. Otherwise, remember that when preparing any reports to keep in mind the need to apply said guidelines.

### **3.7 Step 7: Counter Measures**

This is an opportunity to present any activities (measures) that will be taken to counter the IL issues that have been presented. This is a opportunity to limit the effect IL has on the value of the firm. Present any such activities here.

- 1. Poor product/service quality:** In spite of the rigorous editing process, there is always a chance that the story being promoted is a dog, and therefore, TAKE-10 will work from an independent proofreading network. Academics, professionals already available in our network will be paid to provide honest feedback concerning manuscripts that have made the initial culling process. The failsafe guards against myopia that can occur within among editors inundated with 100s of manuscripts. Each manuscript will undergo the review of no less than four readers. They will be a varied group with no more than one with direct knowledge correlations to the specific manuscript being read. For example:

If Mary submits a science fiction story dealing with nuclear winter, one of our readers will most likely be a physicist, another a science fiction buff, a proofreading professional and an academic in a far removed unrelated field. If all four return an adjudication with similar comments good or bad, the likelihood that those comments are valid is very high.

This system serves to drop the already small likelihood even further. To the point that it should not even be an issue.

- 2. High turnover of customer:** Well relying on Bains & Company research not only shows us a possible 30% turnover rate for e-commerce companies, they also show that the rate of returning customers when marketing activities focus on them is 20% to 40% vs. 5% to 20% for attracting new customers.

TAKE-10 is determined to limit the turnover levels, and therefore will work towards bringing lost customers “back to the fold” so to speak. We will direct our

efforts around a concept of resolving concerns. The aim is to identify why those customers left, and resolve those concerns through offerings that are valid. If they felt the stories were not entertaining enough, than invite them to be paid as a “buff” in our proofreading network. If they felt that they were treated poorly by customer support, than we allow them a chance to clear the air and than we offer them a “sweet” deal to get them back to reading our stories.

By focusing on those we have lost, we can succeed in getting 20% to 40% to return. Applying 30% (down the middle), that means that:

$1000 \text{ customers} \times .30 = 300 \text{ lost} \rightarrow 300 \text{ lost customers} \times .30 = 90 \text{ returnees.}$

$1000 - 300 = 700 + 90 = 790 \quad 1 - 79/100 = .21 \text{ or } 21\%.$

- 3. Bad word-of-mouth among customers:** In our experience in other businesses, if the product/service possesses enough quality, than the most common complaint surrounding said product deals with customer service. In order to limit the bad-will created by TAKE-10, it is paramount that we educate our customer service in sensitivity training. Each CS rep will have to be certified by our firm before they are able to engage customers.

We will provide relaxing therapeutic perks to our staff in order to maintain a low stress level during the working day. If a CS rep shows signs of stress unrelated to his/her work assignment, we will seek to resolve this, and if we are not able to, we will provide temporary assignments backing up reps. Our customers need to always be met with sincerity and a desire to help them, in spite of how they may act themselves.

One area that we have noticed is the dogmatic way in which CS reps from many companies stick to their cue cards. TAKE-10 while wanting our CS reps to rely on prepared manuscripts for efficiency sake, will be empowered to make quick decisions to reimburse, offer perks, or deal with anything to a certain level. If the customer in question has an issue requiring a decision beyond CS reps authority to give, CS management will handle it immediately. When on the floor, that is priority number one. The key is that the customer gets a quick solution. That is what they want, and if that costs us a free story. All calls relayed to the CS management will be discussed at the end of day, decisions on how to handle these in the future made and a new SOP added to CS reps list of possible allowable actions. By quickly empowering the CS reps, customers are left feeling they are getting the run-around.

- 4. Lack of strategic alliances to leverage resource base:** We don't any counter measures to deal with the eventuality of struggling to secure strategic partners to build our alliance.

## **4. Core competencies (The Fruit)**

When the trees have been nurtured, farmers begin to examine the fruit that has begun to grow. Sometimes the fruit is bad or of poor quality. This can lead to farmers prematurely pruning these trees or adapting their soil in hopes that the next season will bring a better harvest. Often if the tree is healthy, farmers will graft onto it, the branch of a tree that produces excellent fruit. If too much fruit is growing culling is done to make sure the truly valuable fruit remains. The key to a good harvest lie in the quality of the fruit, and the quality of the fruit is strongly influenced by its core. In the core the building blocks of future trees, fruit and harvests exist.

The firm like the fruit also contains a core containing building blocks for future sustainability. While buildings, computer networks, etc support the company in getting things done, the value lie in the optimal use of unique skills or core competencies. Most companies will have anywhere from 2 to 10 core competencies depending on size, scope and sector. This is not a general list of individual talents possessed by staff, but processes through which things get done. Examples such as a commercial diving company that has a unique water proof adhesive application system for plugging holes in man-made ponds. That competency attracts golf courses to use their service because the competition still relies on draining the entire pond or lake to locate leaks.

List below the core competencies of the firm with details regarding each.

### **4.1 Literary & Editing Skills**

TAKE-10 has among its founding five three with extensive writing, journalistic and editing skills. Two have experience in technical writing both as writers and editors. One has experience working in publishing. All have been published. It is one thing to enjoy quality literature and another to possess the ability to write the same. This core competency is vital to our business. Without it, we are left with little ability to truly sort out the material we receive to find the best stories for our readers.

### **4.2 Digital Distribution**

In order for TAKE-10 to successfully realize our vision, we have secured among our founding five top of the line programming and web development skills. We have purposely sought after talent that has been through the code wars over the past three decades. While younger talent may be up to speed on certain “new” ways of doing things, we understand the value of veteran programmers whose deep understanding of developing digital distribution tools incorporates what has been done with what is being done now.

Our IT Director has been programming since the early 1980’s, and has run gamut of languages, codes and development. He is also expert in all aspects of program-based website development. His understanding of these technologies allows his experience to provide, prepare and produce straightforward solutions.

All new developers coming into TAKE-10 will be required to become certified using this knowledge base, as well as adding to it through teaching initiatives. Without a dynamic distribution system, the ability to take advantage of new media and format usage habits is limited.

### **4.3 Sentient Promotion**

Three of our founding five have previously run their own businesses, and in every case their success was secured through a sentient understanding of how to secure customers. What to focus on? Where opportunities could be found? How to leverage these opportunities into more opportunities? In a world drowning in attention getting marketing mantra, we at TAKE-10 are more interested in actually finding customers, creating relationships with them and providing quality stories for their enjoyment. Sentience isn't about glitz and glamour. It is about understanding the landscape well enough along with what we offer, to know where the customers are, and how to inspire them to subscribe to our stories.

This understanding will lead TAKE-10 in focused promotional efforts that preach to the choir on a story by story basis.

### **4.4 Co-Creative Community Building**

TAKE-10 has the unique advantage of having experience on all sides of digital community building ranging from development, maintenance, administration as well as of course participation. The experiences among the founding five in this arena provide synergetic capabilities that will be tied into the stories we provide.

## **5. Value assessment (The Harvest)**

As the season begins to wind down, the fruits of the farmers labors have literally ripened and are ready to be plucked. It is time to realize the value of all the planning, sowing, watering, pest control and culling. This value among orchard farmers is the ripened fruit of the harvest.

Knowledge balance nourishment has provided enough stimulus to the root capital of the firm. Pest threats and counter or control measures have been identified and undertaken, and core competencies have been identified and are in place. Now it is time to put it all together for an IC value assessment. In a word, it is time for the harvest.

Before valuing the core competencies or IC of the firm however, a considerable bit of financial data is needed. What will your products cost to produce? How much will you charge for these products? What other costs will the firm incur during the course of business? Once these types of questions are answered, the value of core competencies can be assessed which will lead to understanding the net IC value of the firm.

Illustrate below (using a five year time frame where applicable) the following budgets or financial projections:

- Start-up or Capital requirements
- Start-up funding
- Market Analysis
- Sales Forecast
- Personnel Plan
- Profit and Loss
- Cash Flow
- Balance Statement

### **5.1 Start-up or Capital requirements**

This step is rather simple. Define what the firm needs at the start and determine how much it will cost to secure these needs. Fill out the spreadsheet below adding those requirements specific to the firm.

TAKE-10 Start-up requirements are not extensive. Since we have decided to apply the “shoestring” model we will not be needing any considerable initial investment.

### **TAKE-10 Start-up Requirements**

#### Start-up Expenses

Legal	\$2 000
Stationery etc.	\$100
Insurance	\$200
Rent	\$300
Website Development	\$3 500
Hosting (Rent)	\$400
Merchant Account Services	\$500
Domain Registration	\$50
Other	\$500
Total Start-up Expenses	\$7 550

#### Start-up Assets

Cash Required	\$2 000
Start-up Inventory	\$50
Other Current Assets	\$450
Long-term Assets	\$0
Total Assets	\$2 450

Total Requirements	\$10 000
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## 5.2 Start-up Funding

This step requires explanation of how the start-up requirements will be satisfied. What kind of financing if any will be established? Fill out the spreadsheet below adding funding resources specific to the firm.

TAKE-10's Funding needs (NOTE the shoestring budget):

Start-up Funding	
Start-up Expenses to Fund	\$7 550
Start-up Assets to Fund	\$2 450
Total Funding Required	\$10 000

Assets	
Non-cash Assets from Start-up	\$500
Cash Requirements from Start-up	\$2 000
Additional Cash Raised	\$0
Cash Balance on Starting Date	\$2 000
Total Assets	\$2 500

### Liabilities and Capital

Liabilities	
Current Borrowing	\$0
Long-term Liabilities	\$0
Accounts Payable (Outstanding Bills)	\$0
Other Current Liabilities (interest-free)	\$0
Total Liabilities	\$0

### Capital

Planned Investment	
Douglas J Ross	\$5 000
Henri Saffer	\$2 500
Paul Strange	\$2 500
Additional Investment Requirement	\$0
Total Planned Investment	\$10 000

Loss at Start-up (Start-up Expenses)	(\$7 550)
Total Capital	\$2 450

Total Capital and Liabilities                      \$2 450

Total Funding    \$10 000

### 5.3 Market Analysis

This step deals with existing or potential customers. Who is the firm selling to. Since this is about projections, potential growth figures are also needed. Fill out the spreadsheet below adding those projections specific to the firm.

TAKE-10's US Market Analysis with growth projections:

#### Market Analysis

		2006	2007	2008	2009	2010	
Potential Customers	Growth						CAGR
Digital Professionals	10,00%	30 000 000	33 000 000	36 300 000	39 930 000	43 923 000	10,00%
Digital Academics	10,00%	15 000 000	16 500 000	18 150 000	19 965 000	21 961 500	10,00%
Digital Youth	10,00%	32 000 000	35 200 000	38 720 000	42 592 000	46 851 200	10,00%
Overflow	10,00%	25 000 000	27 500 000	30 250 000	33 275 000	36 602 500	10,00%
Total	10,00%	102 000 000	112 200 000	123 420 000	135 762 000	149 338 200	10,00%

## 5.4 Sales Forecast

These are key financial projections, and their weight is vital in determining future potential value in the firm. Here you need to define what the firm is selling, how many, at what price as well as the cost of each item being sold and sales cost. Place below a spreadsheet or other diagram illustrating these projections.

TAKE-10's Sales Forecast:

### Sales Forecast

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
<b>Unit Sales</b>					
Adapted Cut subscriptions	18 088	74 000	154 000	223 000	268 000
Vanity Subscriptions	338	1 400	2 900	4 100	5 000
Authors Cut units	2 702	11 000	23 000	33 000	40 000
Pulp Cut units	394	5 700	24 000	49 000	71 000
Branding subscriptions	5	12	25	37	42
<b>Total Unit Sales</b>	<b>21 527</b>	<b>92 112</b>	<b>203 925</b>	<b>309 137</b>	<b>384 042</b>

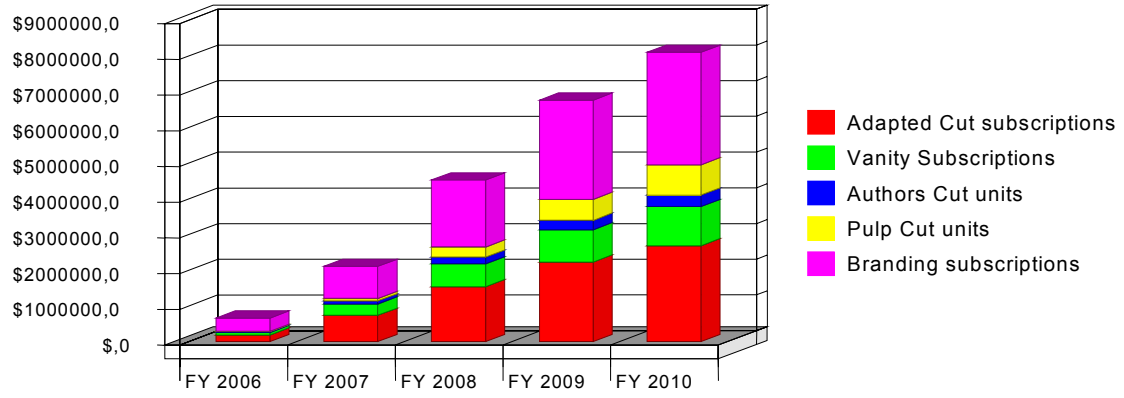
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Unit Prices</b>					
Adapted Cut subscriptions	\$10,00	\$10,00	\$10,00	\$10,00	\$10,00
Vanity Subscriptions	\$220,00	\$220,00	\$220,00	\$220,00	\$220,00
Authors Cut units	\$8,00	\$8,00	\$8,00	\$8,00	\$8,00
Pulp Cut units	\$12,00	\$12,00	\$12,00	\$12,00	\$12,00
Branding subscriptions	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00	\$75 000,00

<b>Sales</b>					
Adapted Cut subscriptions	\$180 882	\$740 000	\$1 540 000	\$2 230 000	\$2 680 000
Vanity Subscriptions	\$74 308	\$308 000	\$638 000	\$902 000	\$1 100 000
Authors Cut units	\$21 617	\$88 000	\$184 000	\$264 000	\$320 000
Pulp Cut units	\$4 729	\$68 400	\$288 000	\$588 000	\$852 000
Branding subscriptions	\$375 000	\$900 000	\$1 875 000	\$2 775 000	\$3 150 000
<b>Total Sales</b>	<b>\$656 535</b>	<b>\$2 104 400</b>	<b>\$4 525 000</b>	<b>\$6 759 000</b>	<b>\$8 102 000</b>

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Direct Unit Costs</b>					
Adapted Cut subscriptions	\$4,00	\$4,00	\$4,00	\$4,00	\$4,00
Vanity Subscriptions	\$0,00	\$0,00	\$0,00	\$0,00	\$0,00
Authors Cut units	\$3,20	\$3,20	\$3,20	\$3,20	\$3,20
Pulp Cut units	\$4,80	\$4,80	\$4,80	\$4,80	\$4,80
Branding subscriptions	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00	\$37 500,00

<b>Direct Cost of Sales</b>					
Adapted Cut subscriptions	\$72 353	\$296 000	\$616 000	\$892 000	\$1 072 000
Vanity Subscriptions	\$0	\$0	\$0	\$0	\$0
Authors Cut units	\$8 647	\$35 200	\$73 600	\$105 600	\$128 000
Pulp Cut units	\$1 891	\$27 360	\$115 200	\$235 200	\$340 800
Branding subscriptions	\$187 500	\$450 000	\$937 500	\$1 387 500	\$1 575 000
<b>Subtotal Direct Cost of Sales</b>	<b>\$270 391</b>	<b>\$808 560</b>	<b>\$1 742 300</b>	<b>\$2 620 300</b>	<b>\$3 115 800</b>

## Sales by Year



## 5.5 Personnel

These projections require you to understand who you need now as well as who you will need in the future. This also requires an understanding of the job market regarding what services are worth. Remember you often get what you pay for. Place below a spreadsheet or other diagram illustrating these projections.

### TAKE-10's Personnel Growth Plan

#### Personnel Plan

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Managing Director - Douglas J Ross	\$3 316	\$48 000	\$100 000	\$120 000	\$126 000
Finance Director - Henri Saffer	\$2 713	\$39 000	\$82 000	\$98 000	\$103 000
IT Director - Paul Strange	\$3 015	\$44 000	\$91 000	\$109 000	\$115 000
Editor in Chief - Tiffany Wacaser	\$0	\$32 000	\$66 000	\$79 000	\$84 000
CS Manager	\$0	\$26 000	\$55 000	\$60 000	\$63 000
CS Assistant Manager	\$0	\$0	\$26 000	\$31 000	\$38 000
Customer Service Rep	\$11 760	\$21 000	\$24 000	\$26 000	\$28 000
Customer Service Rep	\$0	\$21 000	\$24 000	\$26 000	\$28 000
Customer Service Rep	\$0	\$21 000	\$24 000	\$26 000	\$28 000
Customer Service Rep	\$0	\$0	\$21 000	\$24 000	\$26 000
Customer Service Rep	\$0	\$0	\$21 000	\$24 000	\$26 000
Customer Service Rep	\$0	\$0	\$21 000	\$24 000	\$26 000
Customer Service Rep	\$0	\$0	\$21 000	\$24 000	\$26 000
Customer Service Rep	\$0	\$0	\$0	\$0	\$21 000
Site Developer	\$0	\$15 000	\$36 000	\$40 000	\$44 000
Site Developer	\$0	\$15 000	\$36 000	\$40 000	\$44 000
Site Developer	\$0	\$0	\$0	\$15 000	\$36 000
Art Director	\$0	\$0	\$60 000	\$72 000	\$76 000
Marketing Sales Rep	\$0	\$0	\$0	\$45 000	\$55 000
Copy Editor	\$1 507	\$22 000	\$26 000	\$29 000	\$32 000
Copy Editor	\$0	\$0	\$22 000	\$26 000	\$29 000
Copy Editor	\$0	\$0	\$0	\$22 000	\$26 000
Marketing Assistant	\$0	\$21 000	\$24 000	\$28 000	\$33 000
Marketing Assistant	\$0	\$0	\$0	\$21 000	\$24 000
Book Agent	\$0	\$0	\$0	\$0	\$60 000
Book Agent	\$0	\$0	\$0	\$0	\$60 000
Senior Editor – Thane Sinclair	\$1 733	\$25 000	\$52 000	\$63 000	\$66 000
	\$0	\$0	\$0	\$0	\$0
Total People	6	13	20	24	27
Total Payroll	\$24 045	\$350 000	\$832 000	\$1 072 000	\$1 323 000

## 5.6 Profit and Loss

These projections deal with how well the company is bringing in revenues and spending money. Every company has expenses that need to be considered. Rent, Utility costs, Insurance, etc. These costs need to be considered along with those incurred by selling. These costs are usually considered as operating expenses or overhead costs. Fill out the spreadsheet below adding those projections specific to the firm.

TAKE-10's Profit and Loss projections:

### Pro Forma Profit and Loss

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Sales	\$656 535	\$2 104 400	\$4 525 000	\$6 759 000	\$8 102 000
Direct Costs of Goods	\$270 391	\$808 560	\$1 742 300	\$2 620 300	\$3 115 800
Production Payroll	\$0	\$0	\$0	\$0	\$0
Other Costs of Goods	\$118 791	\$371 500	\$809 900	\$1 226 100	\$1 474 000
	-----	-----	-----	-----	-----
Cost of Goods Sold	\$389 182	\$1 180 060	\$2 552 200	\$3 846 400	\$4 589 800
Gross Margin	\$267 353	\$924 340	\$1 972 800	\$2 912 600	\$3 512 200
Gross Margin %	40,72%	43,92%	43,60%	43,09%	43,35%

### Operating Expenses

#### Sales and Marketing Expenses

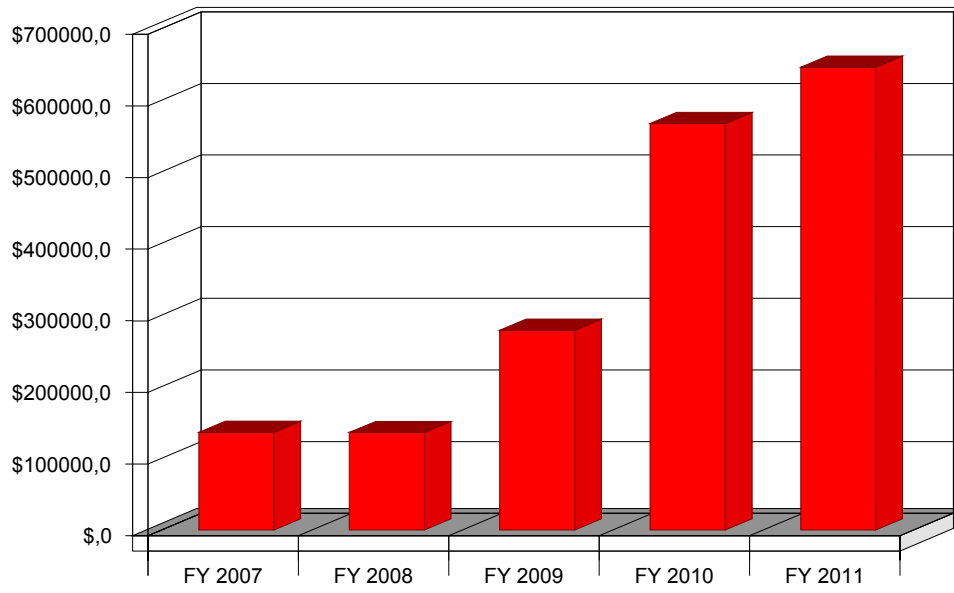
Sales and Marketing Payroll	\$0	\$0	\$0	\$0	\$0
Advertising/Promotion	\$0	\$0	\$0	\$0	\$0
Other Sales and Marketing Expenses	\$0	\$0	\$0	\$0	\$0
	-----	-----	-----	-----	-----
Total Sales and Marketing Expenses	\$0	\$0	\$0	\$0	\$0
Sales and Marketing %	0,00%	0,00%	0,00%	0,00%	0,00%

#### Expenses

Payroll	\$24 045	\$350 000	\$832 000	\$1 072 000	\$1 323 000
Marketing/Promotion	\$11 645	\$169 000	\$350 000	\$506 000	\$609 000
Depreciation	\$0	\$0	\$0	\$0	\$0
Rent	\$1 750	\$48 000	\$78 000	\$78 000	\$78 000
Utilities (Includes IT Network costs)	\$1 750	\$14 520	\$25 000	\$35 000	\$45 000
Insurance	\$2 660	\$12 000	\$24 000	\$48 000	\$96 000
Payroll Taxes	\$3 607	\$52 500	\$124 800	\$160 800	\$198 450
Medical and Dental	\$14 040	\$60 840	\$93 600	\$117 000	\$140 400
401K	\$812	\$2 790	\$5 580	\$11 160	\$13 375
Other	\$582	\$8 400	\$17 000	\$25 000	\$30 000
	-----	-----	-----	-----	-----
Total Expense	\$60 891	\$718 050	\$1 549 980	\$2 052 960	\$2 533 225
General and Administrative %	0,00%	0,00%	0,00%	0,00%	0,00%

Other Expenses:					
Other Payroll	\$0	\$0	\$0	\$0	\$0
Consultants	\$0	\$0	\$0	\$0	\$0
Other Expenses	\$0	\$0	\$0	\$0	\$0
	-----	-----	-----	-----	-----
Total Other Expenses	\$0	\$0	\$0	\$0	\$0
Other %	0,00%	0,00%	0,00%	0,00%	0,00%
	-----	-----	-----	-----	-----
Total Operating Expenses	\$60 891	\$718 050	\$1 549 980	\$2 052 960	\$2 533 225
Profit Before Interest and Taxes	\$206 463	\$206 290	\$422 820	\$859 640	\$978 975
EBITDA	\$206 463	\$206 290	\$422 820	\$859 640	\$978 975
Interest Expense	\$0	\$0	\$0	\$0	\$0
Taxes Incurred	\$70 197	\$70 139	\$143 759	\$292 278	\$332 852
Other Income					
Other Income Account Name	\$0	\$0	\$0	\$0	\$0
Other Income Account Name	\$0	\$0	\$0	\$0	\$0
Total Other Income	\$0	\$0	\$0	\$0	\$0
Other Expense					
Other Expense Account Name	\$0	\$0	\$0	\$0	\$0
Other Expense Account Name	\$0	\$0	\$0	\$0	\$0
Total Other Expense	\$0	\$0	\$0	\$0	\$0
Net Other Income	\$0	\$0	\$0	\$0	\$0
Net Profit	\$136 266	\$136 151	\$279 061	\$567 362	\$646 124
Net Profit/Sales	20,76%	6,47%	6,17%	8,39%	7,97%
Include Negative Taxes	TRUE	TRUE	TRUE	TRUE	TRUE

### Profit Yearly





## 5.7 Cash Flow

These projections lend an understanding to the direction or trend of revenues received and expenditures paid out. A positive trend while projected is not guaranteed, but a negative trend can be an early warning sign of major sustainability issues within the current plan. Fill out the spreadsheet below adding those projections specific to the firm.

TAKE 10's Cash Flow projections:

Pro Forma Cash Flow	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Cash Received					
Cash from Operations					
Cash Sales	\$656 535	\$2 104 400	\$4 525 000	\$6 759 000	\$8 102 000
Cash from Receivables	\$0	\$0	\$0	\$0	\$0
Subtotal Cash from Operations	\$656 535	\$2 104 400	\$4 525 000	\$6 759 000	\$8 102 000
Additional Cash Received					
Non Operating (Other) Income	\$0	\$0	\$0	\$0	\$0
Sales Tax, VAT, HST/GST Received	\$42 675	\$136 786	\$294 125	\$439 335	\$526 630
New Current Borrowing	\$0	\$0	\$0	\$0	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0	\$0	\$0
New Investment Received	\$0	\$0	\$0	\$0	\$0
Subtotal Cash Received	\$699 210	\$2 241 186	\$4 819 125	\$7 198 335	\$8 628 630
Expenditures	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Expenditures from Operations					
Cash Spending	\$24 045	\$350 000	\$832 000	\$1 072 000	\$1 323 000
Bill Payments	\$331 632	\$1 649 835	\$3 266 348	\$4 979 443	\$6 049 597
Subtotal Spent on Operations	\$355 677	\$1 999 835	\$4 098 348	\$6 051 443	\$7 372 597
Additional Cash Spent					
Non Operating (Other) Expense	\$0	\$0	\$0	\$0	\$0
Sales Tax, VAT, HST/GST Paid Out	\$7 752	\$19 381	\$38 763	\$58 144	\$65 412
Principal Repayment of Current Borrowing	\$0	\$0	\$0	\$0	\$0
Other Liabilities Principal Repayment	\$0	\$0	\$0	\$0	\$0
Long-term Liabilities Principal Repayment	\$0	\$0	\$0	\$0	\$0
Purchase Other Current Assets	\$0	\$0	\$0	\$0	\$0
Purchase Long-term Assets	\$0	\$0	\$0	\$0	\$0
Dividends	\$0	\$0	\$0	\$0	\$0
Subtotal Cash Spent	\$363 429	\$2 019 216	\$4 137 111	\$6 109 587	\$7 438 009
Net Cash Flow	\$335 781	\$221 970	\$682 014	\$1 088 748	\$1 190 621
Cash Balance	\$337 781	\$559 751	\$1 241 765	\$2 330 513	\$3 521 135

## Cash

### 5.8 Balance Statement

As the business grows and develops assets and liabilities are incurred over time. This report puts these into a financial perspective which reveals a net value for the firm during a given fiscal year. Fill out the balance sheet below adding those projections specific to the firm.

TAKE 10's Balance Sheet:

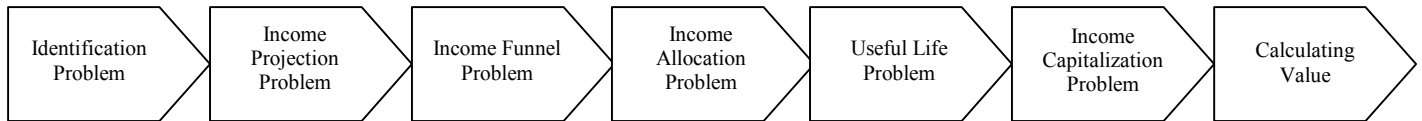
#### Pro Forma Balance Sheet

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$337 781	\$559 751	\$1 241 765	\$2 330 513	\$3 521 135
Accounts Receivable	\$0	\$0	\$0	\$0	\$0
Inventory	\$0	\$0	\$0	\$0	\$0
Other Current Assets	\$450	\$450	\$450	\$450	\$450
<b>Total Current Assets</b>	<b>\$338 231</b>	<b>\$560 201</b>	<b>\$1 242 215</b>	<b>\$2 330 963</b>	<b>\$3 521 585</b>
<b>Long-term Assets</b>					
Long-term Assets	\$0	\$0	\$0	\$0	\$0
Accumulated Depreciation	\$0	\$0	\$0	\$0	\$0
<b>Total Long-term Assets</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Assets</b>	<b>\$338 231</b>	<b>\$560 201</b>	<b>\$1 242 215</b>	<b>\$2 330 963</b>	<b>\$3 521 585</b>
<b>Liabilities and Capital</b>					
<b>Current Liabilities</b>					
Accounts Payable	\$164 593	\$133 007	\$280 598	\$420 792	\$504 072
Current Borrowing	\$0	\$0	\$0	\$0	\$0
Other Current Liabilities	\$34 922	\$152 327	\$407 689	\$788 880	\$1 250 098
<b>Subtotal Current Liabilities</b>	<b>\$199 516</b>	<b>\$285 334</b>	<b>\$688 287</b>	<b>\$1 209 673</b>	<b>\$1 754 170</b>
<b>Long-term Liabilities</b>					
Long-term Liabilities	\$0	\$0	\$0	\$0	\$0
<b>Total Liabilities</b>	<b>\$199 516</b>	<b>\$285 334</b>	<b>\$688 287</b>	<b>\$1 209 673</b>	<b>\$1 754 170</b>
<b>Capital</b>					
Paid-in Capital	\$10 000	\$10 000	\$10 000	\$10 000	\$10 000
Retained Earnings	(\$7 550)	\$128 716	\$264 867	\$543 928	\$1 111 291
Earnings	\$136 266	\$136 151	\$279 061	\$567 362	\$646 124
<b>Total Capital</b>	<b>\$138 716</b>	<b>\$274 867</b>	<b>\$553 928</b>	<b>\$1 121 291</b>	<b>\$1 767 414</b>
<b>Total Liabilities and Capital</b>	<b>\$338 231</b>	<b>\$560 201</b>	<b>\$1 242 215</b>	<b>\$2 330 963</b>	<b>\$3 521 585</b>
<b>Net Worth</b>	<b>\$138 716</b>	<b>\$274 867</b>	<b>\$553 928</b>	<b>\$1 121 291</b>	<b>\$1 767 414</b>

## 6. The Value Explorer® (The Harvest continued)

The Value Explorer is a method for the identification and measurement of strategic intellectual resources. This method was developed by Daniel Andriessen and René Tissen in 2000. Now that the fundamental financial reporting or projections have been made it is time to value the IC of the firm. This process will take 7 key steps or problems to be resolved. Each of these steps will be explained with spreadsheets available to calculate the necessary data.

The diagram below illustrates the seven steps in value exploration:



### 6.1 Identification Problem

To resolve this problem, one has to become aware of the intellectual capital within the firm. Once you are aware, the key is to identify those intangible or intellectual skills that make the company unique. If this sounds familiar, it should since this has already been done through previous parts of this ICVP. What we are discussing here is core competencies. List below those core competencies previously defined in this business plan. (NOTE: You do not need to define them here, just list them)

TAKE-10 Core Competencies

Literary & Editing Skills  
Digital Distribution  
Sentient Promotion  
Co-Creative Community Building

## **6.2 Income Projection Problem**

While it is simple to determine the revenues on the sale of widgets, determining the income on the skills of the firm can be more difficult. Of course as in algebra when you are dealing with variables, you usually focus on what is known first. In this case it is the products and services the firm sells. From this list of products/services, a contribution margin will be assessed. To deal with this projection problem list the products/services the company provides below:

TAKE-10 Products

Adapted Cut subscriptions

Vanity Subscriptions

Authors Cut units

Pulp Cut units

Branding subscriptions

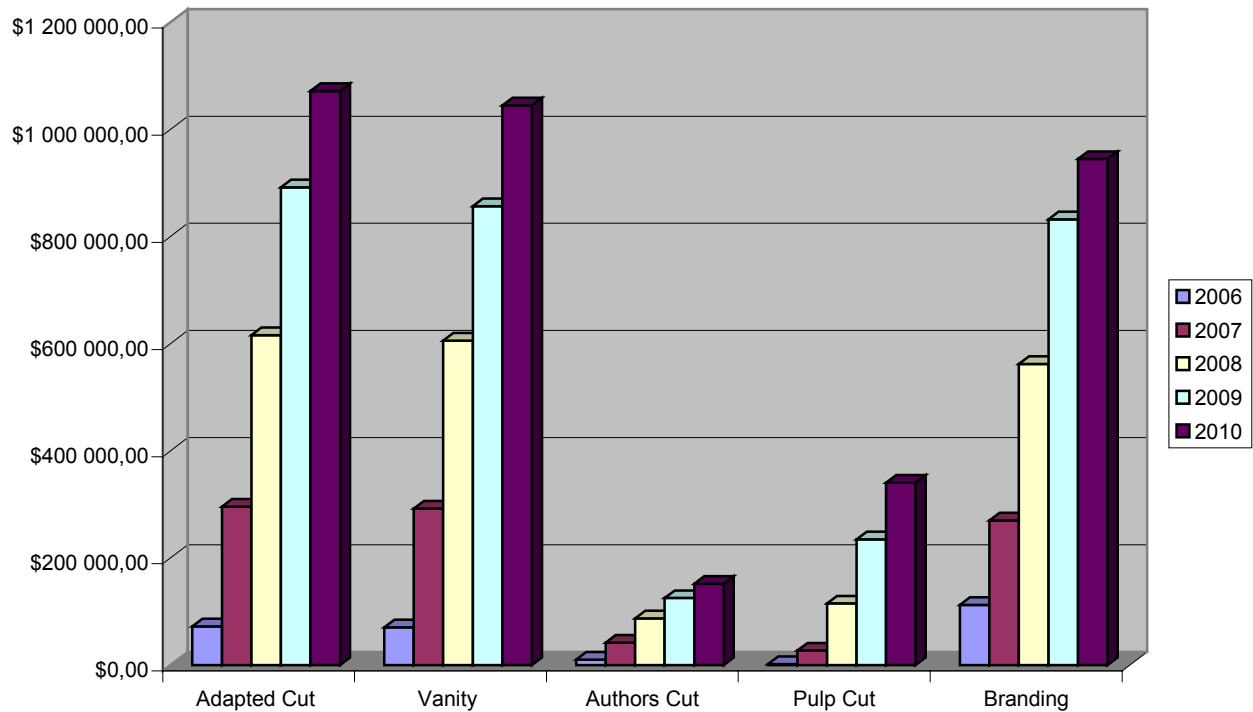
## **6.3 Income Funnel Problem**

Resolving this problem means calculating the value of the contribution margin. The contribution margin or CM is calculated by deducting direct costs from the gross margin (sales revenue minus the sales cost of goods sold). Of course IC is not solely responsible for realizing the product or service value. Other tangible assets are also involved. Normally you would subtract a compensation value based on the average cost of capital for the firm since the Value Explorer seeks to isolate the Intangible assets for valuation. However because we have included tangible assets through the various root capital of the firm, this will provide an inclusive contribution margin projections: Using the worksheet below calculate the CM for each product/service.

TAKE 10's Contribution Margin:

	Adapted Cut	Vanity	Authors Cut	Pulp Cut	Branding
2006					
Sales	\$180 882,00	\$74 308,00	\$21 617,00	\$4 729,00	\$375 000,00
Cost of G.S	\$72 353,00	\$0,00	\$8 647,00	\$1 891,00	\$187 500,00
Gross Margin	\$108 529,00	\$74 308,00	\$12 970,00	\$2 838,00	\$187 500,00
Direct Costs	\$36 176,40	\$3 715,40	\$2 702,13	\$945,80	\$75 000,00
<b>CM</b>	<b>\$72 352,60</b>	<b>\$70 592,60</b>	<b>\$10 267,88</b>	<b>\$1 892,20</b>	<b>\$112 500,00</b>
2007					
Sales	\$740 000,00	\$308 000,00	\$88 000,00	\$68 400,00	\$900 000,00
Cost of G.S	\$296 000,00	\$0,00	\$35 200,00	\$27 360,00	\$450 000,00
Gross Margin	\$444 000,00	\$308 000,00	\$52 800,00	\$41 040,00	\$450 000,00
Direct Costs	\$148 000,00	\$15 400,00	\$11 000,00	\$13 680,00	\$180 000,00
<b>CM</b>	<b>\$296 000,00</b>	<b>\$292 600,00</b>	<b>\$41 800,00</b>	<b>\$27 360,00</b>	<b>\$270 000,00</b>
2008					
Sales	\$1 540 000,00	\$638 000,00	\$184 000,00	\$288 000,00	\$1 875 000,00
Cost of G.S	\$616 000,00		\$73 600,00	\$115 200,00	\$937 500,00
Gross Margin	\$924 000,00	\$638 000,00	\$110 400,00	\$172 800,00	\$937 500,00
Direct Costs	\$308 000,00	\$31 900,00	\$23 000,00	\$57 600,00	\$375 000,00
<b>CM</b>	<b>\$616 000,00</b>	<b>\$606 100,00</b>	<b>\$87 400,00</b>	<b>\$115 200,00</b>	<b>\$562 500,00</b>
2009					
Sales	\$2 230 000,00	\$902 000,00	\$264 000,00	\$588 000,00	\$2 775 000,00
Cost of G.S	\$892 000,00		\$105 600,00	\$235 200,00	\$1 387 500,00
Gross Margin	\$1 338 000,00	\$902 000,00	\$158 400,00	\$352 800,00	\$1 387 500,00
Direct Costs	\$446 000,00	\$45 100,00	\$33 000,00	\$117 600,00	\$555 000,00
<b>CM</b>	<b>\$892 000,00</b>	<b>\$856 900,00</b>	<b>\$125 400,00</b>	<b>\$235 200,00</b>	<b>\$832 500,00</b>
2010					
Sales	\$2 680 000,00	\$1 100 000,00	\$320 000,00	\$852 000,00	\$3 150 000,00
Cost of G.S	\$1 072 000,00		\$128 000,00	\$340 800,00	\$1 575 000,00
Gross Margin	\$1 608 000,00	\$1 100 000,00	\$192 000,00	\$511 200,00	\$1 575 000,00
Direct Costs	\$536 000,00	\$55 000,00	\$40 000,00	\$170 400,00	\$630 000,00
<b>CM</b>	<b>\$1 072 000,00</b>	<b>\$1 045 000,00</b>	<b>\$152 000,00</b>	<b>\$340 800,00</b>	<b>\$945 000,00</b>

### TAKE-10 Product CM



#### 6.4 Income allocation problem

The CM needs to be allocated somehow to the skills or core competencies that have been defined in the firm. In order to accomplish this a matrix needs to be filled out to determine the importance of each competency in relation to each product. The matrix uses the following contribution differentiations:

- 0 = No contribution
- 1 = Supporting contribution
- 2 = Substantial contribution
- 3 = Essential contribution

Fill out the matrix below, add up their values and determine their relative weight.

## TAKE 10's Contribution Matrix

C. Competencies	Products/Services									
	Adapted Cut		Vanity		Authors Cut		Pulp Cut		Branding	
	Value	Weight	Value	Weight	Value	Weight	Value	Weight	Value	Weight
Literary & Editing Skills	3	37,50%	0	0,00%	1	14,29%	1	25,00%	2	20,00%
Digital Distribution	2	25,00%	3	60,00%	2	28,57%	1	25,00%	2	20,00%
Sentient Promotion	1	12,50%	0	0,00%	3	42,85%	2	50,00%	3	30,00%
C.C Community Building	2	25,00%	2	40,00%	1	14,29%	0	0,00%	3	30,00%
<b>Total</b>	<b>8</b>	<b>100,00%</b>	<b>5</b>	<b>100,00%</b>	<b>7</b>	<b>100,00%</b>	<b>4</b>	<b>100,00%</b>	<b>10</b>	<b>100,00%</b>

Now that the matrix is filled out, the next step is to take the weights from each product and multiply that weight with its CM. For example if the CM for widgets was \$100 000 and the weight for assembly process in relation to widgets was 20%, than the CM value for assembly process would be: \$100 000 X .20 = \$20 000. Repeat this process with every product to determine the total CM for each core competency. Fill out the worksheet below:

TAKE-10's CM Value projections:

CM Values for 2006    Literary & Edit    Digital Distrib    Sentient Promo    CCC Building  
                                  \$51 572,55    \$86 350,29    \$48 139,96    \$81 542,47

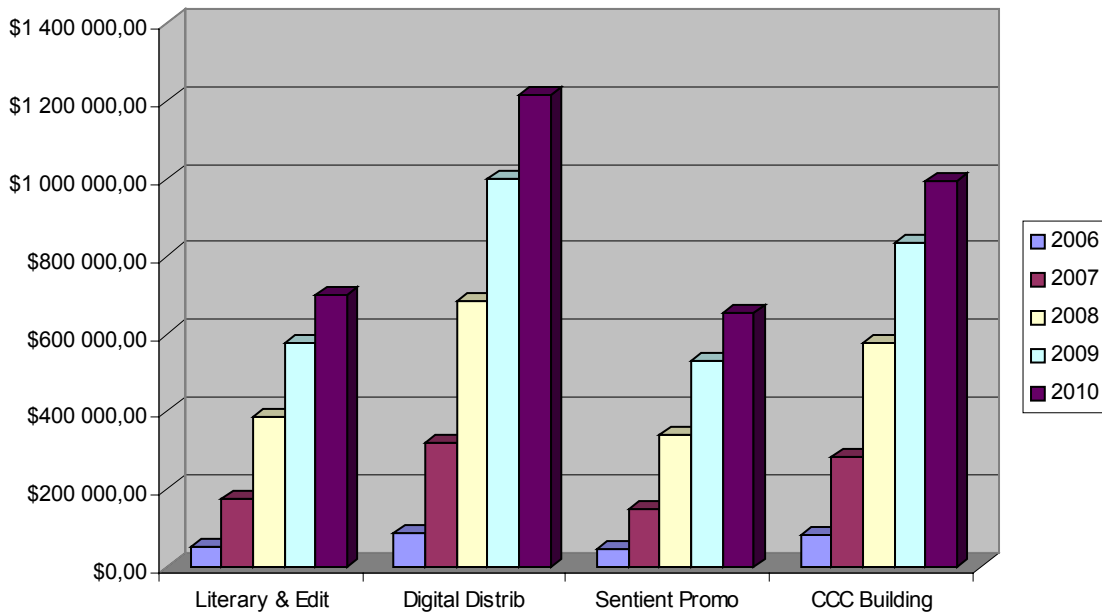
CM Values for 2007    Literary & Edit    Digital Distrib    Sentient Promo    CCC Building  
                                  \$177 813,22    \$321 492,26    \$149 591,30    \$283 986,44

CM Values for 2008    Literary & Edit    Digital Distrib    Sentient Promo    CCC Building  
                                  \$384 789,46    \$683 930,18    \$340 800,90    \$577 679,46

CM Values for 2009    Literary & Edit    Digital Distrib    Sentient Promo    CCC Building  
                                  \$577 719,66    \$998 266,78    \$532 583,90    \$833 429,66

CM Values for 2010    Literary & Edit    Digital Distrib    Sentient Promo    CCC Building  
                                  \$697 920,80    \$1 212 626,40    \$653 032,00    \$991 220,80

### TAKE-10 CM Values for Core Competencies



### 6.5 Useful Life Estimation problem

Since the firm does not exist in a vacuum, the reality of competition makes sustaining a superior core competency rather difficult. Therefore there is a life span attached to each. This does not mean that the core competency necessarily disappears or erodes within the firm, but instead it relates to how long can the firm maintain this competency (this includes developing it further) before competition catches up. Define below the strategic life or sustainability time for each competency.

Sustainability Factor	Years
Literary & Editing	1
Digital Distribution	2
Sentient Promotion	3
CCC Building	1

### 6.7 Income Capitalization Problem

The cost of capital has to be considered. To do this, use the discount rate. The yield on a government bond usually reflects this risk free borrowing rate.



Another factor that needs to be considered is the vulnerability of each core competency. Again the firm is not working within a vacuum, and therefore it is reasonable to assume that core competencies can become stronger, weaker or even disappear altogether. Here is a short list of statements which represent risks that could cause the firm to lose a core competence. Use these statements as a checklist for each core competence. For each statement that is 'true' in relation to a specific competence, add a 20% risk of losing the same. The Robustness Factor will be 1- any risks of losing the same. Define the Robustness Factor for each core competence below.

<u>Core Competency</u>	<u>RF</u>
Literary & Editing	100%
Digital Distribution	80%
Sentient Promotion	100%
CCC Building	80%

## 6.8 Calculating Value

Before the actual final step of calculating the IC value, the Potential Factor of each core competency needs to be defined. The Potential or Projection Factor is the estimated expected growth rate of the CM, which is based on the income projections for each product. Define below the Projection Factor for each core competency:

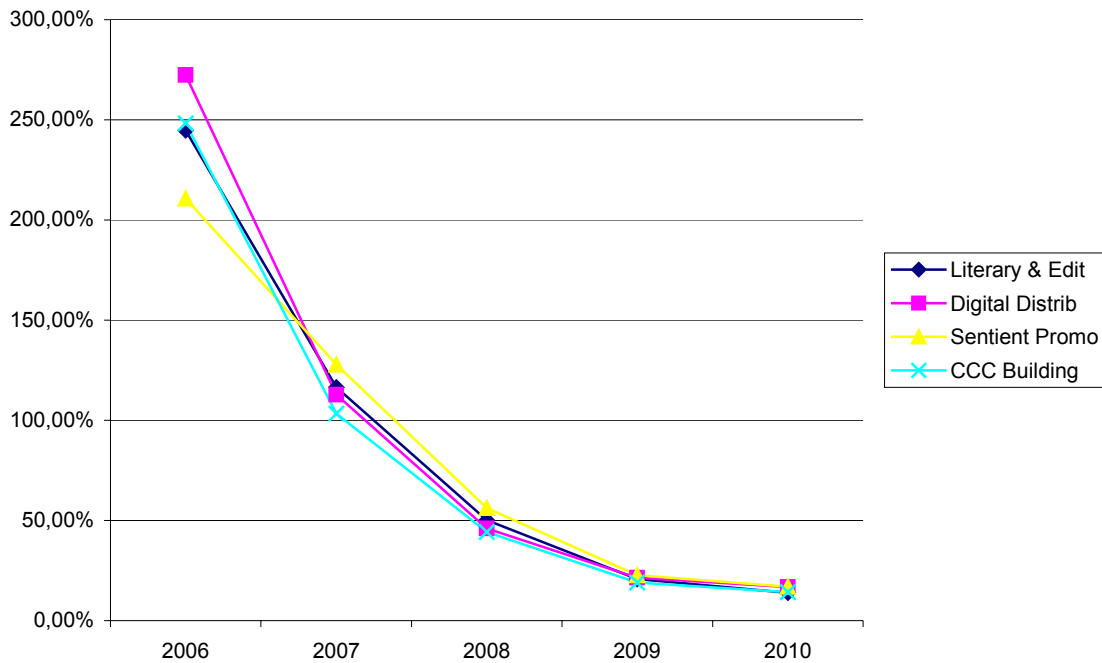
### TAKE-10's Projection Factor

Projection Factor 2006		Projection Factor 2007	
Literary & Edit	244,78%	Literary & Edit	116,40%
Digital Distrib	272,31%	Digital Distrib	112,74%
Sentient Promo	210,74%	Sentient Promo	127,82%
CCC Building	248,27%	CCC Building	103,42%

Projection Factor 2008		Projection Factor 2009	
Literary & Edit	50,14%	Literary & Edit	20,81%
Digital Distrib	45,96%	Digital Distrib	21,47%
Sentient Promo	56,27%	Sentient Promo	22,62%
CCC Building	44,27%	CCC Building	18,93%

Projection Factor 2010	
Literary & Edit	13,88%
Digital Distrib	16,79%
Sentient Promo	16,96%
CCC Building	14,27%

TAKE-10 Projection Factor



## 6.9 The Valuation

The IC Value now can be calculated by using the following formula.

$$V_{cc} = \left[ \sum_{t=1}^S \frac{CM * (1 + P)^t}{(1 + i)^t} \right] * R$$

V<sub>cc</sub> = Value of Core Competence

S = Sustainability

CM = Contribution Margin

P = Potential for the future (in %)

R = Robustness (in %)

i = Cost of Capital

Use this formula to calculate the value of each core competency from which the firm can discover the total V<sub>cc</sub> for the firm.

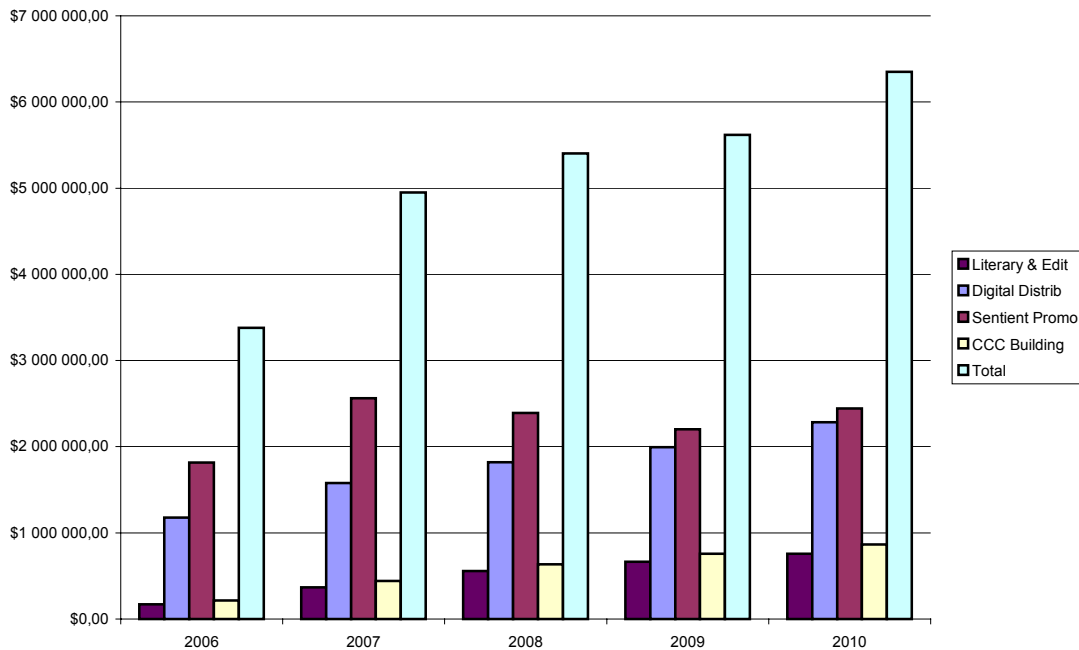
TAKE 10's Vcc Projections:

2006	Value	%	2007	Value	%
Literary & Edit	\$169 506,00	5,02%	Literary & Edit	\$366 814,00	7,41%
Digital Distrib	\$1 176 660,00	34,82%	Digital Distrib	\$1 579 406,00	31,91%
Sentient Promo	\$1 816 354,00	53,75%	Sentient Promo	\$2 562 790,00	51,78%
CCC Building	\$216 578,00	6,41%	CCC Building	\$440 561,00	8,90%
Total	\$3 379 098,00	100,00%	Total	\$4 949 571,00	100,00%

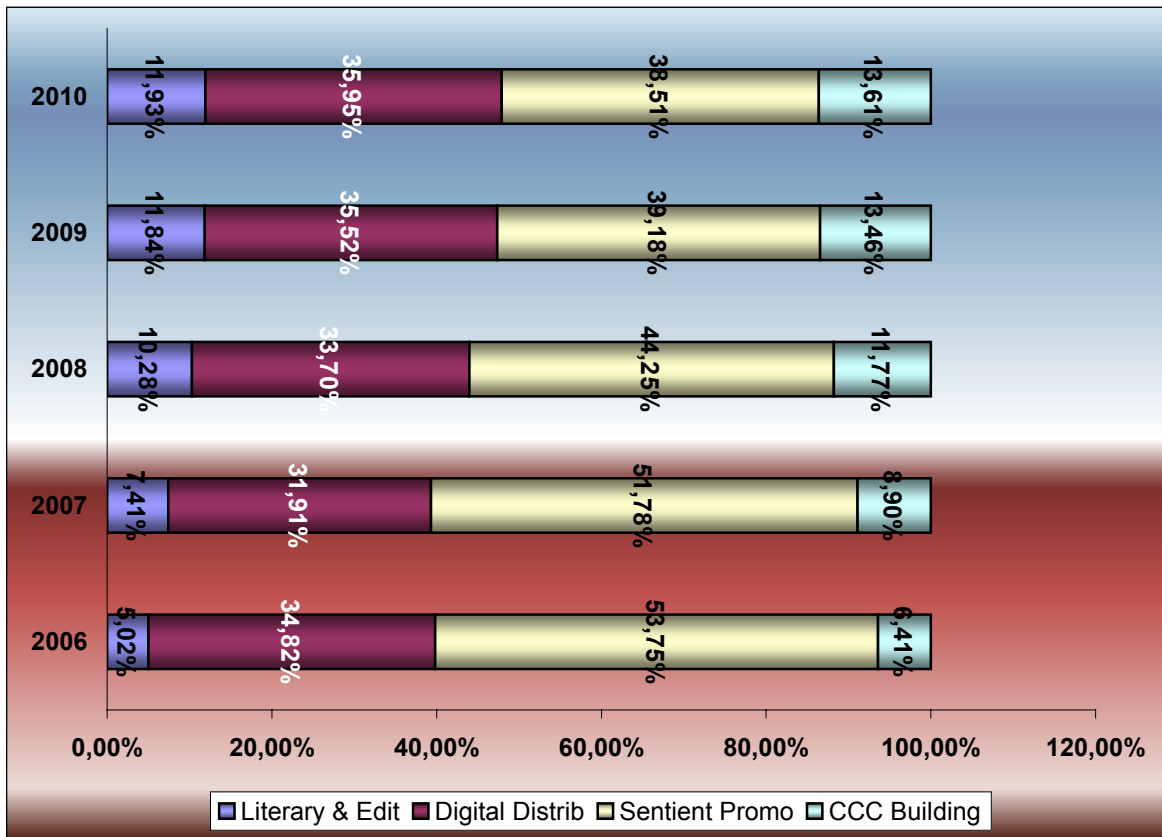
2008	Value	%	2009	Value	%
Literary & Edit	\$555 359,00	10,28%	Literary & Edit	\$665 341,00	11,84%
Digital Distrib	\$1 820 606,00	33,70%	Digital Distrib	\$1 995 600,00	35,52%
Sentient Promo	\$2 390 686,00	44,25%	Sentient Promo	\$2 200 901,00	39,18%
CCC Building	\$635 591,00	11,77%	CCC Building	\$755 918,00	13,46%
Total	\$5 402 242,00	100,00%	Total	\$5 617 760,00	100,00%

2010	Value	%
Literary & Edit	\$757 667,00	11,93%
Digital Distrib	\$2 282 537,00	35,95%
Sentient Promo	\$2 445 075,00	38,51%
CCC Building	\$863 808,00	13,61%
Total	\$6 349 087,00	100,00%

TAKE-10 VCC Projections

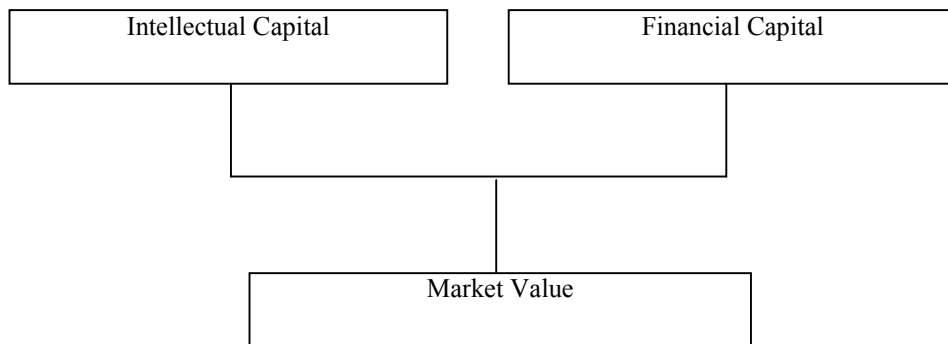


TAKE-10 VCC Projections in Percent



### 6.10 The Market Value

The final step before the business plan is finished deals with combining the IC value of the firm together with the financial capital to determine the projected Market Values. Here we refer back to the root capital diagram and focus on the following IC Value Scheme:



To determine financial capital, it is simply a matter of calculating what the founders or other investors have paid for a share of the company during the start-up. Net profits are also added to this figure. This together with the IC value (Vcc + Compensation factor) reveals the firms total projected market value. Calculate the Market value projections below.

TAKE-10's Projected Market Value:

	2006	2007	2008	2009	2010
IC Capital	\$3 379 098,00	\$4 949 571,00	\$5 402 242,00	\$5 617 760,00	\$6 349 087,00
Financial Capital	\$146 266,00	\$146 151,00	\$289 061,00	\$577 362,00	\$656 124,00
Projected Market Value	\$3 527 370,00	\$5 097 729,00	\$5 693 311,00	\$6 197 131,00	\$7 007 221,00

TAKE-10's Projected Market Value

