

chikpos business plan

A wholly owned subsidiary of
The Jeremy Shum Invent Company.

Presented to eChallenge Judges by -

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ENTREPRENEURS' CHALLENGE

EXECUTIVE SUMMARY

We provide **affordable easy-to-use and reliable management accounting software**. Whilst ease of use is a *convenience* for personal computer users, it is a *necessity* for businesses that use these systems day-to-day. Unlike large chained stores with dedicated technology training and support personnel, when software issues arise, micro businesses suffer downtime, which is expensive, due to lost productivity and missed sales.

The Need There is an industry trend towards effectiveness and efficiency.

- ❖ **Money saved:** Micro retailers with existing POS systems have high operating and maintenance costs.
- ❖ **Time saved:** Micro retailers have been willing to operate without a POS system because affordable POS software is unreliable and complex. Established software vendors¹ have created no POS system that has received widespread adoption in the retailing industry, including Microsoft. Existing accounting software is complicated to use, and is expected to be used and managed by accountants. Our model is unique, software that is meant to be administered by shop managers, and operated by their assistants.
- ❖ The need for accounting software is *ubiquitous*. As Governments tighten accounting regulation for taxation and audit purposes, the demand is ever-increasing.

Our Solution We offer a simple logical modifiable touch screen interface to record transactions; and replaced business reports with action item reports. Furthermore, the software is easy to setup and maintain; and there is a long list of novel and exclusive features to **chikpos**.

- ❖ Software (\$699.95) provides business value through:
 - Turnkey business management (accounting, finance, payroll, marketing) system
 - Simplifying accounting process, working out-of-the-box, reliably
 - Novel high definition video output to increase communications
- ❖ Optional full-service (including warranty) option (\$499.95)
 - Imports data from other business software, consolidating new database
 - Networkability and deployment tools, for extensibility

The Market Our point-of-sales solution is positioned in the accounting software market.

- ❖ The total expenditure by retailers on I.T. is \$4.8 billion in Australia; \$661.1 billion worldwide
- ❖ Our market position is legally monopolized by copyright and ongoing patenting
- ❖ The software price (\$699.95) is below three δ^2 of the μ^3 of what customers are generally willing to pay
- ❖ The software is sustainable into the future, making careful CSR considerations

Our Team The **chikpos** team has commercialization experience in media and marketing, including:

- ❖ Diverse law, accounting; and in particular, a strong engineering background

Customers We have already had around-the-world demo requests as a response to the preliminary marketing of the new easy-to-use accounting software concept.

- ❖ We can make \$133.7m in annual sales revenue by milestone-3 (M3)
- ❖ The Return on Equity for investors is \$5.74 for every \$1 contribution if exit before M3
- ❖ We have divided our financing strategy into five Milestones, with an IPO spin hoping a total raise of \$1bn
- ❖ We hope to a part of the seed capital from Government grants; and business competition prize money

We have produced an initial prototype, and are expecting to have an initial RTM⁴ Beta completed by 2010. Please e-mail conciierge@chikpos.com to request for an invitation.

¹ QuickBooks dominates the market with a 92.4% market share (Intuit, 2008)

² Statistical standard deviation

³ Statistical mean

⁴ Release-To-Manufacturing

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1 COMPANY OVERVIEW

The **chikpos** group is wholly owned subsidiary of The Jeremy Shum Invent Company, a holding company that has a reputation for corporate social responsibility⁵.

chikpos is designed to simplify the transactional accounting process for micro-retailers, by offering a low-cost turnkey accounting solution for small shops, which works out-of-the-box. It reduces workload through its streamlined interface (fully modifiable at discretion); supports smart stock, barcode, and tax handling; auto-compliance with legislation; and flexible integration with existing managerial systems. **The novel distinction of chikpos is its native software support for full high definition blu-ray quality video output, helping stores better facilitate communicating with customers.**

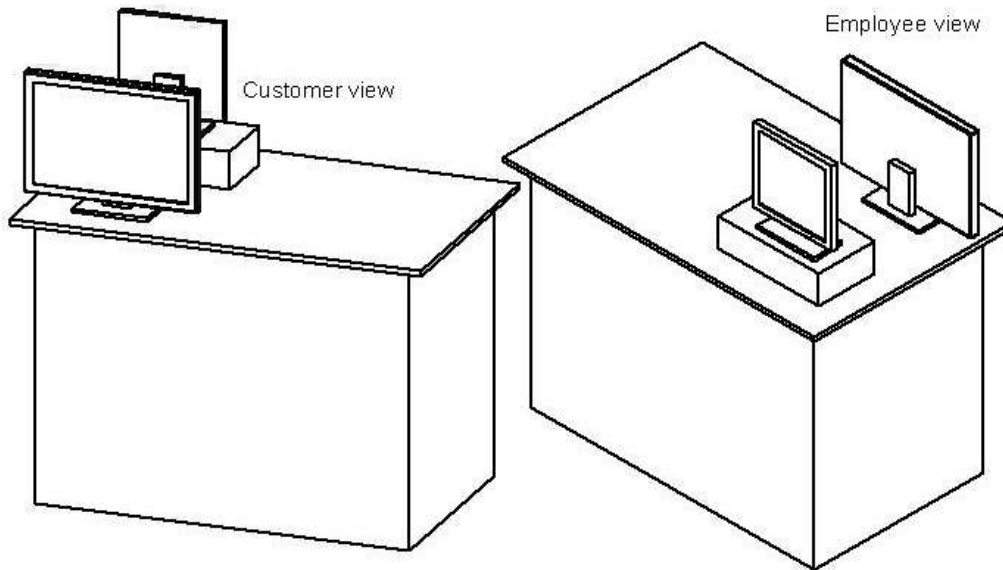


Figure 1.1: Other than simplicity, the novel difference is its dual-screen option.

chikpos has been prototyped in Microsoft .NET, and will be exported to C++ for the beta version⁶. We are waiting for capital injection to market for an initial launch, and hope to “cross the chasm” in M4.

1.1 History

The retailing and hospitality industries (and the wider tertiary industry) are rapidly expanding and changing. But despite years of market dominance by QuickBooks (and in Australia, MYOB), the accounting industry has not been offered a turnkey easy-to-use solution. Even most University Accounting degrees omit teaching MYOB because of its inherent complexity.

The **chikpos** prototype was developed by Jeremy H. Shum⁷ in consultation with Dr. Edward C. Cheng MBA, with the aim of fulfilling customer demand for an easy-to-use accounting solution for the micro-industry.

chikpos makes it inherently easier for business managers to understand quantitative information, collected at the point-of-sales. Furthermore, it's easy-to-use frontend is developed to be managed by managers, rather than accountants, to reduce maintenance costs. The DIY cost is in excess of \$500,000 and only cost effective for companies with annual revenues of greater than \$500 million⁸.

We have received queries worldwide. We are waiting for the end of eChallenge before launching into promotional activity. A simulated focus group⁹ of several Fortune 500 companies showed that mass adoption of **chikpos** had benefits for even the biggest players in retailing, demonstrating scalability.

⁵ Also commonly known by the abbreviation “CSR” (Grace et al, 2005)

⁶ C++ has better support for reverse engineering protection

⁷ An Executive team from UofA and UniSA was then formed: a SWOT Analysis (Armstrong, 1982) outlines our strong engineering orientation.

⁸ (Aberdeen, 2008)

⁹ This was a simulation, and conducted on a case study basis, as a part of our primary research.

2 PRODUCTS AND SERVICES

The flagship version of **chikpos**¹⁰ is \$699.95¹¹. With a standard personal computer (and optional additional touch-screen) the total setup cost is estimated¹² to be \$3,700¹³.



Figure 2.1: **chikpos** has an easy to use interface.



Figure 2.2: The customer display is branding at its best.

chikpos is an all-in-one point-of-sales software¹⁴, with these basic features¹⁵:

- ❖ Scanning of Products
- ❖ Applying loyalty credits
- ❖ Promotional offers (for example, coupons)
- ❖ Payment processing

97% of businesses¹⁶ surveyed stated core **chikpos**¹⁷ features would form a part of their purchase decision:

- ❖ **Ease of use**: 48% stated reason behind why they would switch POS systems¹⁸
- ❖ **Agility**: 33% stated reason behind why they would switch POS systems¹⁹
- ❖ **Accuracy and reliability** (lower maintenance and operating costs): 19%

chikpos utilizes an ethical universal design²⁰, with ergonomic OH&S²¹ for a trouble-free implementation.

2.1 Augmented products

We offer various services²²; with warrantee as the flagship. Our turnkey warrantee solution²³ retails at a \$499.95 fee, with a \$75 six-month renewal fee, offering: 24-hour on-call maintenance and support²⁴.

The keys to success for our full setup (as a part of our warrantee solution) are:

1. Understanding the specific needs of the store
2. Import old database (including backup) into new consolidated database
3. Overnight install and test of new system
4. Roll-out if successful

¹⁰ Professional edition

¹¹ Other version costs are included in the Appendix. We have also been advised increasing it to \$899 will be even more realistic.

¹² These prices are right as at August, 2009. Computer prices generally continue to fall. These prices exclude Server requirements (for larger customers).

¹³ \$724.18 + \$456 + \$1,997 = AU\$3,177.18 + \$499.95 setup = \$3,677.13, the cost breakdown is included in full in the Appendix. If customers buy a system with specifications below these given, their warrantee is void. Exact figure before rounding is \$3,677.13.

¹⁴ There are also a lot of back-end processes **chikpos** achieves, including database management (using Microsoft SQL, compatible with a range of applications, including Crystal Reports and Microsoft Excel); our patent-pending data mining technology; offline module; and backup technology.

¹⁵ (Aberdeen Group, 2008)

¹⁶ In-house primary sourced research data.

¹⁷ The key features of **chikpos** are included in the Appendix.

¹⁸ (ibid)

¹⁹ (ibid)

²⁰ Universal design is defined as "The design of products ... that can be used and experienced by people of all ages and abilities, to the greatest extent possible, without adaption" (Follette, 1998). The Universal design of **chikpos** is included in the Appendix.

²¹ The OH&S Analysis is included in the Appendix.

²² Including Cinematic lighting; Delivery cost, if not pickup for hardware (\$200); software (free); Expert installation (\$80); Interior design and theming; Plasma flat screen LCD's and boom speakers; Security technologies; Smoke machines; Support before and after launch; Training sessions (99 per person, 50% off per additional); Two week trial

²³ The life cycle of implementation of **chikpos** has been included in the Appendix.

²⁴ (initially only available to certain geographical areas) , free major upgrades, database export (consolidation), one-time installation and testing, and loan equipment

3 MARKET AND MARKETING STRATEGIES

We identified the best initial target market as **local micro retail stores** that require an off-the-shelf flexible easy-to-use accounting solution²⁵, which currently does not exist. We geographically segmented the market so we could uphold brand prestige for warrantee/support.

Potential Customers	Growth	Year 1	Year 2	Year 3	Year 4	Year 5	CAGR
Micro retail stores in SA	5%	24,000	25,128	26,309	27,546	28,841	4.70%
Micro retail stores in Australia	3%	324,000	334,368	345,068	356,110	367,506	3.20%
Micro retail stores in Asia-Pacific	6%	7,779,859	8,246,651	8,741,450	9,265,937	9,821,893	6.00%
Micro retail stores worldwide	6%	37,046,948	39,269,765	41,625,951	44,123,508	46,770,918	6.00%
Total	5.98%	45,174,807	47,875,912	50,738,778	53,773,101	56,989,158	5.98%

Table 3.1: Market segmentation

Micro retailers value price, quality, convenience, service, reliability and expertise. Unlike large businesses, they lack the personnel to attend to software faults. These faults lead to down time, which is expensive due to lost productivity. Where brand reputation means everything, no small business can afford this. We can offer this peace of mind in conjunction with our seven day money back guarantee.

The market expenditure by retailers on POS systems is \$4.8 billion in Australia (or \$661.1 billion worldwide)²⁶, or 0.5% of total expenditure, growing at 64.8% annually²⁷. Subsequent target markets are identified as small fashion stores; and eventually foreign markets. We project our annual revenue by M3 to be \$133.7m, or 2.8% of the Australian accounting software market.

The market position of **chikpos** is legally monopolized by copyright and ongoing patenting²⁸.

3.1 Competition

In addition to the core **chikpos** features, 30% said that they found these unique novel features attractive:

- ❖ **Dual screens:** 32% stated reason behind why they would switch POS systems²⁹
- ❖ **Mobility** (ability to access store from the iPhone, Windows Mobile, Blackberry, and internet)
- ❖ **Low energy consumption** (40% of a normal's computing processing power³⁰)



Figure 3.1: MYOB Retail Manager³¹ has been popular despite it is non-touch screen compatible

The barrier to entry is the brand awareness and image, relations with distributors and target customers³², and risk to customer of switching to a new system³³. Prize money will partially resource us to break the marketing barrier. Proof of sales is our core strategy³⁴, in view of the M4 goal to "cross the chasm".

25 Market segment analysis, and basis for expectations included in the Appendix.

26 This is covered in the market section in the Appendix.

27 More information in the market segment of the Appendix.

28 For more information on patents acquired, please refer to Appendix.

29 (ibid)

30 We can achieve better energy consumption with the Intel Atom M Processor.

31 A more detailed POS solution analysis of the top POS software's on Google is included in the Appendix.

32 Forecasted advertising expenditure included in the Appendix.

4 OPERATIONS

We have produced a prototype using a tertiary language, which will be imported into a secondary language when sold. Our microcontroller interface is the extensible AVR STK500 microcontroller with an RISC core running single cycle instructions with well-defined I/O structure. Both our software and hardware development tools are industry standard.

Milestone	Start Date	End Date	Budget	Manager	Department
Development	Pre 2009	December 2010	\$500,000	Dawson J. Hunt	Engineering
Prototype	July 2009	June 2010	\$200,000	Jeremy H. Shum	Engineering
Beta	July 2010	July 2011	\$150,000	Howard D. Fong	Engineering
Marketing	June 2010	July 2012	\$15,000	Gautam R. Behera	Marketing
Sales	July 2010		\$50,000	Charlotte W. Sak	Marketing

Table 4.1: Start-up timing schedule

We are planning to distribute and sell **chikpos** through a web store (and consequently via post on DVD); and by M2, through Australian retail chains, once there is proof of sales through the online channel in M1.

The installation package comes with a user guide, which assists managers to install and use the software.

Our gross operating margin (with full costing) is 75%³⁵.

	M1	M2	M3
Total Direct Labor cost \$	1,250.00	1,303.88 ³⁶	1,258.77 ³⁷
Total Materials cost \$	0.10	0.33	0.13
Total costs \$	1,250.10	1,304.21	1,258.9
Overall Gross margin %	75.7% ³⁸	74.7% ³⁹	75.6% ⁴⁰

Table 4.2: Cost and margins⁴¹

The immediate actions which will be taken are:

1. Cover the present marketing expense, through prize money for engineering awards and business competitions, to raise brand awareness and image, relations with distributors, and with target customers.
2. Set-up the website and production overview video, to provide potential customers with information on **chikpos**. We may also be able to set up online stores in conjunction with Yahoo! and eBay as a part of our opening feat.
3. To continue re-engineering the **chikpos** software, including custom templates for niche customers, such as different default settings for a fashion store, as supposed to a automotive retailer. This may include a customer satisfaction survey, and further outsourcing of market research

4.1 Further operational needs

Further research⁴² (best outsourced from a consulting firm) is necessary to:

- ❖ Increase customer reach (increase brand awareness and image; pricing; driving factors in distributors and customers)
- ❖ Strategic and tactical legal management of patents, as supposed to keeping it secret
- ❖ Savvy engineering "what's hot" code and technologies used to display accounting information

We have budgeted all the property, marketing and communications, plant and equipment costs, with full ownership (except property) as core requirements to achieve business objectives.

33 PESTLE Analysis included in the Appendix. (Gillespie, 2007)

34 The Risk Management analysis is included in the Appendix.

35 $(75.73 + 74.68 + 75.55) / 3 = 75.32\%$

36 $53.88 + 1,250 = 1,303.88$

37 $8.77 + 1,250 = 1,258.77$

38 $1,250.10 / (699.95 + 499.95 + (50 \times 79)) = 24.27\%$; $1 - 24.27\% = 75.73\%$

39 $1,304.21 / (699.95 + 499.95 + (50 \times 79)) = 25.32\%$; $1 - 25.32\% = 74.68\%$

40 $1,258.9 / (699.95 + 499.95 + (50 \times 79)) = 24.45\%$; $1 - 24.45\% = 75.55\%$

41 Further details in the Appendix.

42 We found these information gaps in our business plan that we were unable to obtain; or required in more detail.

5 MANAGEMENT

chikpos is as a wholly owned subsidiary of the Engineering Division of The Jeremy Shum Invent Company. The Executive Team of **chikpos**⁴³ is composed of 50:50 manager/lawyers:engineers⁴⁴.

	Year 1	Year 2	Year 3
Chief Officers of Inventco (3)	\$187,121	\$192,735	\$200,444
Executive VPs (5)	\$147,597	\$152,025	\$158,106
Engineering Team	\$0	\$0	\$60,000
Marketing Team	\$0	\$60,000	\$180,000
Total People	8	10	16
Total Payroll	\$334,718	\$404,760	\$598,550

Table 5.1: Personnel payroll

In addition, we have access to two former executives of Silicon Valley companies⁴⁵ (HP and Oracle), as Chief Officers at The Jeremy Shum Invent Company. These persons have also consulted to Sequoia Capital, the leading VC behind Google, YouTube, and Amazon – key to the large M4 capital injection.

5.1 Human resources

We have identified two key technical skills required as part of the **chikpos** team, marketing and engineering. Our strategy focuses on bridging the marketing gap in M1, and then reengineering in M2+.

The Jeremy Shum Invent Company has a unique corporate DNA, and is the author of the world famous Knowledge Management System that is only rivaled by the likes of Fortune 200 Companies.



Figure 5.1: The Jeremy Shum Invent Company secret weapon is its Knowledge Management System, a repository used to enhance project management.

The Jeremy Shum Invent Company adopts a rather unique “**Dream. Believe. Dare. Do.**” process for Product Development, to derive (and also update and upgrade) the **chikpos** product. This is an empirically tested engineering management tool to manifest and cultivate innovative ideas.

For the purpose of the **chikpos** product, we have positioned ourselves with an emphasis on reliability; on novelty and hyper-continuous improvement; and on focusing on micro retail stores as the key market.

There is no notable reliance on external contractors⁴⁶, with substitutes outlined in the contingency plan.

43 The Executives of jeremys shum invent.com have been omitted from this business plan.

44 The Executive team of chikpos has been included in the Appendix.

45 Dr. Paul K. Shum MBA; Dr. Edward C. Cheng MBA, of The Jeremy Shum Invent Company

46 The External Contract Reliance Analysis is included in the Appendix.

6 FINANCIAL PLAN

The sales revenue figure is 20% greater than COGS (an exceptional feat), which is achieved through a bottom-up approach to our marketing mix, that could most *accurately* estimate market reception.

Our expenditure is a small proportion of our total revenue. We can achieve a low expenditure figure in M1, because of the strategic focus away from engineering to marketing in the initial months. As a result, expenditure for M2 (full costing method of salary), is a larger proportion of revenue; before M3, where economies of scale of production is achieved.

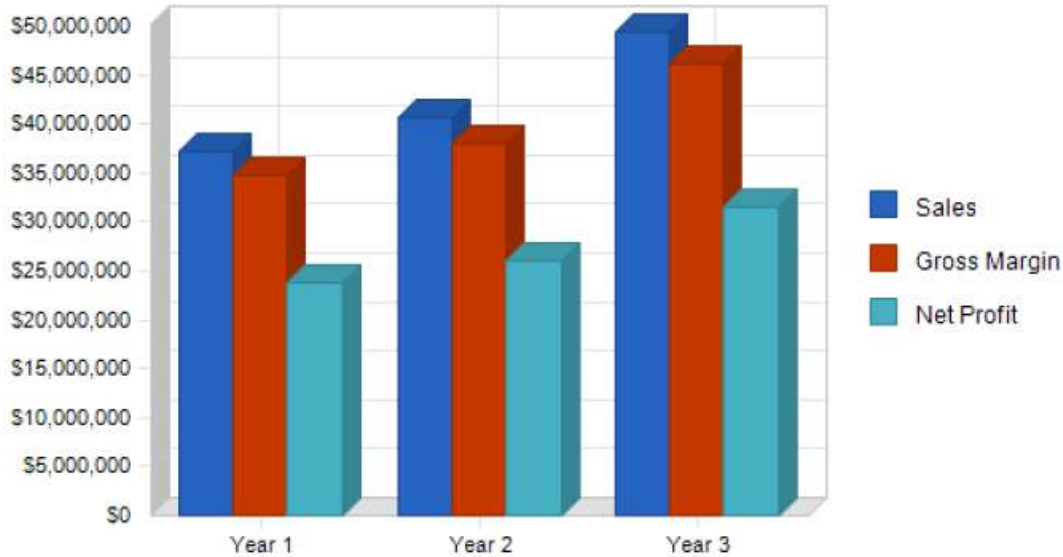


Figure 6.1: The sales revenue forecast as a chart

Note that Figure 6.1 is based on yearly time variance, rather than by milestone, provided for the purpose of pragmatism and comparability with other software businesses.

Forecast financial statements and their related key ratios⁴⁷ demonstrate our liquidity and very low debt-to-equity ratio. To break even, we are required to sell three copies of **chikpos** each week⁴⁸ in year one.

An initial \$67,000 funding (most likely from award winnings) will be immediately spent on legal fees, stationery, insurance, rent, engineering design studio equipment, starting inventory, and petty cash.

6.1 Alternative income sources

With regards to export sales, we have calculated our sales based on actual corporate expansion into other countries. An alternative is to territorially license rights to the technology, which could further reduce the expenditure ratio to revenue.

In the future, we are considering entering into business consulting; software add-ons; interior design; security installation; training sessions; and marketing video productions. Most of these alternative sources of income are services-based (as supposed to capital-intensive), so are easier to cost-leverage. Initially, all of these consulting functions are offered on a need basis, as a part of the \$79/hour warrantee cost.

⁴⁷ This includes the (1) Income Statement; (2) Balance Sheet; (3) Cash Flow; (4) Changes in Equity. Financial assumptions used to prepare the model have been included in the note to the Financial Statements, in the Appendix.

⁴⁸ As explained in the Appendix, Financial Statements section.

7 THE INVESTMENT PROPOSITION

The Return on Equity for investors is \$5.74 for every \$1 contribution if exit before M3.

Commercialization costs include marketing; as well as software reengineering at later stage:

Milestone 1

Angel investment (\$150,000) - 15%

Milestone 2

Second round funding to build operations and management (\$440,000) - 30%

Milestone 3

International roll-out (\$30,000,000) - 40%

Milestone 4

Industry leadership, standards, cachet with national companies (\$200,000,000) - 50%

Milestone 5

IPO, into serious company

Figure 7.1: The Milestone plan⁴⁹

After talks with angel investors, we found investment could provide bipartisan benefit:

	Benefits for investor	Requests from investor
Financial	Potential capital gains as a result of trade sale or IPO	Marketing and consultancy costs (to make up for our lack of market contacts), which is the basis for our need to win the eChallenge prize
Non-financial	The capacity to work with an upcoming easy to use accounting software that could revolutionize the way small businesses account for transactions	Access to HR, IT, accounting, manufacturing, logistics, legal, and marketing consulting resource

Table 7.1: Investor benefits / requests table

We are considering a \$1bn IPO at M5, coinciding with vertical expansion into the global accounting software market. On the failure to conduct an IPO, the alternate plan is a trade sale. Financial losses are unlikely, unless warrantee provisions need to be kept, and **chikpos** liquidates. However, there are ways of contractually overriding this (but it may be difficult, considering the TPA's implied provisions⁵⁰).

7.1 Return on investment

Estimated ROI is 33.4% (with a ±20% fluctuation in sales leading to an ROI boundary of 24.6% to 42.3%).

	Sales revenue	Cost	Expected profit	Percentage share (15%)	ROI (1 year)
Pessimistic ⁵¹ est.	\$353,573	107,550	\$246,023 ⁵²	\$36,903 ⁵³	24.6% ⁵⁴
Estimation	\$441,966⁵⁵	107,550	\$334,416⁵⁶	\$50,162⁵⁷	33.4%⁵⁸
Optimistic ⁵⁹ est.	\$530,359	107,550	\$422,809 ⁶⁰	\$63,421 ⁶¹	42.3% ⁶²

Table 7.2: Expected return on investment

Please consider this figure with due regard to the risky nature of ICT investments.

49 Note that there is an IPO minimum of \$3m for a public float.

50 Trade Practices Act

51 Sales revenue 20% higher

52 353,573 - 107,550 = \$246,023

53 246,023 x 15% = \$36,903

54 36,903 / 150,000 = 24.6%

55 \$363,974 + \$77,992 = \$441,966

56 441,966 - 107,550 = \$334,416

57 334,416 x 15% = \$50,162

58 50,162 / 150,000 = 33.4%

59 Sales revenue 20% lower

60 530,359 - 107,550 = \$422,809

61 422,809 x 15% = \$63,421

62 63,421 / 150,000 = 42.3%

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8 ADDITIONAL NOTES

8.1 Software product purchase

We estimate 30% of customers will move from **qualification** through Internet⁶³ advertising to reach those who will **justify** themselves by clicking on the advertisement, which will provide them with a **demo**. Of the qualified, we estimate 10% will discover their **suitability** and consequently make a **decision** on their purchase. A **contract** is presented through the website, consequently **delivered** from the server on to the client.

❖ Trial:	FREE
❖ Educational: Appropriate for educational institutions.	\$269.95
❖ Home: Appropriate for home-based or professional services, having no dual screen support.	\$99.95
❖ Professional: Flagship version retail, which lacks multi-store functionality.	\$699.95 ⁶⁴
❖ Server: Includes multi-store setup feature, integrating with server software.	\$2,449.95

The basic features of our software are (although some potential customers were concerned that customers would be inattentive to the external display, research⁶⁵ has shown that a transaction takes 1-3 minutes, as compared with a standard advertisement length of fifteen seconds.):

- ❖ **Hardware independence**⁶⁶: Provides stores with the best value for money when making 3-yearly hardware upgrades.
- ❖ **Related products**⁶⁷: System data mines for customer profile, then shows related advertisements
- ❖ **Multiple language support**⁶⁸: An employee can read their display in Chinese, whilst a customer is reading their display in English.
- ❖ **Customer relationship information**⁶⁹: Includes weather, time, and news information (expandable), creating better customer experience.
- ❖ **Online store synergy support**⁷⁰: The inventory database is used to help you automatically generate an "online store". The website supports display of reviews, top sellers, online brochures, online orders, mass e-mail, and club cards.
- ❖ **XBRL support**⁷¹: The new Accounting Reporting Standard which has already been adopted in USA auto-generated from **chikpos**.
- ❖ **Corporate chat support**⁷²: More effective system, replacing traditional telephone PA system
- ❖ **Transformable**: The system is modifiable off-the-shelf, providing it with chameleon functionality.
- ❖ **Business decision reports**⁷³: The **chikpos** generates reports that are relevant to the decision making of management.
- ❖ **Multi-touch compatible**: In short, it provides employees the capability of "dragging and dropping" unwanted products into the "recycle bin", and "spinning" through the receipt to find products (as supposed to the more complicated touch screen systems of today).

A fully tailed system generally includes retail hardware⁷⁴; computer software⁷⁵; computer hardware⁷⁶; in addition to our retail software.

8.2 Risk management analysis

The risks⁷⁷ for a business in adopting **chikpos** include: (1) concerns that the software company will close⁷⁸; (2) failure of advertising⁷⁹; (3) investor loses \$150,000 investment⁸⁰; (4) legal liability⁸¹; (5) not reaching financial goals⁸²; (6) power turning off⁸³; and (7) data transfer problems⁸⁴. The consequences of graver concern are (1) the need to migrate to new software; (3)

63 Our specific strategy is to use the terms "retail", "shop", "entrepreneurship", "POS", "point-of-sales", "accounting", "accounting software", "bookkeeping", accounting jargon (such as "assets", "liabilities", "revenue", "expense"), "management accounting", "financial accounting", "quickbooks", "myob". It will include a mixture of text, image banners, and video banners. Direct email and word-of-mouth may also be effective (but could be tedious).

64 We have been advised by a consultant to increase this figure to \$899. In order not to upset the financial statements already drawn up, we have included this in the notes.

65 (Aberdeen Group, 2008)

66 The Disney Shop has purchased a hardware system HS1, which is running point-of-sales software POS1. The new HS2 system offers double speeds. The Disney Shop must upgrade HS2 in full (and cannot do so in terms of componentry). **chikpos** has parted their system into components that can allow for gradual upgrades. This means The Disney Shop can gradually move to the new system. Furthermore, if the hard disk in HS1 starts to fail (and the hardware is no longer under warranty), The Disney Shop must shell out the full amount for an entirely new HS1 system.

67 Coca-Cola has been trying to find new ways to advertise, as consumers are flooded with more advertisement by-the-day. Woolworths on the other hand, has been trying to find ways to better orient point-of-sales advertisements towards customers, but has found it difficult to do so. The **chikpos** system allows Woolworths to automatically profile a customer (based on their purchases), where Woolworths can then advertise a product at the point-of-sale. For instance, Coca-Cola could set up an agreement whereby whenever a customer purchased Pepsi, a Coca-Cola advertisement would pop up.

68 The Walt Disneyland in Hong Kong has predominantly Chinese-speaking staff. More than half of their customers however, are English-speaking. With usual POS systems, there is no support for external screen, so Chinese-speaking staff is stuck with a difficult attempt at accent-ridden spoken English. With the **chikpos** however, Hong Kong Disneyland staff simply need to press the prompts on their display, smile, and magic – the external screen explains all of the information in English for the customer.

69 Gloria Jean's Coffees attracts large numbers of business people every morning for a coffee, and has been trying to find ways to better serve this market. The **chikpos** system offers these time-bound customers on-the-spot information regarding the weather, time, and business news. With the option of displaying this on an external monitor, there's now no need for business customers to even flick through a newspaper.

70 John, from Boston Consulting Group, has been asked to advise Dotti, a leading girl's apparel store of ways in which they can "go online". Because most POS databases are locked, it is difficult (or otherwise expensive) to connect this with an Internet store. The **chikpos** software automatically generates a perfectly branded Internet store based on your inventory database with one-click, rapidly reducing the costs of going online.

71 General Electric is a Fortune 500 Company listed on the U.S. Stock Exchange. The American legislature (and likely, soon, the Australian legislature too) will require production of the report in XBRL format, as of 2010 on forth. Their Accounting firm, KPMG, however, is not well versed in this new XBRL format. With **chikpos**, General Electric can automatically output their financial statements in XBRL format, which is read by a wide number of Internet business engines, including Yahoo! Business. This can save potentially thousands of dollars. Furthermore, even once produced, KPMG can manually edit the XBRL document as required.

72 Danielle is the Store Manager at SUPRE Ltd on Burke Street in Melbourne, Australia. There are four point-of-sales desks. Currently, for store attendants to contact the manager, they have to use a Public Address (PA) system. Despite one store assistant only requires the Store Manager, "shouting" over the store can be a nuisance to other store assistants who this message is not relating to. **chikpos** allows SUPRE to replace the telephone system with a chat system (very similar to MSN Messenger), which allows a store assistant to type a message directed to the store manager (or any other store assistant). Furthermore, even if Danielle is not in store, she can receive these messages through her mobile phone, thus improving store communication.

73 Robert recently graduated from high school, and because of the recent retirement of his father, he has now taken over as Manager of the store. Unfortunately, he is not well versed with business reports, and has difficulty understanding the MYOB business reports. Furthermore, he is concerned with the amount of paper wastage as a result of the pages of output. **chikpos** produces decision-oriented reports which could provide Robert with a "to do" list, explaining what the report numbers mean, through its smart patent-pending data-mining technology.

74 USB PIN pad with integrated swipe card (\$371.37); USB receipt printer (\$448.30); cash drawer (\$192.03); USB barcode scanner (\$384.25)

75 Windows 7 64-bit Professional (\$186); Office 2007 Business (\$270)

76 Intel Retail Box DG31PR (Gigabit LAN; 8 USB 2.0; 4 SATA interfaces) (\$79); Intel Core 2 Duo 2.9 GHz 1066MHz [E7500] (\$183); 4GB DDR2 SDRAM 800MHz [Kingston] (\$63); 512MB 8400GS Gigabyte graphics card (\$45); 250GB SATA [Seagate] (\$60); DVDRW SATA [Sony] (\$39); 22" WS ASUS USB Link Monitor (\$223); 15" Dell touch-screen (\$480); ASUS Vento KM-63 keyboard/mouse pack (\$15); Ritmo pre-made 2m network cable (\$2)

77 The Hierarchy of Controls includes (1) elimination⁷⁷; (2) substitution⁷⁷; (3) isolation⁷⁷; (4) engineering⁷⁷; (5) administration⁷⁷; or (6) personal protective equipment⁷⁷. Corrective actions for risks depend on whether they are rated (1) high⁷⁷; (2) medium⁷⁷; or (3) low⁷⁷. Risk is mathematically defined as: Risk = Probability x Consequence.

Predominant expenditure on advertising and promotion will be leveraged by publicity exposure as a result of eChallenge in the wider news media (good source of publicity for the investor anyway); and (7) we will provide full refund, or have our engineers create an import from not-as-popular database systems.

8.3 Occupational health and safety analysis

The continuous work at a computer workstation can be hazardous (despite all Coles and Woolworths check-out personnel do so). Although persons may be standing, our installation service includes an OH&S review to ensure that, for instance, the computing screen is at the correct height in relation to the person's eye level. Furthermore, glare and lighting, leading to eye discomfort, strain and headaches is considered. As a result of the Occupational Overuse Syndrome, we also recommend a corporate policy to allow workers to rest at least every three hours.

8.4 PESTLE Analysis

The **political** environment in Australia is predominantly market-driven which will assist the expansion of hypercompetitive retailers. | The **economic** environment has been marked by slow economic growth, and "stimulus payments" to stimulate the retail sector. | The **technological** environment in Australia in the retail sector is marked by the old DOS machines, which have not been upgraded since the 1990's on the basis that "don't fix it if it isn't broken". | The **legal** environment in Australia in the point of sales is predominantly regulated by credit card companies. Of particular importance is the PCI DSS (Payment Card Industry Data Security Standard)⁸⁵. Furthermore, the name **chikpos** is a Trade Mark of The Jeremy Shum Invent Company (even though unregistered). | The **environmental** environment in Australia is towards sustainability. Recently, the retailer sector has seen the phase-out of plastic bags.

8.5 SWOT Analysis

<p>The strengths of chikpos are the strong engineering management/law background, our hybrid knowledge provides us with a knowledge monopoly over competitors. Furthermore, our aggregate executive experience includes the marketing manager behind a radio show that reaches 4.7 million American teenagers; Masters of Manufacturing Engineering; cultural connections with India/China. We also hope our staff are both friendly and knowledgeable!</p>	<p>The weakness of chikpos is the zero awareness of image, and lack of relations with distributors and customers. Our marketing costs are forecasted at \$50 per customer. Thankfully, Google AdWords allows streamlining of expenditure, so it will not cause cash flow problems.</p>
<p>The opportunities of chikpos are in retail hardware production; building operations and sales capabilities; vertical integration into the wider Accounting software market; and technology-savvy code to improve ease of use</p>	<p>The threats of chikpos are other low-cost accounting solutions; government deregulation of accounting; economic downturns; devastating media/press coverage; and shift away from easy-to-use to hard-to-understand solutions.</p>

8.6 Market segment analysis

Micro retailers are those earning less than \$500 million annually (Aberdeen Group, 2008). 52% of SMB retailers do not currently have a POS system (ibid). The size of the Australian retail sector is \$351.4 billion (IBISWorld, 2008), growing at approximately 3.2% (ibid), as contrasted with a 2008 CPI of 4.35%⁸⁶. There were 269,000 retailers, including an additional 73,000 chain stores⁸⁷ (ibid). The purchase decision to buy a POS system is made by store managers for smaller retailers; and head offices (in conjunction with consultants if applicable) for chained retailers. For chained retailers, volume purchasing provides additional incentive to purchase; and for franchisers, a franchise package.

Locally, the small retail store market segment (ibid) is sub-divided approximately equally over personal and household goods retailing; food retailing; and motor vehicle retailing and services. The combined expenditure on utilities and advertising is approximately 3.2% (up to 15% depending on business type) (ibid). The profit figure only accounts for 6% of the cost structure (ibid), meaning a POS system is all the more critical in accounting for cost. The total expenditure on Retail IT is \$4.8 billion (average of \$1.69 billion⁸⁸ to \$7.91 billion⁸⁹ estimate). This is at a 64.8% growth rate of IT spend⁹⁰. Of the SMB retailers who do not currently have a POS system, this means our potential retail market expenditure on Retail IT is \$878.8 million⁹¹ to \$4.11 billion⁹² in size (in Australia). Of the 324,000⁹³ independent retailers, the approximate individual spends on Retail IT is between \$2,712⁹⁴ and \$126,852⁹⁵.

Globally, the small retail store market segment (Aberdeen Group, 2008) is sub-divided (major) by small-box specialty; supermarkets; grocery; drug and convenience store; and consumer electronics, who earned less than \$500 million in annual revenue. Their geographical segmentation is 58% in the Americas; 21% in the EMEA⁹⁶; and 21% in the Asia-Pacific (APAC). The number of independent retailers in APAC is 7,779,859⁹⁷. The number of independent retailers Worldwide is 37,046,948⁹⁸, or \$661.1 billion⁹⁹.

The average cost per individual system install is between \$5,300¹⁰⁰ and \$7,900¹⁰¹. The average cost per single software license is between 22.6%¹⁰² and 31.6%¹⁰³ of the cost of the individual system install. Of the minimum total spend on Retail IT, this is between \$612.91¹⁰⁴ and \$856.99¹⁰⁵. The \$699.95 figure is comparatively less than competitor products.

Unacceptable (low-end) warranties offer replacement/upgrade times of longer than a week. The Aberdeen Report found that most companies (81%) switched POS systems due to complexity and time-related problems. A niche minority (31%) switched to gain a customer advantage. High-end warranties offer replacement/upgrade times of two days (the weekend) or less. Even with existing POS systems, 66% of SMB retailers report customer more than 30% of customers dissatisfied with service, primarily attributed to POS experience. For companies in 2008 with an existing POS systems, they planned to upgrade their existing POS system with one with CRM tools¹⁰⁶. Summing up the primary challenges¹⁰⁷, they include lack of ease of use and reliability¹⁰⁸.

78 depends on financial success of chikpos

79 Unlikely due to inherent nature of Google AdWords targeted advertising – More likely an issue with TV advertisement, but inherent professionalism will help with promotion

80 It is unlikely they will lose any more, as if we cannot match 1:1 \$150,000 in revenue, we will not ask for further capital injection until we have achieved that goal.

81 Unlikely if a refund is provided; the exception is a common law argument of negligence

82 With only 3 products per week as the breakeven point, this is unlikely

83 Depends on power availability at customer store front

84 depends on the existing database system

85 Which requires the achievement of six basic objectives (PCI Security Standards Council, 2009)

86 $(4.2 + 4.5 + 5.0 + 3.7) / 4 = 4.35\%$ (Reserve Bank of Australia, 2008)

87 Key players in the industry include Wesfarmers Limited; Woolworths Ltd; Harvey Norman Holdings Limited; NB Flinders Pty Ltd; and David Jones Limited.

88 $15\% \times 3.2\% \times 351.4 \text{ billion} = \1.69 billion

89 $15\% \times 15\% \times 351.4 \text{ billion} = \7.91 billion

90 $7.91/4.8 \text{ billion} = 64.8\% \text{ above } 1$

91 $52\% \times 1.69 \text{ billion} = \878.8 million

92 $52\% \times 7.91 \text{ billion} = \4.11 billion

93 $269,000 \text{ (independent retailers)} + 73,000 \text{ (chained retailers)} = 324,000 \text{ retailers}$

94 $\$878.8 \text{ million} / 324,000 = \$2,712$

95 $\$4.11 \text{ billion} / 324,000 = \$126,852$

96 Europe, the Middle East, and Africa

97 $100 * 324,000 / 4.1646 = 7,779,859 \text{ independent retailers}$

98 $100 * 7,779,859 / 21 = 37,046,948 \text{ independent retailers}$

99 $4.8 \text{ billion} * 37,046,948 / 269,000 \text{ retailers}$

100 $1,200 + 3,000 + 900 + 200 = \$5,300 \text{ (RetailSystems.com, 2009)}$

101 $2,500 + 4,000 + 900 + 500 = \$7,900 \text{ (ibid)}$

102 $1,200 / 5,300 = 22.6\%$

103 $2,500 / 7,900 = 31.6\%$

104 $22.6 / 100 * 2,712 = \$612.91$

105 $31.6 / 100 * 2,712 = \$856.99$

106 (ibid): 53%: Provided loyalty programs such as customer referral programs, coalition marketing, in-store and web-based personalized promotion; 48%: Application enhancement to include inventory management software for improved optimization and visibility of inventory; 49%: Application enhancement to include CRM tools and functions such as customer demographic information for relationship marketing programs, gift registry, loyalty or reward sign-ups.

107 The Aberdeen (2008) report outlined the following impact of lack of updates in POS customer service: Order management: Scanning inaccuracy; Price inaccuracy; Promotion offer inaccuracy; errors in populating orders; Error in order submission | Payment processing: Payment non-acceptance or delays; Payment authorization failure issues; Identity verification failure issues | Loyalty programs: Rewards non-acceptance; Lack of promotion execution; Absence of up-selling and cross-selling procedures.

Market segments	Estimated size	Estimated share expectation	Potential growth	Barriers to entry
Australia	324,000	0.16% ¹⁰⁹ (M1)	3.2%	None
APAC	7,455,859 ¹¹⁰	0.73% ¹¹¹ (M2)	3.2% ¹¹²	Warrantee support
Worldwide	29,591,089 ¹¹³	1.23% ¹¹⁴ (M3)	3.2% ¹¹⁵	Warrantee support
Total	37,046,948	2.65%¹¹⁶ (M4) 3.89%¹¹⁷ (M5)	3.2%	

8.7 Intellectual property law

Our software code and design is automatically copyright under **Copyright Act 1968** (Cth). Our trade mark, though unregistered, is automatically protected by **Trade Marks Act 1995** (Cth). As a part of the marketing cost, we are considering a \$100,000 patent investment which could cover our (currently) "trade secret and confidential information", which could include Australia, United States, New Zealand, Europe, and Japan (process takes approximately 5 years)¹¹⁸. Our patentable technologies include our:

- ❖ **Front end:** Industrial design patent on the new streamlined interface; Industrial design patent on the format of business report output, transforming found trends into information output useful to managers; Video transformation technology
- ❖ **Back end:** No-pre-configuration, artificial intelligence streamlining new transactions; Data mining technology which finds time-related trends (new dimension) between collected data; Data importing techniques

Currently, we will market these technologies only as a "trade secret", which has similar goodwill effects.

8.8 Competitor analysis

We researched for all POS competitors¹¹⁹, and found Amigo POS/Retail Edge to be excellent POS systems, but lacked dual screen support. We found POS 291/PriSM had user interface problems; and POSIM, MYOB, QuickBooks, Regality Positive, and Retail BOSS POS were all linear systems, thus lacked touch support. Even inferior, OpenBrava and PointOS Professional were also tested, but had database errors. Current systems are either error-prone; have interface problems. Furthermore, some operate on top of Accounting software (rather than being a turnkey system).

	Examples	Differentiation	Relative prices
Linear	Microsoft, Intuit QuickBooks, MYOB POS	Non-touch screen, therefore decrease workflow productivity	\$1,500 (MYOB)
Non-linear (expensive)	Woolworths, Coles POS	Not available for purchase (proprietary software)	\$20,000,000 (Just Jeans)
Non-linear (cheap)	(Listed in Top Competitors Appendix)	Lack features (and sometimes stability)	\$7,600 (Radiant Systems)

Competitors also come indirectly from accountants: However, accountants can also complementarily use chikpos, particularly its more complex information. It just removes the needs for a bookkeeper. | If Managers are well trained in other software, they may have no need for the simplicity. However, this neglects cost of training.

8.9 Projected financial statements

Produced in accordance with GAAP¹²⁰, 2009/2010/2011 is more correctly substituted with M1/M2/M3.

Key ratios by Milestones

Key ratios (and industry comparison) by Year

We foresee no problem with our key ratios (for M3):

Liquidity Ratios	Current Ratio ¹²¹ = 420:1 Quick Ratio ¹²² = 420:1
Profitability Ratios	Return on Assets ¹²³ : 152:1 Return of Equity ¹²⁴ : 5.74:1 Return on Sales ¹²⁵ : 1.64:1
Turnover Ratios	Accounts Receivable Turnover ¹²⁶ : ∞ Inventory Turnover ¹²⁷ : 1 Interest Coverage ¹²⁸ : ∞
Leverage Ratios	Debt to Equity ¹²⁹ : 4.3%

Start up funding

108 Lack of adequate network bandwidth due to prevailing use of dial-up, causing inability to use web-based system; 48%: of SMB retailers lack adequate integration between POS, back office, inventory and cash management applications leading to operational complexities in the areas of sales, budgeting, resource planning, and workforce management; 51%: of SMB retailers lack centralized customer product and location data management, leading to data integrity problems, leading to complexity for inventory optimization, order tracking, dropping, shipping, picking up for customers; 53%: of SMB retailers lack PCI-compliant data security infrastructure to protect cardholder data access by external entities and fraudulent use of data by internal employees

109 $520 / 324,000 = 0.16\%$

110 $7,779,859 - 324,000 = 7,455,859$. This count excludes Australia.

111 $54,750 / 7,455,859 = 0.73\%$

112 This is meant to be an underestimate (conservative estimation)

113 $37,046,948 - 7,455,859 = 29,591,089$. This count excludes APAC.

114 $365,000 / 29,591,089 = 1.23\%$

115 This is meant to be an underestimate (conservative estimation)

116 $(520 + 54,750 + 365,000 + 365,000) / 29,591,089 = 2.65\%$

117 $(520 + 54,750 + 365,000 + 365,000 + 365,000) / 29,591,089 = 3.89\%$

118 The approximate patenting costs are (1) immediate provisional application, \$3,500 - \$5,000; (2) one year complete application, International application (PCT) or Innovation patent; (3) 2.5 year national application for approximately \$40,000 or \$5,000 per country; and (4) 5 year examination and grant, approximately \$40,000 or \$5,000 per country. (McFarlane, 2009)

119 Despite we did a qualitative analysis, in further consulting, we are hoping to find more accurate/precise quantitative data

120 Generally Accepted Accounting Principles

121 Current ratio = Current assets / Current liabilities = 24,135,712 / 57,450 = 420

122 Quick ratio = (Cash + Marketable securities + Account receivables) / Current liabilities = (same as current) = 420

123 Return on assets = (Net income + Interest expense - Interest tax savings) / Average total assets = (181,987,000 + 12,998,700) / 1,286,000 = 152:1

124 Return on equity = Net income after tax / Shareholder equity = 175,487,130 / (150,000 + 440,000 + 30,000,000) = 5.74

125 Return on sales = Operating income / Operating revenue = 194,985,700 / 118,735,989 = 1.64

126 Accounts receivables turnover = Annual credit sales / Average accounts receivable = N/A

127 Inventory turnover = COGS / (Beginning inventory + Ending inventory / 2) = N/A

128 Interest coverage = EBIT / Interest charges = N/A

129 Debt to equity ratio = Liabilities / Equity = 57,450 / 1,343,450 = 4.3:100

Start-up Funding	
Start-up Expenses to Fund	\$54,850
Start-up Assets to Fund	\$12,150
Total Funding Required	\$67,000
Assets	
Non-cash Assets from Start-up	\$12,000
Cash Requirements from Start-up	\$100
Additional Cash Raised	\$0
Cash Balance on Starting Date	\$100
Total Assets	\$12,150
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:	
Owner	\$57,000
Challenge Prize	\$10,000
Additional Investment Requirement	\$0
Total Planned Investment	\$67,000
Loss at Start-up (Start-up Expenses)	(\$54,850)
Total Capital	\$12,150
Total Capital and Liabilities	\$12,150
Total Funding	\$67,000

	Year 1	Year 2	Year 3	Industry Profile
Sales Growth	0.00%	9.06%	21.76%	9.80%
Percent of Total Assets				
Inventory	0.84%	0.45%	0.34%	2.65%
Other Current Assets	0.00%	0.00%	0.00%	49.71%
Total Current Assets	100.00%	100.00%	100.00%	68.43%
Long-term Assets	0.00%	0.00%	0.00%	31.57%
Total Assets	100.00%	100.00%	100.00%	100.00%
Current Liabilities	17.20%	15.24%	14.85%	35.00%
Long-term Liabilities	0.00%	0.00%	0.00%	19.04%
Total Liabilities	17.20%	15.24%	14.85%	54.04%
Net Worth	82.80%	84.76%	85.15%	45.96%
Percent of Sales				
Sales	100.00%	100.00%	100.00%	100.00%
Gross Margin	93.35%	93.34%	93.24%	100.00%
Selling, General & Administrative Expenses	29.26%	29.43%	29.71%	73.57%
Advertising Expenses	0.07%	0.09%	0.10%	1.22%
Profit Before Interest and Taxes	91.55%	91.31%	90.75%	2.28%
Main Ratios				
Current	5.81	6.56	6.73	1.37
Quick	5.77	6.53	6.71	1.06
Total Debt to Total Assets	17.20%	15.24%	14.85%	60.57%
Pre-tax Return on Net Worth	142.78%	74.41%	55.23%	12.83%
Pre-tax Return on Assets	118.23%	63.07%	47.03%	5.06%
Additional Ratios	Year 1	Year 2	Year 3	
Net Profit Margin	64.09%	63.91%	63.53%	n.a
Return on Equity	99.85%	52.09%	38.66%	n.a
Activity Ratios				
Inventory Turnover	12.00	10.70	11.34	n.a
Accounts Payable Turnover	10.75	12.17	12.17	n.a
Payment Days	27	31	27	n.a
Total Asset Turnover	1.29	0.89	0.52	n.a
Debt Ratios				
Debt to Net Worth	0.21	0.18	0.17	n.a
Current Liab. to Liab.	1.00	1.00	1.00	n.a
Liquidity Ratios				
Net Working Capital	\$23,891,221	\$49,866,038	\$81,299,937	n.a
Interest Coverage	0.00	0.00	0.00	n.a
Additional Ratios				
Assets to Sales	0.77	1.45	1.93	n.a
Current Debt/Total Assets	17%	15%	15%	n.a
Acid Test	5.77	6.53	6.71	n.a
Sales/Net Worth	1.56	0.81	0.61	n.a
Dividend Payout	0.00	0.00	0.00	n.a

Our sales mix is approximately 3.3:1 software:warranty sales; or 4.7:1¹³⁰ in terms of cost. Breakeven for M1 is 3 products per week^{131,132}. Using the full-costing method of salary (for pay-rolling 16 personnel), we are required to sell 1,512 monthly.

Monthly Units Break-even	523
Monthly Revenue Break-even	\$59,839

Assumptions:	
Average Per-Unit Revenue	\$114.47
Average Per-Unit Variable Cost	\$7.60
Estimated Monthly Fixed Cost	\$55,864

130 \$363,974:\$77,992
 131 107,550 / 699.99 = 154
 132 154 / 52 ≈ 3

Forecast chikpos sales (by Year, by Milestone)

	Year 1	Year 2	Year 3
Unit Sales			
chikpos Trial	261,825	310,560	351,670
chikpos Educational	5,536	5,739	5,996
chikpos Home	9,231	9,502	9,830
chikpos Professional	46,126	50,293	62,309
chikpos Server	592	611	635
chikpos Warrantee	2,217	2,882	3,423
Total Unit Sales	325,527	379,587	433,863
Sales			
chikpos Trial	\$0	\$0	\$0
chikpos Educational	\$1,494,443	\$1,549,243	\$1,618,620
chikpos Home	\$922,638	\$949,725	\$982,509
chikpos Professional	\$32,285,894	\$35,202,585	\$43,613,185
chikpos Server	\$1,450,370	\$1,496,919	\$1,555,718
chikpos Warrantee	\$1,108,389	\$1,440,906	\$1,711,329
Total Sales	\$37,261,735	\$40,639,379	\$49,481,360
Direct Unit Costs			
chikpos Trial	\$0.00	\$0.00	\$0.00
chikpos Educational	\$2.43	\$2.43	\$2.43
chikpos Home	\$1.50	\$1.50	\$1.50
chikpos Professional	\$52.50	\$52.50	\$52.50
chikpos Server	\$2.45	\$2.45	\$2.45
chikpos Warrantee	\$11.25	\$11.25	\$11.25
Direct Cost of Sales			
chikpos Trial	\$0	\$0	\$0
chikpos Educational	\$13,450	\$13,943	\$14,568
chikpos Home	\$13,840	\$14,246	\$14,738
chikpos Professional	\$2,421,442	\$2,640,194	\$3,270,989
chikpos Server	\$1,450	\$1,497	\$1,556
chikpos Warrantee	\$24,939	\$32,420	\$38,505
Subtotal Direct Cost of Sales	\$2,475,121	\$2,702,300	\$3,340,355

We forecast our chikpos sales¹³³ in the M1-3:

	M1	M2	M3
Domestic sales	\$363,974	\$363,974	\$363,974
Export sales	-	\$27,616,076 ¹³⁴	\$181,623,026 ¹³⁵

We forecast our chikpos warrantee sales¹³⁶ in M1-3:

	M1	M2	M3
Domestic sales	\$77,992	\$77,992	\$77,992
Export sales	-	\$3,821,618 ¹³⁷	\$12,920,708 ¹³⁸

Software service

	M1	M2	M3
Direct Labor / unit	- ¹³⁹	\$53.88 ¹⁴⁰	8.77 ¹⁴¹
Materials cost / unit	\$0.10 ¹⁴²	\$0.33 ¹⁴³	\$0.13 ¹⁴⁴
Total unit cost	\$0.10	\$54.21	\$8.90
Unit margin \$	\$699.89 ¹⁴⁵	\$645.78 ¹⁴⁶	\$691.09 ¹⁴⁷
Unit margin %	99.98% ¹⁴⁸	90.96% ¹⁴⁹	98.52% ¹⁵⁰

Warrantee service

	M1	M2	M3
Direct Labor / unit	\$1,250 ¹⁵¹	\$1,250 ¹⁵²	\$1,250 ¹⁵³
Materials cost / unit	-	-	-
Total unit cost	\$1,250	\$1,250	\$1,250
Unit margin \$	\$3,200 ¹⁵⁴	\$3,200	\$3,200
Unit margin %	71.91% ¹⁵⁵	71.91%	71.91%

TOTAL DIRECT COSTS

	M1	M2	M3
Total Direct Labor cost \$	1,250	1,303.88 ¹⁵⁶	1,258.77 ¹⁵⁷
Total Materials cost \$	0.10	0.33	0.13
Total costs \$	1,250.10	1,304.21	1,258.9
Overall Gross margin	75.73% ¹⁵⁸	74.68% ¹⁵⁹	75.55% ¹⁶⁰

133 This is explained in more detail in the notes to the Financial Statement.

134 \$27,980,050 - \$363,974

135 \$181,987,000 - \$363,974 = \$181,623,026

136 This is explained in more detail in the notes to the Financial Statement.

137 \$3,899,610 - \$77,992 = \$3,821,618

138 \$12,998,700 - \$77,992 = \$12,920,708

139 It is unrealistic to assume that the software dropped out of the sky. In the near future, we will amortize past development costs back into this figure. We estimate this to approximate \$500,000 in development costs.

140 2,950,000 / 54,750 = \$53.88

141 3,200,000 / 365,000 = \$8.77

142 50 / 520 = \$0.10

143 1,788 / 54,750 = \$0.33

144 46,788 / 365,000 = \$0.13

145 699.95 - 0.10 = \$699.89

146 699.95 - 54.21 = \$645.78

147 699.95 - 8.9 = \$691.09

148 699.89 / 699.95 = 99.98%

149 645.78 / 699.95 = 90.96%

150 691.09 / 699.95 = 98.52%

151 Assuming that each warrantee purchase requires 50 hours of assistance each year (an over-assumption; but please do not assume bad product quality, in actuality, we only hope to provide a few hours average per year, but before we obtain an actuary analysis, we will stick with this very conservative figure, to express our commitment to hyper high quality service), the Labor costs required for the estimated 156 insurance purchases, are 7,800 hours x \$25 = \$195,000. The cost per unit is 195,000/156 = \$1,250

152 Assuming that each warrantee purchase requires 50 hours of assistance each year (an over-assumption), the Labor costs required for the estimated 39,000 insurance purchases, are 1,950,000 hours x \$25 = \$48,750,000. The cost per unit is 48,750,000/39,000 = \$1,250

153 Assuming that each warrantee purchase requires 50 hours of assistance each year (an over-assumption), the Labor costs required for the estimated 260,000 insurance purchases, are 13,000,000 hours x \$25 = \$325,000,000. The cost per unit is 325,000,000/260,000 = \$1,250

154 499.95 + (50 x \$79) - 1,250 = \$3,200

155 (499.95 + (50 x \$79) - 1,250) / (499.95 + (50 x \$79)) = 71.91%

156 53.88 + 1,250 = 1,303.88

157 8.77 + 1,250 = 1,258.77

158 1,250.10 / (699.95 + 499.95 + (50 x 79)) = 24.27%; 1-24.27% = 75.73%

159 1,304.21 / (699.95 + 499.95 + (50 x 79)) = 25.32%; 1-25.32% = 74.68%

160 1,258.9 / (699.95 + 499.95 + (50 x 79)) = 24.45%; 1-24.45% = 75.55%

Statement of Financial Performance (by Year, by Milestone)

	Year 1	Year 2	Year 3
Sales	\$37,261,735	\$40,638,379	\$49,481,360
Direct Cost of Sales	\$2,475,121	\$2,702,300	\$3,340,355
Other Costs of Sales	\$2,143	\$2,786	\$4,179
Total Cost of Sales	\$3,477,264	\$2,705,086	\$3,344,534
Gross Margin	\$34,784,471	\$37,934,292	\$46,136,827
Gross Margin %	93.35%	93.34%	93.24%
Expenses			
Payroll	\$334,718	\$404,760	\$588,550
Marketing/Promotion	\$26,832	\$34,822	\$51,932
Depreciation	\$201	\$324	\$442
Rent	\$106,449	\$123,861	\$185,492
Utilities	\$5,678	\$6,563	\$9,875
Insurance	\$5,865	\$10,292	\$15,438
Payroll Taxes	\$50,398	\$60,714	\$89,782
Other	\$105,030	\$144,550	\$216,824
Leased Vehicles	\$13,954	\$18,140	\$27,210
Payroll Services	\$2,377	\$3,090	\$4,635
Internet Services	\$2,792	\$3,630	\$5,444
Postage	\$13,468	\$17,508	\$26,263
Total Operating Expenses	\$670,371	\$827,873	\$1,251,888
Profit Before Interest and Taxes	\$34,114,100	\$37,106,419	\$44,904,939
EBITDA	\$34,114,301	\$37,106,743	\$44,905,381
Interest Expense	\$0	\$0	\$0
Taxes Incurred	\$10,234,230	\$11,131,926	\$13,471,482
Net Profit	\$23,879,870	\$25,974,823	\$31,433,457
Net Profit/Sales	64.09%	63.91%	63.53%

	M1	M2	M3
Sales Revenue			
Software	363,974 ¹⁶¹	27,980,050 ¹⁶²	181,987,000 ¹⁶³
Warranty	77,992 ¹⁶⁴	3,899,610 ¹⁶⁵	12,998,700 ¹⁶⁶
Revenue before GST	441,966	31,879,660	194,985,700
GST (10%) ¹⁶⁷	44,197	3,187,966	19,498,570
Revenue after GST	397,769	28,691,694	175,487,130
Expenses			
Salaries	-168	2,950,000 ¹⁶⁹	3,200,000 ¹⁷⁰
Travel Costs	-171	112,500 ¹⁷²	126,500 ¹⁷³
Warranty	-174	-	-
Marketing	50,000	1,000,000	1,362,000
Television	-	752,000	1,052,000
Print	4,000	60,000	80,000
Magazines	10,000	80,000	100,000
Radio	10,000	80,000	100,000
e-Ads ¹⁷⁵	26,000	28,000	30,000
Brochures	7,500	10,000	20,000
Website ¹⁷⁶	50	1,788	46,788
Total expense	107,550	5,074,288	5,864,288
Net PBIT	290,219	23,617,406	169,622,842
Tax (30%)	87,066	7,085,222	50,886,853
Net PBAT	203,153	16,532,184	118,735,989
Investment	150,000	440,000	10,000,000
Free \$ flow	353,153	16,972,184	118,735,989

161 We expect to sell 10 copies per week; 520 copies in the first year, customers reached through Google AdWords (\$0.05 CPC, will reach 1 out of 1000 customers; so to reach 520 customers, we need 520,000 CPC, with advertising cost of \$26,000). The revenue is 520 x \$699.95 = \$363,974. The unit divisions are for S-Australia only.

162 We expect to reach M2 by this stage (second round of funds), on top of first year revenue, which may allow us to secure some bank loans (1:1). This will allow us to invest up to \$5,000,000 in angel funds. As a result of the increased publicity, we expect to sell 150 copies per day (nationally). The revenue is 150 x 5 x 52 = 39,000 x \$699.95 = \$27,980,050. The unit divisions are for Australia-wide only. PLEASE NOTE: To generate these figures, we assumed 364 days a year; this was suggested by consultants to be re-quantified to 220 days/year. However, because this software is sold ONLINE, including the pull-channels, we will keep the 364 day figure.

163 We expect to reach M3 by this stage (international roll-out), on top of second year revenue, which may allow us to secure some bank loans (1:1). This will allow us to invest up to \$50,000,000 in advertisements. As a result of the increased publicity, we expect to sell 1,000 copies per day (internationally). The revenue is 1000 x 5 x 52 = 260,000 x \$699.95 = \$181,987,000. The unit divisions are Americas (211,700 units | \$105,552,460), EMEA (76,650 units | \$38,217,270), and APAC (76,650 units | \$38,217,270). Our costs will be adjusted for currency exchange (charge to customer account).

164 Of the 520 purchasers each year, we expect 30% to purchase insurance. This is 156 x \$499.95 = \$77,992.20

165 Of the 39,000 purchasers each year, we expect 20% to purchase insurance. This is 39,000 * 0.2 = 7,800 x \$499.95 = \$3,899,610

166 Of the 260,000 purchasers each year, we expect 10% to purchase insurance. This is 260,000 * 0.1 = 26,000 x \$499.95 = \$12,998,700

167 This tax value is only valid for Australia. It will need to be reassessed for sales in other countries.

168 We expect a team of one engineering manager (\$300,000) and a team of five engineers (\$75,000). The Executive team of six people is awarded at \$200,000. The total cost is 300,000 + (5x\$75,000) + (6x\$200,000) = \$1,875,000. The forecasts omit the Both the Executive team and Engineering team are willing to waive their first-year income, in an alternative remuneration package.

169 We expect a team of two engineering managers (2x\$300,000) and a team of ten engineers (\$75,000). We also expect a marketing manager (\$150,000) and a team of five market researchers (\$50,000). The Executive team of six people is awarded at \$200,000. Total cost is \$2,950,000

170 We expect a team of two engineering managers (2x\$300,000) and a team of fourteen engineers (\$75,000). We also expect a marketing manager (\$150,000) and a team of ten market researchers (\$50,000). The Executive team of six people is awarded at \$200,000. Total cost is \$3,200,000

171 The travel costs have been waived for the first year.

172 Each manager has a travel allowance of \$10,000 per month; each employee \$1,500 per month. With nine managers; and fifteen employees, the total cost is 9x10,000 + 15x1,500 = \$112,500

173 Each manager has a travel allowance of \$10,000 per month; each employee \$1,500 per month. With nine managers; and twenty four employees, the total cost is 9x10,000 + 24x1,500 = \$126,000. This may be an inaccurate estimate as this is an "international roll-out" which may require increased travel expenses.

174 The warranty and installation cost is charged per-unit on-request, and is charged directly to the customer account, and is explained in more detail in the unit cost section. It is not covered in the expenses, so as to prevent misleading irregularities.

175 The alternative option is to use the alternative distribution/sales commission channel, which although will cost at least 30% of the sales revenue, provides an alternative (although likely, more expensive, alternative sales channel).

176 Maintenance of the Internet distribution channel is currently \$50 per annum. At an expanded consumption rate, it is forecasted to cost a maximum \$1,788 per annum. To get a dedicated web designer would cost \$45,000 per annum (forecasted at M3). Total third year cost is 1,788 + 45,000 = \$46,788

Statement of Financial Position (by Year, and by Milestone)

	Year 1	Year 2	Year 3
Assets			
Current Assets			
Cash	\$28,610,668	\$58,565,437	\$95,150,652
Inventory	\$241,414	\$263,572	\$325,805
Other Current Assets	\$1,000	\$1,000	\$1,000
Total Current Assets	\$28,853,081	\$58,830,009	\$95,477,457
Long-term Assets			
Long-term Assets	\$1,000	\$1,000	\$1,000
Accumulated Depreciation	\$201	\$525	\$967
Total Long-term Assets	\$799	\$475	\$33
Total Assets	\$28,853,880	\$58,830,484	\$95,477,490
Liabilities and Capital			
Current Liabilities			
Accounts Payable	\$1,235,687	\$1,173,860	\$1,439,272
Current Borrowing	\$0	\$0	\$0
Other Current Liabilities	\$3,726,173	\$7,790,111	\$12,738,247
Subtotal Current Liabilities	\$4,961,860	\$8,963,971	\$14,177,520
Long-term Liabilities			
Long-term Liabilities	\$0	\$0	\$0
Total Liabilities	\$4,961,860	\$8,963,971	\$14,177,520
Capital			
Paid-in Capital	\$67,000	\$67,000	\$67,000
Retained Earnings	(\$54,850)	\$23,825,020	\$49,799,513
Earnings	\$23,879,870	\$25,974,493	\$31,433,457
Total Capital	\$23,892,020	\$49,866,513	\$81,299,970
Total Liabilities and Capital	\$28,853,880	\$58,830,484	\$95,477,490
Net Worth	\$23,892,020	\$49,866,513	\$81,299,970

	M1	M2	M3
Capital Assets			
Land	-	-	-
Buildings	-	1,010,000	1,020,000
Machinery, Eq	120,000	80,000	40,000
Opening Stock	10,000	10,000	10,000
Vehicles	200,000	150,000	130,000
Furniture	25,000	24,000	23,000
Fitout	65,000	64,000	63,000
Total Assets	\$420,000	\$1,338,000	\$1,286,000
	0	0	0
Liabilities			
Accounting fees	1,500	2,000	5,000
Pre-paid rent			
Utilities	2,000	3,000	5,000
Cash (Petty)	150	150	150
Ltd Registration	1,200	1,200	1,200
Legal Advice	2,000	3,000	5,000
Insurance	7,500	15,000	20,000
Maintenance			
Cleaning	850	1000	1250
Office supplies	350	450	550
Painting/signs	1,100	1,350	1,500
Printing / stationery	400	600	800
Development	15,000	-	-
Training wages	-	15,000	15,000
Website set-up	2,000	2,000	2,000
Total liabilities	34,050	44,750	57,450
Total setup costs & funds required	\$454,050	\$1,382,750	\$1,343,450
	0	0	0
Funding			
Own funds	300,000	1,000,000	1,000,000
Equity			
Venture Capital	150,000	440,000	30,000,000
Total Funds avail	450,000	1,382,750	1,343,450
(Shortfall)/Surplu s	4,050	0	0

The production establishment costs are \$34,050 in the first year. The minimum fixed costs are \$107,550 in the first year. The variable by volume costs are for additional marketing expenditures, approximately \$50 per unit¹⁷⁷.

177 \$0.05 CPC, will reach 1 out of 1000 customers; so to reach 1 customer, we need 1000 CPC, with advertising cost of \$50).

Statement of Cash Flow (by Year, and by Milestone)

	Year 1	Year 2	Year 3
Cash Received			
Cash from Operations			
Cash Sales	\$37,261,735	\$40,639,379	\$49,481,360
Subtotal Cash from Operations	\$37,261,735	\$40,639,379	\$49,481,360
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	\$3,726,173	\$4,063,938	\$4,948,136
New Current Borrowing	\$0	\$0	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0
New Investment Received	\$0	\$0	\$0
Subtotal Cash Received	\$40,987,908	\$44,703,317	\$54,429,496
Expenditures			
Expenditures from Operations			
Cash Spending	\$334,718	\$404,760	\$598,550
Bill Payments	\$12,042,673	\$14,343,767	\$17,245,732
Subtotal Spent on Operations	\$12,377,391	\$14,748,547	\$17,844,282
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	\$0	\$0	\$0
Principal Repayment of Current Borrowing	\$0	\$0	\$0
Other Liabilities Principal Repayment	\$0	\$0	\$0
Long-term Liabilities Principal Repayment	\$0	\$0	\$0
Purchase Other Current Assets	\$0	\$0	\$0
Purchase Long-term Assets	\$0	\$0	\$0
Dividends	\$0	\$0	\$0
Subtotal Cash Spent	\$12,377,391	\$14,748,547	\$17,844,282
Net Cash Flow	\$28,610,518	\$29,954,770	\$36,585,214
Cash Balance	\$28,610,668	\$58,565,437	\$95,150,652

	M1	M2	M3
Inflows	150,000	837,769	30,000,000
Outflows	107,550	5,074,288	5,864,288
Net flows	42,450	(4,236,519)	24,135,712

8.9.1 Monthly breakdowns for M1

Statement of Financial Performance by Month

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Sales	\$2,428,426	\$2,707,209	\$2,787,380	\$2,889,775	\$2,955,227	\$3,042,880	\$3,133,002	\$3,225,724	\$3,323,796	\$3,425,037	\$3,528,378	\$3,634,889
Direct Cost of Sales	\$174,395	\$179,657	\$185,025	\$190,551	\$196,290	\$202,188	\$208,247	\$214,475	\$220,917	\$227,573	\$234,387	\$241,414
Other Costs of Sales	\$100	\$110	\$121	\$133	\$148	\$161	\$177	\$195	\$215	\$237	\$261	\$287
Total Cost of Sales	\$174,495	\$179,767	\$185,146	\$190,684	\$196,438	\$202,349	\$208,424	\$214,670	\$221,132	\$227,810	\$234,648	\$241,701
Gross Margin	\$2,453,931	\$2,527,441	\$2,602,248	\$2,679,090	\$2,758,791	\$2,840,531	\$2,924,576	\$3,011,054	\$3,102,883	\$3,197,227	\$3,293,731	\$3,393,189
Gross Margin %	93.36%	93.36%	93.36%	93.36%	93.35%	93.35%	93.35%	93.35%	93.35%	93.35%	93.35%	93.35%
Expenses												
Payroll	\$19,150	\$20,337	\$21,621	\$23,011	\$24,517	\$26,149	\$27,920	\$29,843	\$31,932	\$34,203	\$36,673	\$39,362
Marketing/Promotion	\$2,100	\$2,121	\$2,142	\$2,163	\$2,185	\$2,207	\$2,229	\$2,251	\$2,274	\$2,297	\$2,320	\$2,343
Depreciation	\$10	\$11	\$12	\$13	\$14	\$15	\$16	\$18	\$20	\$22	\$24	\$28
Rent	\$7,500	\$7,725	\$7,957	\$8,198	\$8,442	\$8,695	\$8,956	\$9,225	\$9,502	\$9,787	\$10,081	\$10,383
Utilities	\$400	\$412	\$424	\$437	\$450	\$464	\$478	\$492	\$507	\$522	\$538	\$554
Insurance	\$625	\$644	\$663	\$683	\$703	\$724	\$746	\$768	\$791	\$815	\$839	\$864
Payroll Taxes	15%	\$2,873	\$3,051	\$3,243	\$3,452	\$3,678	\$3,922	\$4,188	\$4,476	\$4,790	\$5,130	\$5,504
Other	15%	\$7,400	\$7,622	\$7,851	\$8,087	\$8,330	\$8,580	\$8,837	\$9,102	\$9,375	\$9,656	\$9,946
Leased Vehicles	16%	\$984	\$1,014	\$1,044	\$1,075	\$1,107	\$1,140	\$1,174	\$1,208	\$1,245	\$1,282	\$1,320
Payroll Services	15%	\$168	\$173	\$178	\$183	\$188	\$194	\$200	\$206	\$212	\$218	\$225
Internet Services	15%	\$198	\$203	\$209	\$215	\$221	\$228	\$235	\$242	\$249	\$256	\$264
Postage	\$950	\$876	\$1,007	\$1,037	\$1,068	\$1,100	\$1,133	\$1,167	\$1,202	\$1,238	\$1,275	\$1,313
Total Operating Expenses	\$42,357	\$44,291	\$46,351	\$48,552	\$50,903	\$53,418	\$56,112	\$58,999	\$62,098	\$65,426	\$68,906	\$72,857
Profit Before Interest and Taxes	\$2,411,574	\$2,483,151	\$2,555,885	\$2,630,539	\$2,707,889	\$2,787,112	\$2,868,488	\$2,952,054	\$3,040,585	\$3,131,801	\$3,224,725	\$3,320,331
EBITDA	\$2,411,584	\$2,483,162	\$2,555,907	\$2,630,552	\$2,707,903	\$2,787,127	\$2,868,482	\$2,952,072	\$3,040,588	\$3,131,823	\$3,224,749	\$3,320,357
Interest Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Taxes Incurred	\$723,472	\$744,945	\$766,766	\$788,162	\$812,367	\$836,134	\$860,540	\$885,616	\$912,168	\$939,540	\$967,417	\$996,098
Net Profit	\$1,688,101	\$1,738,205	\$1,789,126	\$1,841,377	\$1,895,522	\$1,950,979	\$2,007,926	\$2,066,438	\$2,128,395	\$2,192,260	\$2,257,307	\$2,324,232
Net Profit/Sales	64.22%	64.21%	64.18%	64.16%	64.14%	64.12%	64.09%	64.06%	64.04%	64.01%	63.98%	63.94%

Statement of Financial Position by Month

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	
Assets													
Starting Balances													
Current Assets													
Cash	\$150	\$2,836,083	\$4,712,504	\$6,802,161	\$8,952,939	\$11,167,271	\$13,446,353	\$15,792,048	\$18,206,220	\$20,693,669	\$23,255,939	\$25,894,076	\$28,610,668
Inventory	\$10,000	\$174,395	\$179,657	\$185,025	\$190,551	\$196,290	\$202,188	\$208,247	\$214,475	\$220,917	\$227,573	\$234,367	\$241,414
Other Current Assets	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Total Current Assets	\$11,150	\$3,011,478	\$4,893,162	\$6,988,186	\$9,144,490	\$11,364,561	\$13,649,541	\$16,001,295	\$18,421,695	\$20,915,586	\$23,484,512	\$26,129,462	\$28,853,081
Long-term Assets													
Long-term Assets	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Accumulated Depreciation	\$0	\$10	\$21	\$33	\$46	\$60	\$75	\$91	\$109	\$129	\$151	\$175	\$201
Total Long-term Assets	\$1,000	\$990	\$979	\$967	\$954	\$940	\$925	\$909	\$891	\$871	\$849	\$825	\$799
Total Assets	\$12,150	\$3,012,468	\$4,894,141	\$6,989,153	\$9,145,444	\$11,365,501	\$13,650,466	\$16,002,204	\$18,422,586	\$20,916,457	\$23,485,361	\$26,130,267	\$28,853,080
Liabilities and Capital													
Current Liabilities													
Accounts Payable	\$0	\$1,049,374	\$922,120	\$949,267	\$977,203	\$1,008,216	\$1,035,914	\$1,066,426	\$1,097,798	\$1,130,694	\$1,165,034	\$1,199,614	\$1,235,687
Current Borrowing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Current Liabilities	\$0	\$262,843	\$533,563	\$812,303	\$1,098,280	\$1,394,603	\$1,899,091	\$2,012,381	\$2,334,963	\$2,667,343	\$3,009,647	\$3,362,685	\$3,726,173
Subtotal Current Liabilities	\$0	\$1,312,216	\$1,455,684	\$1,761,569	\$2,075,484	\$2,401,019	\$2,735,005	\$3,078,817	\$3,432,761	\$3,798,237	\$4,174,681	\$4,562,499	\$4,961,860
Long-term Liabilities													
Total Liabilities	\$0	\$1,312,216	\$1,455,684	\$1,761,569	\$2,075,484	\$2,401,019	\$2,735,005	\$3,078,817	\$3,432,761	\$3,798,237	\$4,174,681	\$4,562,499	\$4,961,860
Equity													
Paid-in Capital	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000
Retained Earnings	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)	(\$54,850)
Earnings	\$0	\$1,686,101	\$3,426,307	\$5,215,433	\$7,056,810	\$8,952,332	\$10,903,311	\$12,911,237	\$14,977,675	\$17,106,070	\$19,298,331	\$21,555,638	\$23,879,670
Total Capital	\$12,150	\$1,700,251	\$3,438,457	\$5,227,583	\$7,068,960	\$8,964,482	\$10,915,461	\$12,923,387	\$14,989,825	\$17,118,220	\$19,310,481	\$21,567,788	\$23,892,020
Total Liabilities and Capital	\$12,150	\$3,012,468	\$4,894,141	\$6,989,153	\$9,145,444	\$11,365,501	\$13,650,466	\$16,002,204	\$18,422,586	\$20,916,457	\$23,485,361	\$26,130,267	\$28,853,080
Net Worth	\$12,150	\$1,700,251	\$3,438,457	\$5,227,583	\$7,068,960	\$8,964,482	\$10,915,461	\$12,923,387	\$14,989,825	\$17,118,220	\$19,310,481	\$21,567,788	\$23,892,020

Statement of Cash Flow by Month

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	
Cash Received													
Cash from Operations													
Cash Sales	\$2,628,426	\$2,707,209	\$2,787,392	\$2,869,775	\$2,955,227	\$3,042,680	\$3,133,002	\$3,225,724	\$3,323,796	\$3,425,037	\$3,528,378	\$3,634,889	
Subtotal Cash from Operations	\$2,628,426	\$2,707,209	\$2,787,392	\$2,869,775	\$2,955,227	\$3,042,680	\$3,133,002	\$3,225,724	\$3,323,796	\$3,425,037	\$3,528,378	\$3,634,889	
Additional Cash Received													
Sales Tax, VAT, HST/GST Received	10.00%	\$262,843	\$270,721	\$278,739	\$286,977	\$295,523	\$304,288	\$313,308	\$322,572	\$332,380	\$342,504	\$352,838	\$363,409
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	\$2,891,268	\$2,977,930	\$3,066,131	\$3,156,752	\$3,250,750	\$3,347,168	\$3,446,302	\$3,548,296	\$3,654,175	\$3,767,541	\$3,881,216	\$3,998,378	
Expenditures													
Expenditures from Operations													
Cash Spending	\$18,150	\$20,337	\$1,621	\$23,011	\$24,517	\$26,149	\$27,820	\$29,643	\$31,602	\$34,203	\$36,673	\$39,362	
Bill Payments	\$36,185	\$1,081,171	\$954,654	\$982,963	\$1,011,901	\$1,041,937	\$1,072,687	\$1,104,281	\$1,136,794	\$1,171,068	\$1,206,407	\$1,242,424	
Subtotal Spent on Operations	\$55,335	\$1,101,508	\$976,475	\$1,005,974	\$1,036,418	\$1,068,086	\$1,100,607	\$1,134,124	\$1,168,728	\$1,205,271	\$1,243,080	\$1,281,786	
Additional Cash Spent													
Sales Tax, VAT, HST/GST Paid Out	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
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	\$55,335	\$1,101,508	\$976,475	\$1,005,974	\$1,036,418	\$1,068,086	\$1,100,607	\$1,134,124	\$1,168,728	\$1,205,271	\$1,243,080	\$1,281,786	
Net Cash Flow	\$2,835,933	\$1,876,422	\$2,089,656	\$2,150,778	\$2,214,333	\$2,279,082	\$2,345,695	\$2,414,172	\$2,487,449	\$2,562,270	\$2,638,136	\$2,716,592	
Cash Balance	\$2,836,083	\$4,712,504	\$6,802,161	\$8,952,939	\$11,167,271	\$13,446,353	\$15,792,048	\$18,206,220	\$20,693,669	\$23,255,939	\$25,894,076	\$28,610,668	

8.10 Company valuation

Valuation is based upon a number of factors, namely: (a) **Exit scenario**: Because the succession of M1 to M5 is unsure, assuming that the company is started-up, so reaches M2, the total net flow by M3 is \$24,135,712. This is pre-international roll-out; (b) **Funding plan**: The pre-international roll-out requires \$440,000 injection for the dilution to 70% ownership; (c) **Assessment of success probability**: We have identified a strong core team, but we have suspicion regarding the nature of the software market. On total failure, we subsume to continue to provide the software, bar warrantee, for a very low-cost; and (d) **Return hurdle**: For an injection of \$440,000 minority shareholdings, 30% of the total net flow by M3, \$24,135,712, is \$7,240,714, nearly 16 times greater than initial investment. This is thus a very promising investment proposal.

8.11 Corporate social responsible considerations

The software took into account various environmental considerations, including: lower energy consumption¹⁷⁸; EPEAT-Gold rating¹⁷⁹; reducing greenhouse emissions¹⁸⁰; reducing deforestation¹⁸¹; reducing non-renewable materials¹⁸²; and conserving indigenous artwork¹⁸³.

178 Due to newer computer hardware (Intel Atom processor) which is more power efficient so will reduce the power bill.

chikpos takes into account Universal Design principles, including: Touch screen technology supports the use by person with single arm, with low physical effort; Customer screen technology assists those who have poor hearing (including places with noise problems); Capability to play sound; possibility for high contrast input screen (through theming); big icons support persons with poor control; tolerance for error, including "undo".

8.12 Human resources policy

The Jeremy Shum Invent Company is committed towards creativity and imagination; scientific excellence; state-of-the-art facilities; hard work; and professionalism. In particular, what makes good employees is the "paradoxical personality"¹⁸⁴ (McMullan, 1978), an orientation towards innovation¹⁸⁵; and commitment to engineering excellence^{186,187}. Of some importance is our "Dream¹⁸⁸. Believe¹⁸⁹. Dare¹⁹⁰. Do¹⁹¹" empirically tested process for Product Development. Qualitative engineering characteristics that we focus on include novelty; workability; usefulness (Anand, 1993); elegance; relevance (Hjørland, 2000); effectiveness (Drucker, 2006); and general application.

The hiring policy is to uniquely find professionally qualified applicants who can demonstrate high intellectual and emotional quotient through a "personality test", and the "dreamers boot camp", which includes seven day training¹⁹². They are then put on to a 3-month probationary period, where their effectiveness of integration into the organization will be assessed at the end of the period.

8.12.1 chikpos executive team

- ❖ **President, Chief Executive Officer:** Howard D. Fong, BA(Psy)
- ❖ **Executive VP, Hardware Engineering:** Jeremy H. Shum, LLB, BCom(Acc)
- ❖ **Senior VP, Software Engineering:** Gautam R. Behera, BE, ME
- ❖ **Senior VP, Finance and Secretary:** Charlotte W. Sak, LLB, B.Com(CorpFin)
- ❖ **Senior VP, General Counsel:** Louise A. Young, LLB, B.Com(Acc)
- ❖ **Senior VP, Corporate Strategy, Business Development and Technology Group:** Dawson J. Hunt, BMan, BCompSci

8.12.2 External contractors essential to the business

The contractors of **chikpos** include Australia Post (shipping); ETSA Utilities (Electricity); Microsoft (Office software); MySQL (Database software); Borland C++ (Programming software). The substitutes, respectively, are e-Delivery; Laptop battery; Google Documents; Microsoft SQL; and Microsoft C++ .NET.

179 Hardware dependent systems mean the manufacturer is somewhat less inclined to produce EPEAT Gold-rated technology, careful in disposal, et cetera.

180 Instant online store will help reduce in-store activity, thus the need for customers to travel to your bricks-and-mortar store, as often, therefore reducing greenhouse emissions of cars.

181 Managerial decision report means being more paper efficient, rapidly reducing daily 100-page paper report, thus reducing deforestation of trees.

182 The digitization of communications technologies (the telephone), as well as customer information (time) will mean reducing non-renewable polymers.

183 In talks with the possibility of playing Ancient Australian artwork and music on the systems.

184 in possession of: Openness and drive; Dreaminess and realism; Destructive criticism and constructive criticism; Neutrality and passion; Self-centeredness and altruism; Self-criticism and self-confidence; Concentration and relaxation

185 Workplace improvement, quality and productivity; Innovative work environment; Innovation as core competency; Shared vision, culture and values; Innovation strategy; Market orientation; Leadership for innovation, accountability and development; Resource creation with open markets for funds, ideas, and talent; Ideas and knowledge sharing; Knowledge management systems and learning organization; Develop innovative ideas and concepts; Leading a team; Communication and collaboration; Change management ; Rewards and recognition; Stage-gate process; Performance measurement and reporting systems; Supportive systems

186 Based on the Engineers Australia Engineering Excellence awards

187 Contribution to the national economy (employment potential; export potential; cost savings; development of infrastructure (ie national asset); new industry; import replacement; value adding) | Impact on quality of life of relevant communities (natural environment; urban environment; health and safety; resource conservation; sustainability) | Significance as a benchmark of Australian engineering (media attractiveness; importance of engineering component; reputation as a quality project; recognition as an engineering achievement/innovation; recognition of standard of excellence) | Standing as world best practice (originality; overseas interest; coverage in world literature; patents and other protection) | Extent to which the work has provided a safe and healthy working environment (For those directly or indirectly involved; For members of the community in general) | Engineering basics (demonstrable use of sound engineering principles and practices; originality and/or ingenuity in achieving the best solution; adherence to budget parameters and program timelines Innovation is an essential element in Engineering Excellence.)

188 Generation of ideas through "The Gong Show" (International Movie Database, 1976), where people raise random ideas and bad ones are gonged. This creates an atmosphere where it is an honor to be "gonged" so lots of ideas come out.

189 Screening of ideas through a quantitative analysis (Kuhn, 1998) using the PR (Power, Risk) model; and a feasibility study, a qualitative analysis (Patton, 2002) by each functional department, so in terms of (1) product development; (2) markets; (3) operations; and (4) financial.

190 Preliminary design and development, including prototype testing, and market testing.

191 Final design, actual production.

192 Including: The famous allegiance statement; Positive thinking; Career management; Company orientation; Company structure information; Etiquette; Lock down rule of project, 1 hour sound checking before presentations; Pop off (the gathering) before big events; Famous "Have a magical day" salutation

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