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EduSoft, Inc.
Three Year Business Plan
1996 - 1998

by

Joel A. Block

Professional paper for the fulfillment of the requirements

for the degree of

Master of Business Administration

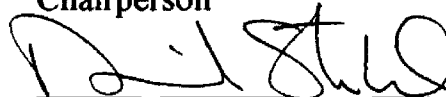
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EduSoft, Incorporated

Three Year Business Plan (1996 - 1998)

*The Special Education Software of
Choice for K-12 Public Schools*

**Prepared by Joel A. Block
University of Montana School of Business**

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PREFACE

This plan was written for an actual software company currently in operation. At the company's request for confidentiality, fictitious names have been used for the company and its products and services. All market, financial and other company information is real.

The plan covers a three year time frame between January 1, 1996 and December 31, 1998. The strategies developed in the plan will be evaluated and/or employed sometime during this period. The *Overall Schedule* outlines target dates by month and year for each strategy.

This plan extends beyond the scope of a traditional business plan. Based on the level of detail provided, it may serve, in large part, as an operations plan. This was intentional based on the company's need both for strategic and tactical direction.

Executive Summary

Our country's public special education system is buried by the mountains of paperwork required by law to record and monitor special education student information.

Over 4.9 million special education students currently are enrolled in our country's 85,000 public schools. Over 250 thousand instructors and administrators are employed to deliver a host of programs ranging from learning disabilities to speech therapy to programs for deaf and blind students.¹ However, while our educators provide a quality education for special education students, they are unnecessarily burdened by the paperwork required by state and federal governments to monitor, track, and report student information.

The 1996 annual special education budget for the entire US public school system is \$3.3 billion, including teachers' and administrators' salaries. It is estimated that 25 percent of a special educator's time is spent completing and preparing countless forms and reports. In real dollars, over \$825 million is spent each year alone on special education information systems and processes that could be made more efficient. These dollars could be directed at providing new programs and better instruction.²

Document automation will help end the special education paper chase.

Program funding is largely dependent on government reporting compliance.* Employing effective workflow processes to contain costs, maintain government compliance, and generally improve special education has never been more important. Technology is central to these processes, and *document automation is the technology* more schools are implementing to improve their special education programs.

Most of our schools' special education programs are using traditional paper document systems or antiquated computerized systems that are costly to operate and maintain. And many are not in complete compliance with government regulations—largely because of the time and expense required to complete the paperwork. Of approximately 16,000 school districts nationwide, 85%, or almost 14,000, do not have reliable special education information systems to help ensure compliance and continued funding.

EduSoft develops software products that streamline special education workflow processes.

EduSoft, Inc. was formed in 1992 with a mission to help solve the costly special education information paper chase. Its flagship product, EduTracker, is a computerized information system designed to minimize the time and expense of handling traditional paper documents by *electronically* tracking and monitoring information as special education students move through the school system.

* The delivery of special education programs is slowly changing from a "pull-out" system, whereby students are separated from mainstream classrooms, to an "inclusion" approach which integrates them into the mainstream. The consequences of this change are expected to affect EduSoft's business, but not significantly during the next three years. When inclusion becomes the norm, the company expects the need for computerized information systems to actually grow, providing new business opportunities.

The company was founded by a former special education director who managed the design and implementation of a document automation system for the special education department in the school district where he was employed. EduTracker produced such positive results that he assumed ownership of the product in exchange for a life-time district license, and began marketing the product to other school districts in the surrounding region. EduTracker currently is in use by 13 districts and 244 schools across five states.

EduSoft's target market is US public K-12 schools and school districts; a small but potentially profitable niche market.

EduTracker is targeted at the US public elementary and secondary (K-12) school market, specifically the 16,000 districts that oversee approximately 85,000 K-12 schools. Albeit a relatively small market, EduSoft conservatively estimates its opportunity to be 75 to 100 districts (including approximately 1,000 to 1,500 schools) during the next three years. This equates to \$1.2 to \$1.9 million in new product revenues.

EduSoft is perceived by the market as a young software company with a reliable product. It is relatively unknown in most states except where EduTracker has been implemented because of the company's lack of awareness building activities. Historically, EduSoft has responded to districts' requests for proposals versus proactively marketing to them.

It is estimated that 15 percent of all K-12 districts are *actively* using a computerized special education information system.³ The remainder are manually recording student information on traditional multi-part paper forms. EduSoft's current market share (under one percent), reflects its short time in the market, regional presence, and limited marketing capability.

Traditional single-source competitors are being replaced by "Best of Class" products like EduTracker, that meet customers' more specialized software requirements.

EduSoft's most prominent competitors include larger "enterprise-wide" or single-source providers like McGraw-Hill Software Systems and National Computer Systems. Current trends in the software industry suggest, however, that such solutions will not keep pace with customers' specific software demands. Consequently, the industry is shifting from enterprise-wide solutions to "Best of Class" products (multiple components that form the complete solution). EduSoft aspires to be *the special education information system of choice* among K-12 special education instructors and administrators.

Today, after two years of operation, EduSoft is poised to take advantage of a small but potentially profitable market. At the same time, the company faces cash flow, profitability, marketing, and organizational challenges. Its life and growth depend on "making the next big sale". To achieve its long-term corporate goals, EduSoft needs a three year business plan that provides a comprehensive description of its business, the environment in which it operates, and its key business strategies.

Company History

EduSoft was founded in 1992. Sales grew by 250 percent in its first two years of operation. Continued sales growth and cash flow are among its main problems.

EduSoft was incorporated in December, 1992. The company is privately held and capitalized through one investor and lines of credit.

EduSoft realized its first sale in October of 1994. Its respective 1994 and 1995 revenues were \$33,000 and \$83,000, reflecting an annual growth rate of 250 percent. Approximately 90 percent of these revenues were generated from the sale of software licenses. The balance was support and maintenance agreement revenue. The company expects to achieve profitability for the first time by December, 1996, its fiscal year-end.

EduSoft is a classic small business. Its entire team consists of six individuals who make up four full-time equivalent people. These individuals share programming, quality assurance testing, technical writing, and sales and marketing activities. The company is managed by the president and majority owner.

EduSoft's distribution strategy currently is direct to the customer. While it may explore a channel strategy, it is unlikely that it will have the financial capacity to sustain development. Instead, EduSoft will augment its direct distribution strategy with key strategic alliances who will help distribute or influence sales to its customers.

The company has aspirations to "go public," but recognizes that it must first achieve the goals set forth in this three year business plan before considering this step.

Products

EduTracker operates in Macintosh and Windows environments. Version 2 is scheduled to release in September, 1996.

EduSoft currently markets and supports a single product, EduTracker. As of January 1, 1996, EduTracker was in version 1.3, with version 2.0 planned for release in the third quarter of 1996. EduTracker is owned by EduSoft.

EduTracker is targeted at public elementary and secondary (K-12) schools. The product was designed to meet the increasing data management and instructional demands of special education teachers and administrators by providing schools with state of the art information applications that allow intuitive, on-demand access to previously inaccessible data.

EduTracker operates in native Macintosh environment. Version 2.0 will operate in the Microsoft Windows 3.x, Windows 95 and Windows NT environments, though it will retain its Macintosh user interface. The product is written in C++ and Pascal programming languages and uses a proprietary relational database. EduTracker also has export capabilities

that make data transfer from a district's schools to its central office seamless and automatic.

Technology is behind EduTracker's main competitive advantages. Its graphical user interface (GUI) makes it one of the more intuitive and user-friendly products on the market today. Its client-server architecture makes EduTracker a more cost-effective solution than traditional centralized mainframe computing environments. Finally, its database design makes data entry and access faster and easier for all types of users, from administrators to instructors.

EduSoft has an aggressive pricing strategy compared to its competition, offering more value for less in an effort to more quickly penetrate the market. Prices for EduTracker are based on the number of licenses purchased, ranging from \$1,050 per site (school) to \$1,250 per site. "Seats," or additional licenses per site, are \$150 each. One seat is included with each site license. Pricing for larger districts typically are negotiated.

Services

EduSoft provides installation, training, and support services to its customers.

EduSoft offers a per site Annual Support and Maintenance Agreement that can be purchased after the first year of installation for \$200 to \$295, depending on quantity. (The first year is included in the initial software license fee). The annual service agreement includes telephone support, program updates including modifications and enhancements, annual updates to comply with government mandated changes, and updates to the program's other databases. Initial database configuration, which loads each district's unique education plans and other information is provided as part of the initial purchase price. A one-day training session is available, and required for all new customers for \$750 per district for up to 12 trainees.

Overall Strategy

Mission Statement

EduSoft's mission statement:

To improve the effectiveness and success of the public school system by providing superior special education information products and services to special educators across the United States.

Summary of Main Strategies

EduSoft will employ several marketing, financial, product, service, and other key strategies to achieve its three year goals.

A summary of EduSoft's market, financial, organizational, product, service, and key marketing strategies follows. Each strategy is described in more detail throughout this plan.

Market

- Achieve customer acquisition goals by penetrating the special education market with EduTracker and two add-on products.

Financial

- Achieve sales of \$250K, \$500K, and \$750K, respectively.
- Achieve break-even, 4-5% profitability, and 8-10% profitability, respectively.
- Achieve revenue per employee of \$45K, \$60K, and \$70K, respectively.
- Achieve a more balanced mix of product and service revenues

Organizational

- Build the company to 5.5, 8.0, and 11.0 FTEs, respectively.

Product

- Add depth and performance to EduTracker by releasing Versions 2 and 3.
- Reduce development costs and improve customer satisfaction by lowering product update frequency from six months to 12 months.
- Expand the EduTracker product line and revenue opportunity by delivering two small, integrated add-on products.
- Develop a strategy that will deliver customized software to states and districts without maintaining multiple sets of source code.

Technology

- Anticipate technology "revolutions" by monitoring Apple Computer's activity, and by anticipating greater presence in the education market from Intel-based leader, Microsoft.
- Leverage the open data access capabilities of EduTracker to expand distribution and preempt competitors.

Service

- Deliver consistently superior service and support by regularly enhancing and expanding the overall service offering.
- Implement effective ways to measure and monitor customer satisfaction

Positioning

- Position EduSoft as the software company that provides the special education software systems “of choice” for educators in the K-12 public school system nationwide. Focus on three main points or “claims” of differentiation:
 1. Products—style, design, and features
 2. Customer Service— delivery and installation, training, and support
 3. Company—strong foundation, superior products, and leader in service

Distribution

- Achieve customer add goals through personal (direct) selling strategies.
- Add new customers by targeting EduSoft’s immediate geographic region, followed by surrounding regions.
- Expand distribution through strategic alliances.
- Target a state to own it.

Pricing

- Remain price-competitive, but don’t become the low price leader.
- Revamp the pricing strategy for customization services.

Promotion

- Build broader awareness and qualify school districts throughout the US.
- Implement a “Direct Mail Marketing Track” lead generation strategy.
- Find ways to increase revenue per existing customer.

Strategic Tenets

Seven strategic tenets will guide EduSoft toward its goals.

In an effort to realize its strategies, EduSoft will adopt seven strategic tenets:

1. **Focus on Special Education.** Become the “best of class” special education information system by penetrating the special education market with EduTracker. Add feature depth to EduTracker and develop new add-on products that add feature breadth. Avoid temptations to enter other markets. See *The Market* and *Product and Service Strategies* for details.
2. **Continuously Define a “Point-of-Attack” Market.** Develop lead generation and other prospecting methods that enable EduSoft to

qualify the market until a subset of prospective customers emerges that has a high probability to buy during the next 12 months. Also, thoroughly understand the sales cycle and lead types and quality throughout the cycle. See *The Market* for details.

3. **Build High Quality Products.** Product quality is a function of customers' perceptions of several factors, each of which must be present to a higher degree than the competition to maintain high customer satisfaction levels. The factors are:
 - Overall reliability and stability. Software users can be unforgiving. EduSoft must maintain unparalleled product quality and a "zero-defects" philosophy by implementing and improving its development methodologies to minimize bugs, software recalls or special fixes and support calls.
 - Product performance and ease of use. EduSoft must continually enhance both the performance of EduTracker and the intuitive nature of its user interface.
 - Technical support. EduSoft must deliver consistently friendly, knowledgeable technical support.
 - Well-written documentation and training (before and after implementation). EduSoft must ensure that its product documentation describes the product features and functionality in clear, concise terms.
 - Training. Customer satisfaction can begin and end with comprehensive training. EduSoft must continue to provide high quality training both before and after implementation.

See *Product and Service Strategies* for details.

4. **Deliver Superior Service.** EduSoft must build an unparalleled service and support organization. Being better than the competition at what's important to its customers will pay huge dividends in the short- and long-terms. See *Product and Service Strategies* for details.
5. **Build Strategic Partnerships.** In tomorrow's "component-based" world, complete solutions will consist of "best of class" components that today may compete for the same business. EduSoft will attempt to align itself with key partners—like McGraw-Hill Software Systems—to leverage its "special education component" into more school districts across the country. Other software suppliers like National Computer Systems (NCS), and Macro Educational Systems (MES) will also be evaluated as potential strategic alliances. See *Marketing Strategy* for details.
6. **Monitor the Revenue Model.** EduSoft's product-to-service revenue mix heavily favors revenues from product sales and is grossly inconsistent with the industry average. EduSoft must determine how to proportionally increase its service revenue to help fund new product development, prevent cash flow problems during seasonal lows, and

stave off economic downturns that result in lower-than-expected sales. See *Financial Plan* for details.

7. **Build the Organization.** EduSoft must add the necessary personnel to support its planned growth by monitoring key industry indicators such as revenue per employee and product-to-service revenue mix.

Market Penetration Strategy

EduSoft will penetrate the special education market with EduTracker and two new products.

EduSoft's three year strategy is to achieve and maintain profitability by penetrating the special education departments in public K-12 school districts with its flagship product and two new add-on products.

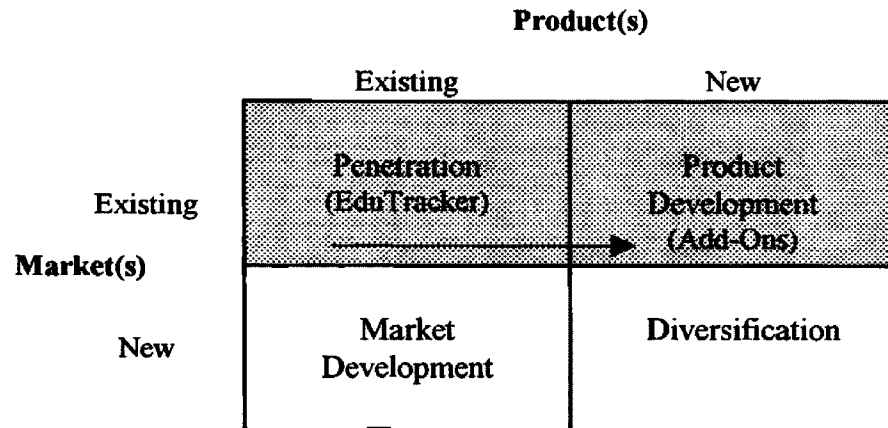


FIGURE 1: PRODUCT/MARKET STRATEGY MATRIX

Financial Strategy

Continued high sales growth and profitability are EduSoft's primary financial objectives.

EduSoft has established four key financial milestones for the next three years, as shown in the table below. The underlying assumption regarding "Revenue per Employee" is that EduSoft will achieve the industry average of \$70K (according to Culpepper) by the end of 1998. See the *Financial Plan* for details .

1996:	Revenues (millions)	250K
	Profitability (EBIT pct)	B/E
	Total number of employees	5.5
	Revenue per employee	45K
1997:	Revenues (millions)	500K
	Profitability (EBIT pct)	4-5%
	Total number of employees	8.0
	Revenue per employee	60K
1998:	Revenues (millions)	750K
	Profitability (EBIT pct)	9-10%
	Total number of employees	11.0
	Revenue per employee	70K

The Market

EduSoft's target market is US public K-12 school districts with a special education enrollment of more than 500 students.

This section describes the structure of EduSoft's target market, including a profile of the overall market, EduSoft's "point-of-attack" market, distribution strategies, barriers to entry, and driving forces. It also provides a customer analysis describing the primary users of EduTracker, the typical sales process, seasonality, and buying alternatives.

Industry Structure

Market Profile

EduSoft has selected a single, well-defined segment of the US education market. Based on the government's Standard Industrial Classification (SIC) codes, the market is classified under the Services SIC division as "Elementary and Secondary Schools" (SIC# 8211). This includes Kindergarten through 12th grade. According to CD-Select, an information research source from International Data Corporation, there are approximately 85,000 elementary and secondary schools in the US today. This accounts for public institutions only.

EduSoft's primary target customer is the school *district*, not the individual school.⁴ There are approximately 16,000 districts in the US today, of which 12,500 are considered potential buyers.⁵ A district represents one to several hundred schools in a given geographic region.

Occasionally, a state will adopt, recommend, or even mandate a specific special education system on behalf of its districts, though this is more common when making a larger investment in a comprehensive enterprise-wide student information system. During the next three years, EduSoft's position in the market and its size will obligate it to focus on individual districts, and treat states as important influencers.

The table below summarizes EduSoft's market segmentation.

Market Segment	Segment Description	Result
SIC major division	Services (10-999 employees)	530,000
SIC sub-division	Educational Services	115,000
SIC description	Elementary and Secondary Schools - public only	85,000
Primary customer	School districts	16,000
Less	15% of districts actively using another system	-2,400
Less	Consolidated districts or cooperatives	-1,100
Net customers	School districts	12,500

Table 1: Market Segmentation

EduSoft's "Point-Of-Attack" Market

In an effort to identify the most probable buyers, EduSoft will further segment the market by districts which represent the highest sales and profit potential for every sales and marketing dollar spent. EduSoft will qualify target districts by "filtering out" most, as summarized below.

Qualifier	Result
Number of districts (from above)	12,500
Less Districts with fewer than 500 special education students AND with spending less than \$4,000 per student ⁶	9,842
Total district prospects in EduSoft's "point-of-attack" market	2,658

Table 2: Point-of-Attack Market

A sample of EduSoft's point-of-attack prospect list is included in the *1996 Marketing Plan, Exhibit 4*.

Distribution Methods

Based on contacts with every identifiable software provider to this market, the primary distribution method is direct. Alternative methods, such as a dealer channel, were non-existent. There are at least two reasons for this. First, providers probably can't afford to build a channel given the small nature of most players and lack of business opportunity for dealers. Second, the special education niche is too specialized; channel knowledge and quality would be a constant problem. Obviously, since distribution to this market is direct, margins are not an issue.

Barriers to Entry

Limited market size, high start-up costs, and lengthy sales cycles are among the obstacles prohibiting new software companies from entering the market.

There are a host of factors inhibiting new entrants into this market. Limited market size, high start-up costs, long technology adoption cycles, and a lengthy sales cycle warrant special mention.

Limited Market Size. McKinsey & Co. suggests that the minimum size viable market for a technology company is 250,000 potential customers, clearly higher than the 16,000 school districts in the special education market. While this factor may discourage new software developers, it is not an inhibitor for existing companies that provide library systems, school bus routing systems, grading systems and the like. To these players, a special education information system may be an attractive add-on revenue opportunity. Potential competitors that might consider this opportunity are discussed in the *Competitive Analysis* section.

High Start-up Costs. Software development is a costly endeavor, requiring 24 months on average to deliver a market-ready product. A sizable investment is required before the first sale is made, making cash flow a significant problem. However, established competitors may increase their speed to market by buying needed technology instead of building it, thus gaining valuable market share while start-ups are still in development.

Long Technology Adoption Cycle. K-12 school districts tend to be less innovative and thus less likely to adopt new technologies than customers in other markets. On the product life cycle curve they typically are early or late majority buyers.⁷

Lengthy Sales Cycle. In technology sales, the average time invested to close a sale can be as long as 18 months. This increases sales costs and contributes to new entrants' cash flow challenges. A factor in this process is the inherent bureaucracy that exists in public institutions, including schools. While this doesn't make the market or decision makers any more difficult to reach, it contributes to the sales cycle.

Neither brand loyalty nor different hardware platforms have been barriers for EduSoft. Districts seem willing to work with multiple vendors in search of the best solution. This may change, however, as EduSoft seeks to add customers from outside its regional trade area. To date, EduSoft's platform strategy (Macintosh and Windows with a network, AS/400 or System 36 integration) meet the market's necessary requirements.

Driving Forces

Government regulations and technology are motivating schools to automate their special education systems.

The main forces driving the market toward computerized special education information systems are government regulations, cost containment, and technology.

Government Regulations. This is the single biggest driving force. The type, frequency and format of special education student information required by state and federal governments not only is staggering, but tied directly to program funding. It is imperative that schools follow these mandates to the letter to avoid costly penalties or worse, inadequate funding.

Technology. The demand for more accurate and timely information is driving school districts to focus on their workflow processes and the systems necessary to automate and improve them. Central to these processes is technology, and product innovations like document automation features in EduTracker are becoming popular among more school districts.

Cost Containment. While support for special education programs is entrenched in our political, social and legal systems, federal and state funding for public education in recent years has come under fire. Almost half (47 percent) of total school funding comes from *local* tax revenues, and this share is rising.⁸ Districts that hope to provide quality instruction and still receive funding will be forced to reduce administrative costs, of which special education student management is one.

Customer Analysis

Special education administrators and instructors are the primary users of EduTracker.

This section discusses the primary users of EduTracker, key factors in the sales process, and customers' buying alternatives.

Primary Users

There are two primary users of EduTracker. The first is the district or central office user. This individual is an administrator, commonly the special education program director, who uses the product to gather and analyze aggregate information concerning all schools in the district.

A district is made up of a superintendent and his or her professional staff, one or more assistant superintendents, a special education director, business manager, and secretarial staff. District central offices vary by student enrollment. According to EduSoft, the special education director is usually a male between 40 and 50 years of age who has fewer than two years of experience using a personal computer.

Hardware and system configurations used at the central office range from micro-based systems running DOS on local area networks, to AS/400 operating systems, to even IBM's System 36. Microsoft DOS, Apple Macintosh, and Microsoft Windows workstations can be found at the desktop. Reporting and analysis of aggregate data is done at the district central office. Information gathered at the central office is the result of data entry that takes place by the other main user—special education instructors in individual schools.

At the school level, the special education function is organized as a department alongside disciplines like English, Math and Science. Today, 98 percent of all K-12 public schools have at least one computer, typically a Macintosh. Apple's market share is 63 percent in K-12 public schools. For the 1995-96 school year purchases of Macintoshes will outpace Intel-based PCs three to one.⁹

Users at the school level are special education instructors. They are typically female (90 percent according to EduSoft), and have little computer experience.

Sales Process

The typical sales process takes from one to 24 months, depending on district size and competition.

The sales process typically is the same from district to district, although the cycle may vary from one to 24 months depending on district size and number of schools per district. Rapport building early in the process is critical and largely depends on the supplier's real-life field experience in special education instruction and administration.

The process usually begins with a proactive or reactive contact, followed by a presentation and/or product demonstration. In larger districts, a request for proposal (RFP) is issued prior to the presentation. RFPs are most common when the investment exceeds \$10,000 because some state governments require them. A closer look at EduSoft's target market strongly suggests that it should expect RFPs to become a more common part of the sales process.

What follows is a list of key sales factors that influence a typical special education software sale, including hardware configuration, the decision maker, order size, price sensitivity, and seasonality.

Hardware Configuration. Past sales indicate that the software system drives the hardware decision both at the central office and schools. On occasion, hardware requirements, primarily available RAM and hard disk space, exceed the hardware configuration available but this issue has not been a barrier for EduSoft in closing sales.

Decision Maker. The decision maker is usually the special education program director. However, depending on district size and project scope, an ad hoc committee may be formed to evaluate the problem, proposal, and all possible solutions. Other key influencers, including the school board, district business manager, district attorney and superintendent also may be involved in the buying process.

Order Sizes. Order sizes for districts in EduSoft's point-of-attack market range between \$5,000 and \$75,000 depending on the size of the district. Since these are generally large ticket items, the order frequency is very low. The hidden cost of getting the system implemented adds even greater costs. Consequently, the decision maker may evaluate several options, taking time to ensure that he or she is making the best long-term decision.

Price Sensitivity. Price sensitivity varies depending on district size. Larger districts expect negotiated pricing and fee waivers for perceived incidentals like training or seat licenses. Volume discounts already built into EduSoft's pricing schedule have served them and their customers well. Typically, unless the district consists of more than 50 schools the schedule is followed.

Seasonality. There are two, three-month periods throughout the calendar year during which EduSoft must prepare for and close sales. The first is

March through May during the development and completion of district budgets. The second is September through November as schools reopen and educators are seeking ways to improve efficiencies and overall quality of education. December through February are slow months due to mid-term effects and holidays. June through August are slowest due to the summer break.

Buying Alternatives

Schools may use single-source systems, custom solutions, or manual hand-written forms to track their special education student information.

Districts are increasingly shopping around, hence the RFP or bidding step of the sales process. This is a function of state regulations that require school districts to open bids on jobs that exceed \$10,000. Districts often open bids during a vendor's sales process, which can add another six to nine months to the entire cycle. The scope of the investment is the driving force behind these steps.

Decision makers are motivated to make the most cost-effective long-term decision, which means getting the system up and running in a reasonable amount of time and using it to produce the results the district and its schools expect.

A district has three main alternatives to purchasing a specific special education system from a specialty software provider like EduSoft:

1. Purchase a module from an "enterprise-wide" provider like McGraw-Hill or NCS.
2. Develop a custom solution specifically for its district.
3. Continue to hand-write forms and tabulate data manually.

The advantages of EduSoft's offering vis-à-vis these alternatives is discussed in the *Marketing Strategy* section of this plan.

Competitor Analysis

EduSoft provides a “Best of Class” solution versus an enterprise-wide product to meet more of its customers’ needs.

There are two types of suppliers—those that provide “enterprise-wide” solutions, and those that offer “best of class” solutions. Most of EduSoft’s competitors provide enterprise-wide solutions that attempt to meet every need, including special education. This single-source strategy can be favorable for after-market supplier opportunities, or for customers who are adverse to multiple vendors, but unfavorable if the supplier can’t keep up with technology and their customers’ demands across a broad product line.

EduSoft, along with a handful of other suppliers, offers a “best of class” solution. Contrasted to an enterprise-wide solution that may meet only a fraction of special educators’ needs, best of class solutions boast the benefits of providing a software product that meets virtually every need.

Current Competitors

The following table shows a list of known competitors currently shipping special education information management products. Each of these competitors was contacted to obtain company information, including sales revenues, number of customers, and overall strategy.

Company/Location	Type and Product Name
ACE Software, Inc. Grove City, OH	Type: Enterprise-wide Name: Secondary Educational Administrative System
Carter-Pertain, Inc. Houston, TX	Type: Enterprise-wide Name: STUDENT/3000
Infoworld Membership Systems Dayton, OH	Type: Enterprise-wide Name: Teacher and Student Evaluation System
Learning Systems Baltimore, MD	Type: Best of class Name: Learning Systems
Learning Tools Windsor, CA	Type: Best of class Name: Learning Tools
McGraw-Hill Software Systems Atlanta, GA	Type: Enterprise-wide Name: Student Information Management System (SIMS)
PSST, Inc. Louisville, KY	Type: Enterprise-wide Name: Education Executive Information Systems
Tera Systems, Inc. Burlington, VT	Type: Best of class Name: MasterTrack

Table 3: Current Competitors

Appendix B provides more detail about each competitor.

Three competitors stand out in the special education market based on their overall strategies and market presence. The following table shows these suppliers' primary competitive advantages and disadvantages.

Company	Advantages/Disadvantages
McGraw-Hill	A: Client-server strategy with Windows NT. D: Enterprise-wide solution; lacks special education focus.
Tera Systems, Inc.	A: Focus and marketing plan. Have penetrated entire state of Vermont, with over 80% installed. D: Start-up company.
Learning Tools	A: Non-exclusive alliance with McGraw-Hill. D: High price.

Table 4: Top Three Competitors' Advantages and Disadvantages

Potential Competitors

There are several software developers that sell enterprise-wide K-12 student information systems but whose product lines do *not* include a special education module. While these players don't pose an immediate threat to EduSoft, they may attempt to enter the same market with add-on products, and will be periodically monitored.

Several potential competitors may threaten EduSoft in the future, and must be monitored periodically.

Company/Location	Product
Academic Therapy Publications Novato, CA	WISC-III Compilation
Century Consultants, Ltd Lakewood, NJ	Student Discipline Module
Diamond Chip Technologies Freeport, NY	Comprehensive Individual Education Plan (IEP) Management System
Educational Activities, Inc. Baldwin, NY	IEP Management System
J. Weston Walch Portland, ME	Instant IEP
Macro Educational Systems Laguna Hills, CA	Student Information System
National Computer Systems Mesa, AZ	Student Information System
Orchard House, Inc. New Orleans, LA	Vocational Education Planner
Super School Software Long Beach, CA	The IEP Manager

Table 5: Potential Competitors

Product and Service Strategies

This section describes EduSoft's current product and service strategies. The company's future product, technology, and service strategies are discussed in the *Marketing Strategy* section of this plan.

Current Product Offering

EduTracker is an intuitive, forms-based product that's easy to learn and use. Version 1 has been shipping since October, 1994.

EduTracker is a database consisting of "portfolios," one for each special education student in a given school. A portfolio contains several documents that are used to record student activity in one or more of the 14 special education service classifications. For example, a student may receive learning disability service, physically handicapped service and speech therapy service. One or more forms is required by law to document that student's progress in these service areas. EduTracker provides on-line WYSIWYG (what-you-see-is-what-you-get) forms that look just like the familiar paper forms instructors are used to completing by hand.

EduTracker has been shipping since October, 1994. The product was in development for three years. Three updates—mostly minor enhancements and bug fixes—have been released so far. The current version is 1.3. The following timeline illustrates the chronology of EduTracker.

Version 1.0 design	Nov. 91
Date of first sale	Oct. 94
Version 1.1 update	Jan. 95
Version 1.2 update	Jun. 95
Version 1.3 update	Nov. 95

Current Service Offering

EduSoft recognizes the importance of providing fast, friendly, knowledgeable service and support. The company offers a respectable range of services but plans to expand its offering. The following services are included in EduSoft's Annual Support and Maintenance Agreement. All services are provided as part of the initial application license.

Telephone Support. Trained program specialists are available on a toll number from 8am to 4pm EST every school day. Support calls are received from both district and school users, but EduSoft prefers that instructors contact the district "contact person" for front line support.

Program Updates. Updates include software modifications and enhancements for each licensed application, including written documentation. Update disks are shipped to the district contact person for distribution to individual schools.

Portfolio Maintenance. All government mandated changes to the special education document portfolio are included. Update disks are shipped to district contact person for distribution to individual schools. This occurs once a year, usually in the second quarter.

Database Construction. This service transfers special education student data from the district's database to the EduTracker database instead of manually re-keying every student record. The district provides the data in an approved format.

Goals and Objectives Database Updates. The goals and objectives database is updated based on new information supplied by each district. Update disks are shipped to the district contact person for distribution to individual schools.

On-site Training. One and one-half days of product training for district and school personnel is provided with each district installation.

Follow-up Training. An EduSoft trainer provides one additional day of on-site training during the school year to train new users and address issues and questions from existing users.

Future Product Strategies

During the next three years, EduSoft will enhance EduTracker, build two new add-on modules, and add a forms customization tool.

Strategy statements for each element of EduSoft's product plan are provided below, followed by an explanation of how the company will effect its plans. Four strategies are discussed:

- EduTracker
- Product Updates
- Add-on Products
- Product Customization

EduTracker

Strategy: Add depth and performance enhancements to EduTracker by releasing Version 2 in 1996, Version 3 in 1997, and Version 4 in 1998.

During 1996, EduSoft will upgrade EduTracker Version 1.3 to Version 2. Version 2 will have a host of new features and performance enhancements. It also will operate in Microsoft Windows 3.x, Windows 95 and Windows NT environments, though it will retain its Macintosh user interface. Version 2 is scheduled to release in September, 1996.

Product Updates

Strategy: Reduce development costs and improve customer satisfaction by decreasing product update frequency from six months to no less than 12

months. Make updates available to customers on an as needed basis (e.g., to fix a software bug). Do not publish or promote EduTracker as “Version 1.x”. Instead, promote only whole number versions such as “2” or “3.”

EduSoft’s high update frequency has been a problem for two main reasons. First, the cost to develop, test and release a new set of code is high when taking into account both known and hidden costs. Each time the code is changed, quality can be compromised.

The second issue is real and perceived customer satisfaction, both real and perceived. Frequent updates may signal users that the software is unstable, or that they did not receive a “whole” product with their initial purchase. In addition, EduSoft’s decimal numbering system (e.g. “1.3”) may support customers’ perceptions that the product is incomplete. By focusing on fewer updates, and promoting and publishing annual upgrades, EduSoft can reduce its development and support costs, and increase overall customer satisfaction.

Add-on Products

Strategy: Expand the EduTracker product line and revenue opportunity by delivering small, integrated add-on modules.

Instead of adding more breadth to EduTracker, EduSoft will bundle key “feature sets” and deliver them as small add-on modules that integrate with EduTracker. Each module will add value to a majority of the EduTracker installed base. Two modules are scheduled for development:

1. Speech/Language Module. This module is scheduled to launch in the third quarter of 1996. It is specifically designed for the speech language service provided by districts.
2. Medicare/Medicaid Module. This module will be designed to handle special education student Medicare and Medicaid billing. The specification is under development, with a scheduled launch date of the fourth quarter of 1996.

While these plans may seem aggressive, it’s important to note that both modules are small feature sets that might otherwise be added to EduTracker. Marketing efficiencies are gained because these products will be sold to EduSoft’s captive installed base. EduSoft is confident that it can manage multiple products and their corresponding marketing requirements as described in the *Marketing Strategy* and *1996 Marketing Plan* sections of this plan.

Product Customization

Strategy: Develop a strategy that will deliver customized software to states and districts without maintaining multiple sets of source code.

One of EduSoft's competitive advantages is its ability to customize EduTracker to meet the specific needs of states and school districts. Every state is unique in two main ways. First, the "look and feel" of their data entry forms is different, which requires modifications to the product's user interface. Second, state-specific calculations and scripts (code) that facilitate data transfer between schools and districts are different, which require new scripts or changes to existing scripts. These are necessary modifications to ensure the software works properly for any given state.

In addition to state changes, districts within each state like to personalize the state forms with their district name, address and other "cosmetics". To win more business, EduSoft historically has made district level customizations at no additional charge beyond its normal software license fees. EduSoft invests two to four weeks per district to customize the product's interface.

This obviously has and will continue to create a significant cost burden with every promised update and upgrade. While EduSoft wants to maintain this competitive advantage, it recognizes that it must change how it delivers custom software in order to survive in the long term.

The company will evaluate the two-point strategy that will meet state-specific requirements and provide a means for districts to personalize their software.

1. Customize EduTracker to meet state requirements. Invest in developing state-specific scripts for all target states. Allocate the state-specific cost of customization back to each district based on the number of districts in that state and a reasonable penetration forecast. Build a library of state requirements that ships with every EduTracker license, and enable the user to simply select during implementation the appropriate state.
2. Forms modification tool. Build a "forms modification tool" that enables districts to easily personalize EduTracker to suit their cosmetic needs. Sell the tool along with training to districts who want to add a personal touch to their forms, or provide district level customization service for a premium fee. This tool is tentatively scheduled to ship in 1997.

In the short term, EduSoft will make necessary state-specific modifications, but it will discontinue its practice of offering no-charge customization at a district level unless an attractive and profitable sale depends on it.

The battle between Apple and Microsoft Windows for operating system market share will in part define EduSoft's future technology decisions.

Future Technology Strategies

Operating systems and data access will be key technologies that EduSoft will focus on during the next three years.

Operating Systems

Strategy: Anticipate technology "revolutions". Keep a watchful eye on Apple's future, and anticipate greater presence in the education market from Intel-based leader Microsoft.

The Apple Macintosh is the predominant platform in public schools today. According to Quality Education Data's *1995-1996 Technology Purchasing Forecast*, 63 percent of computers installed in K-12 public schools are Apple, representing a four percent increase over the previous year. Planned purchases of Apple computers outpace Intel-based computers three-to-one, according to QED.

However, Apple's perpetual problems with profitability and related layoffs can't be ignored. Some industry analysts don't expect the company to be around in the years or even months ahead. Combined with Microsoft's dominant position in graphical systems and application software, one could argue that a technology revolution involving the demise of Apple and the growth of Microsoft in the education market is likely, if not imminent. Surely, Microsoft has noticed Apple's annual \$2 billion share of this market. Perhaps it's a matter of time before it stakes its claim to it.

For EduSoft, it is clear that anticipating some movement from Apple to Intel-based computers is wise. During the next three years, EduSoft will monitor the following key technology indicators:

Technology adoption index. According to the International Data Corporation, the technology adoption index of the K-12 education market is lower than other industries. However, this trend may be only short-term, and a rise should be expected. When it does, players like Microsoft will be ready to take advantage of the growing market.

Cost. Apple has demonstrated its *inability* to make money selling its lower priced computers. At the same time the cost of Intel-based computers continues to drop, opening the door even wider for more affordable Intel-based solutions.¹⁰ However, third party hardware manufacturers to whom Apple licensed rights to build Apple clones, such as Power Computing and Radius, may be able to profitably deliver low cost "Apple" computers, potentially reducing (but not eliminating) the Intel threat.

Interpretability. On the surface, Windows 95 and Apple software applications now look more alike than ever. Below the surface, Apple still provides a more elegant solution, but it's imminent that Windows will

become as elegant as today's Macintosh. At lower prices, the choice will be clear.

Open Data Access

Strategy: Leverage the open data access capabilities of EduTracker to expand distribution and preempt competitors.

One of EduSoft's product advantages is its ability to transfer EduTracker data to virtually any external database, including McGraw-Hill's TSS product, National Computer Systems databases, and others that accept standard data formats. The company already integrates with TSS, which includes an optional special education module, but has a reputation of being antiquated and difficult to use. During the next three years, EduSoft will continue to make data transfer from EduTracker to other strategic products like McGraw-Hill and NCS as seamless and automatic as possible.

Future Service Strategies

Superior customer service will be a key to EduSoft's success in the future. On-line services, video training, and guaranteed response times will be implemented based on customer demand.

EduSoft will enhance its service offering by evaluating and implementing several new service strategies. Priorities and timing are included in the *Overall Schedule*, but ultimately EduSoft's decisions will depend on feedback from customers via the satisfaction strategies discussed in the *Marketing Strategy* section.

Strategy: Deliver consistently superior service and support by regularly enhancing and expanding the overall service offering.

In 1996, EduSoft will deliver:

Bulletin Board Support. This service is new to most districts and schools and will support EduSoft's desired position as a technology leader and service provider. The bulletin board system will be "up" 24 hours a day, seven days a week for users to log support questions and download special files. Use of the bulletin board also will relieve a portion of telephone support activity.

Diagnostic Support Tools. EduSoft will evaluate the demand for and cost of diagnostic support whereby its product specialists will take control of the user's machine to help identify and solve the problem. Diagnostic software products like Timbuk2 are commercially available and well suited for this purpose.

During 1997, EduSoft will deliver:

AutoFax Support. A fax server will be installed to provide another support avenue for help. A library of commonly asked questions and

answers will be accessible simply by calling a toll-line, 24 hours a day, seven days a week.

Video or CD training. Another training alternative suited for both new and current users is video or CD training. Demand and cost analysis will be performed to determine timing and viability of this service.

District Customization Service. As part of the aforementioned “forms modification tool”, EduSoft will provide districts with an alternative to using the tool themselves to personalize their forms. This strategy will be carefully evaluated, especially in terms of cost and profit opportunity.

On-site follow-up Training. As EduSoft’s customer base grows, its current practice of offering on-site follow-up training will become cost-prohibitive. Instead, it will offer scheduled seminar or “university” training sessions for district and school users in accessible areas for a nominal fee, or explore ways to use its diagnostic software tools to provide training.

Toll-free and Expanded Phone Support Hours. Current competitors offer toll-free support, so EduSoft will follow suit to gain parity. Demand for expanded support hours beyond normal school hours of 8am to 4pm, and willingness to pay for this service will be evaluated to accommodate more users and different time zones.

Internet. EduSoft will explore service and support opportunities available on the Internet. At present the Internet is not widely used among special education administrators or instructors. Nonetheless, to achieve its goal as technology innovator and service leader, a Web site is imminent.

During 1998, EduSoft will deliver:

Guaranteed Response Time Support. EduSoft will evaluate the demand for and cost of providing guaranteed response time as part of its telephone support service. Second-day, same-day, and one-hour response times will be examined based on user demand and willingness to pay higher support prices for faster service.

Marketing Strategy

EduSoft will differentiate itself with compelling company, product, and service positioning strategies.

Several marketing strategies will guide EduSoft's three year marketing plan. Each strategy is discussed below, including differentiation and positioning, distribution, pricing, and promotion. Strategies and tactics for 1996 are described in the *1996 Marketing Plan* (Appendix A).

Differentiation and Positioning

EduSoft operates in a specialized market and thus has many differentiation opportunities. Based on competitive factors and EduSoft's strengths and opportunities, the company will develop a positioning strategy focusing on three main points or "claims" of differentiation:

1. Company—strong foundation, superior products, leader in service
2. Products—style, design, and features
3. Customer Service—delivery and installation, training, and support

To this end, these claims will help support the company's desired image that:

EduSoft provides the special education software systems "of choice" for educators in the K-12 public school system nationwide.

Company Positioning

EduSoft will strive to claim company and personnel differentiation on three fronts—strong foundation, superior products, and leader in service. While these points are arguably more difficult to measure, they are important in the overall mix of messages that support the overall position that EduSoft provides the special education software systems of choice for educators in the K-12 public school system nationwide.

Certain claims are facts that EduSoft can make and prove today, while others will evolve during the next three years as the company executes the strategies contained in this plan.

- Founded in 1992
- Headquartered in Chapel Hill, NC, special education "hub" of the nation
- Over 40 years combined experience in special education
- Annual growth rate of over 200%
- Strategic alliances with McGraw-Hill Software Systems, Macro Systems, and NCS

Product Positioning

EduSoft already has made strides in differentiating its flagship product, EduTracker, from its competitors' products. What follows are four key differentiation statements or "claims" the company can make today, supported by specific features that provide "proof" for that claim.

EduSoft will leverage these claims during the next three years as it continues to position itself and its products as the *software systems of choice* for special educators. Its two planned add-on modules will make most of the same claims, since they add capability to the "core" module, EduTracker.

Claims	Proofs
Graphical and easy to use	WYSIWYG (what-you-see-is-what-you-get) data entry forms
	Quick-tab data entry
	"AutoFill"
	Point-and-click navigation and operation
On-demand data access	Includes a complete library of required reports for your state
	"Edu/Search"
	"Edu/Browse"
	Look-ups
Customizable	Document portfolio meets individual states' requirements
	"Edu/Modifier" modification tool
	Built-in graphical report writer
Superior technology	Handles an unlimited number of documents
	Multiple documents can be open simultaneously
	Advanced data import and export capabilities

To further prove its claims, EduSoft will use in its promotional materials the following style, design, and feature attributes, and their corresponding benefits. These attributes of EduTracker currently are not found in other special education information software products.

Style, Design, Features	Benefits
WYSIWYG (what-you-see-is-what-you-get) data entry forms	Forms look just like the paper forms you're used to, so you don't have to learn a new way to work
Unlimited number of documents	Accommodates any number of students
AutoFill	Fills in student information automatically just by entering a student's name or ID

Style, Design, Features, cont.	Benefits, cont.
Multiple document views	Lets you view different documents for a student at the same time
Quick-Tab	Makes moving through a document fast and easy
Look-up windows	Lets you access and use data from other documents, applications or databases
Edu/Search	Lets you find student information fast and easily
Edu/Browse	Lets you move quickly among student portfolios and documents with the click of a button
Data import and export	Saves valuable time by importing student information directly from system records into forms
Graphical Report Writer	Lets you easily modify existing reports or create customized reports
Password protection	Ensures that your data is secure and confidential
Edu/Modifier	Allows you to personalize EduTracker for your own district, such as putting your district's name or logo on your forms

Table 6: EduTracker Style, Design, and Feature Differentiation

Customer Service Positioning

EduSoft will differentiate itself from other suppliers by providing superior service that's knowledgeable, fast, and friendly.

The company will strive to claim differentiation in three areas of customer service—delivery and installation, customer training, and support. What follows are claims the company *will work toward achieving during the next three years*, followed by more specific strategies to help “prove” its claims.

- The industry leader in technical support and training services for special education software
- Recognition from The Council for Exceptional Children
- Guaranteed customer service satisfaction, including guaranteed support response times

To prove these claims, EduSoft will continuously enhance and expand its service offering, and begin to measure and monitor customer satisfaction levels. These strategies are discussed in other sections of this plan.

Distribution

EduSoft will continue its direct selling efforts, and pursue strategic alliances.

EduSoft will employ new ways to enhance *and* expand its current direct sales strategy.

Strategy: Achieve customer add goals through direct selling strategies. Target the immediate geographical region to maximize sales cost effectiveness.

During 1996 and beyond, leads will be managed according to the three classic personal selling steps—contact, presentation, and closure. Initial contact will usually be made by telephone whereas the presentation obviously is a face-to-face activity.

Apart from potential strategic alliances which are discussed below, direct selling is EduSoft's most cost-effective method today. However, to enhance its sales effectiveness, EduSoft will target states in its immediate geographical region where already it has over 13 district installations and 244 school installations.

Strategy: Expand distribution through strategic alliances.

McGraw-Hill Software Systems and National Computer Systems top EduSoft's list of target strategic alliances.

EduSoft has an opportunity to align itself with two single-source vendors, McGraw-Hill Software Systems and National Computer Systems. The former is the industry leader of micro-based student information systems, while the latter leads in the AS/400 market.

McGraw-Hill Software Systems leads the micro-based market. While technically it is a competitor, market research and customer feedback indicate that their special education information module has a low active user rate because it is an antiquated text-based system that is hard to use. In today's "component-based" world, McGraw-Hill may be looking for the technology to enhance its image as a market leader, and EduSoft may be part of its overall product strategy.

The McGraw-Hill product, called TSS (The School System), integrates with a support service network run by the government called SIMS (School Information Management Service). SIMS has been adopted in 14 US states. EduSoft currently has EduTracker installations in two of those states, in addition to a seamless data transfer utility that automatically moves data from EduTracker to TSS, thus indirectly integrating with SIMS.

Competitive analysis revealed that McGraw-Hill recently signed a *non-exclusive* agreement with Learning Tools, one of EduSoft's competitors, to become one of its "Solution Partners." However, contacts with McGraw-Hill suggest a strategic alliance relationship is still promising.¹¹

National Computer Systems (NCS) is the leading student information system provider on the AS/400 platform. Unlike McGraw-Hill, NCS does not have a special education information system. EduSoft's opportunity is obvious—to promote the benefits NCS could enjoy by rounding out its product line with EduTracker.

EduSoft will aggressively pursue this alliance strategy in 1996 with intentions to partner with McGraw-Hill by the end of 1996, and NCS in 1997. Meanwhile, EduSoft will continue to sell direct to districts.

Strategy: Target a state to own it.

A marketing strategy that's proved effective for some of EduSoft's competitors, like Tera Systems, is to target a state with the intention of "owning" it and the districts in it. That is, do whatever is necessary, including waving all first year software license fees. The primary benefit of securing a state is credibility; it becomes an effective endorsement.

EduSoft will implement this strategy in 1997 or 1998, depending on the effectiveness of its direct sales and strategic alliance strategies. It will consider states that have few districts to minimize lost revenue opportunity; are within a reasonable traveling distance to minimize travel and other sales costs; and have not adopted another supplier's system to avoid high entry costs.

EduSoft will continue with its competitive, yet aggressive pricing strategy.

Pricing

EduSoft will revisit its current software license and service pricing strategies and most importantly, its customization pricing strategy.

Strategy: Remain price-competitive, but don't become the low price leader.

Pricing in the special education information market is often based on a bidding process where competitors use so-called list prices as benchmarks but willingly lower or raise the overall bid based on the opportunity and knowledge of other bidders' pricing strategies. Therefore, it is difficult to set a "retail" price and maintain it. Analysis of past bids showed that EduTracker was consistently priced in the middle. EduSoft has not yet been the low or high price leader in a bid situation.

A mid-range comparative pricing strategy is most desirable because the special education director is accountable for making a quality investment while at the same time staying within the district's budget. EduSoft will maintain its mid-range pricing strategy by keeping a finger on the pulse of its competitors' pricing strategies.

Strategy: Revamp the current pricing strategy for customization service.

EduSoft's pricing strategy for its customization services is a problem. Currently, all customization services are included in the initial software license fee regardless of the time and cost associated with providing those services. EduSoft spends four to six weeks modifying EduTracker to meet each new state and district specification, accounting for \$4,800 to \$7,200 in lost service revenue *per installation* (based on \$30 per hour). Even though "customers want it", competitors don't offer such services without additional fees. To resolve this problem, EduSoft will allocate state customization costs across forecasted installations, and begin charging for district customization services. This two-point pricing strategy is discussed in more detail in the *1996 Marketing Plan* (Appendix A).

Promotion

Awareness building through media relations and trade events, and lead generation through direct mail campaigns will be EduSoft's promotional focus.

EduSoft's promotional activities have been virtually nonexistent. Word of mouth and circumstance have been its main lead sources, and its closure activities, particularly demonstrations, have been effective enough to generate new sales. EduSoft is committed to developing comprehensive promotion strategies designed to build awareness, generate leads, close leads and increase existing customer revenue.

Strategy: Build broader awareness and qualify school districts throughout the US.

EduSoft will employ public relations, trade events, broadcast faxes, and Internet strategies to build broad, general awareness about the company and its products and services. An expected by-product of these strategies is "lead qualification," or learning more about which school districts plan to automate their special education information systems, who the decision makers and influencers are, and when they intend to automate. Lead generation and management strategies are discussed later in this section.

Public Relations. With EduSoft's lean budget, public relations or publicity will be one of its more important avenues for creating awareness. Press releases announcing new products and services, customer success stories and testimonials, and new strategic alliances are potentially newsworthy events if EduSoft can identify and build rapport with key trade publications. Public relations activities have been happening ad hoc since 1994, but will continue with more consistency and intent in 1996 and beyond.

Trade Events. There are a wealth of trade conferences and expositions that EduSoft will explore to help promote the company to a broader audience. Since these methods can be costly, EduSoft must prioritize each according to its impact on future sales.

Broadcast Fax. EduSoft will implement a broadcast fax strategy to communicate time-sensitive information about special offers or

promotions to existing customers and qualified prospective customers. This activity will begin in 1996.

Internet and the World Wide Web. Another cost-effective way to build broad awareness is the Internet. EduSoft will capitalize on this opportunity first by developing and implementing its own home page. Information about the company and its products and services will be provided along with a e-mail response form that interested educators may use to inquire about EduSoft.

Once its home page is in place, EduSoft will broaden its communication reach by establishing bi-directional hypertext links to other strategic alliances' home pages. A logical list includes education and related government agencies, software companies, and associations. EduSoft has tentative plans to implement its home page in 1997.

Strategy: Implement a "Direct Mail Marketing Track" lead generation and management strategy.

Personal selling will continue to be EduSoft's primary method of distribution. But "cold calling" can be tedious, ineffective and costly. According to Inc. (January, 1996), the cost of a face-to-face sales call "has been surging upward for years." Inc. reports that current averages range from \$350 to \$500. Accounting for sales training can inflate the cost of a single sales call to as high as \$2,000. With these costs in mind, finding cost-effective ways to qualify and manage customer leads is paramount.

EduSoft will implement a direct mail marketing track strategy that *systematically* moves leads through different stages of the sales cycle depending on their budgets, time frames, and levels of interest, measured by how they respond to certain offers. The entire marketing track strategy, including direct mail letters, is included in the *1996 Marketing Plan*.

Strategy: Find ways to increase revenue per existing customer.

The customer satisfaction survey described below will give EduSoft clear signals about revenue opportunities that exist in its current installed base. However, during the next three years, the company will focus its installed base development efforts on Speech/Language and Medicare/Medicaid add-on module promotions. Separate or combined promotions will be developed to penetrate the installed base with EduSoft's new add-on modules.

Customer Research

A key part of providing superior products and services is having intimate knowledge of customer satisfaction levels and understanding their needs,

both present and future. To measure and monitor customer satisfaction and identify customers' future product and service, EduSoft will implement the following activities.

EduSoft will survey its existing customers, and form focus groups and an advisory council to gain feedback for new products and services.

Satisfaction Surveys. EduSoft will use a questionnaire to measure product, service and overall satisfaction at key times during and after system usage. This activity will begin in 1996.

Focus Groups. EduSoft will conduct focus groups made up of special administrators and instructors to further define new product and service ideas. This activity will begin in 1996.

Customer Advisory Council. An advisory council made up of six to eight customers representing both administrators and instructors will be formed to discuss issues ranging from new features to add-on modules to services. This activity will begin in 1996.

Wish Line. A toll-free "wish" line will be implemented and promoted to existing customers who want to call to make product and service suggestions. This activity will begin in 1997.

User Groups. User groups will be more viable with a larger customer base, so this strategy won't be implemented until 1998.

Software Development Process

EduSoft adheres to a state-of-the-art development methodology to ensure quality, on-time products.

This section describes EduSoft’s current software development process; that is, its general methodology for delivering product updates, upgrades and new products in a quality, on-time fashion.

All software development is performed by EduSoft and/or independent software developers. However, EduSoft maintains ownership and control of the source code. EduSoft uses a commercially available development tool with which to design and develop its products. It licenses this tool in exchange for a 10 percent royalty based on net product sales. EduSoft is legally protected through a source code escrow agreement in the event that the tool developer declares bankruptcy or fails to comply with its agreement with EduSoft.

Portions of the following development process are in effect today, particularly the Planning phase. During the next three years EduSoft will implement the entire process. Three main phases are discussed including planning, development, and stabilization. Each phase is summarized below along with its respective goals.

Three-Phase Process

Phase	Purpose
Planning	Develop strategy statement, marketing plans, design goals, specification, development plans, testing plans, and documentation strategy. This phase concludes when the product specification is “closed” and delivered to the development team to begin the coding process.
Development	Begin database design and actual coding using the detailed specification developed in the planning phase. Testing cases are written and first drafts of the user documentation are written. This phase concludes when coding is complete, and only debugging and optimization remains.
Stabilization	Debug the product and look for opportunistic optimizations.

Key Development Milestones

These goals will be achieved by meeting key milestones within six main functions:

Function	Milestone	Description
Product Marketing	Strategy Statement	How the new product or version will be positioned, key competitive issues, and new features.

Function	Milestone	Description
	Marketing Plan	Target market, marketing objectives and strategies, detailed competitive analysis, product positioning, pricing, cost of goods sold, and profitability.
Product Management	Design Goals	The scope of the update, upgrade or new product. A preliminary product release schedule is also developed.
	Detailed Specification	Detailed definitions of each feature and function.
	Final Schedule	Firm release dates based on the detailed specification.
	“Final” Specification	Final definitions of all features; specification is then “Closed.”
Software Development	Development Plan	Outlines the key components of the product using the Closed Specification as a guide. Database design and performance goals are included.
	Feature Complete	Fully functional product, but not stable.
	Code Complete	Fully functional and works according to the Final Specification. Debugging and optimization follow.
Testing	Test Plan	Outlines key components of how the product will be tested, including testing tools that will be used.
	Test Pass 1,2	Verifies that the code is complete.
	Test Pass n	Verifies product functionality and quality until goals are achieved.
Documentation	Documentation Plan	Outlines the overall structure of the documentation.
	Reviews and Edits	A review or “edit loop” is established consisting of a number of individuals, including customers, to review the documentation for content and clarity.
	To Printer	User’s guide and artwork is sent to the printer for publication.
Releases	Beta Release	Coincides with Code Complete
	Controlled Release	Coincides with Code Complete.
	General Availability	Coincides with Test Pass n when quality goals are achieved.

A flowchart of the entire development process and the important relationship among phases, functions and milestones can be found in Appendix C.

Financial Plan

Summary

EduSoft will continue to employ an unusual but effective financing strategy, using short-term lines of credit backed by a silent investor to fund growth and operations.

EduSoft's start-up year, 1992, began with \$10,000 of contributed capital and a great deal of sweat equity. One year earlier, in 1991, the owner began developing the company's first and currently only product, EduTracker, in his spare time and on weekends. Short-term lines of credit also helped fund operations until the product was completed in 1994. As of December, 1995, EduSoft's capital structure consisted of the same \$10,000 of contributed capital and short-term debt of \$120,000.

Expansion plans for 1996 through 1998 include three upgrades to EduTracker, two new add-on products and subsequent upgrades, and a host of new customer service and support programs. Under normal circumstances, EduSoft would finance these plans in stages beginning with new equity and/or long term debt, and followed by funds from profits and seasonal lines of credit. However, EduSoft has an unusual financing arrangement with an individual investor whose assets promise to support the future growth and development of the business, making financing through short-term lines of credit possible.

Sales from EduTracker grew from \$33,000 in 1994 to \$83,000 in 1995, yet it produced losses of \$36,000 and 40,000, respectively. As EduSoft adds new products and services, it expects to break even on sales of \$250,000 in 1996; earn a four to five percent profit, or \$22,000, on sales of \$500,000 in 1997; and eight to nine percent profit, or \$65,000, on sales of \$750,000 in 1998.

EduSoft's cash flow has been negative since its first year of operation in 1994. Since then, it has funded growth through lines of credit (backed by the aforementioned individual investor) which it has reduced with excess cash proceeds when available. EduSoft's line balance at the end of 1995 was approximately \$120,000. Going forward, it expects to increase its short-term borrowing in 1996 by approximately \$84,000 to almost \$200,000. Additional increases and reductions during 1997 and 1998 are expected to produce a line balance by the end of 1998 of approximately \$237,000.

The company expects a positive equity balance by the end of fiscal year 1998.

EduSoft's equity balance in its start-up year was \$10,000 from the initial capital contribution. Its pro forma balance sheet projects a negative equity balance for the subsequent four years (1994-1997) due to successive years of losses. However, EduSoft expects this trend to become more favorable beginning in 1996 as the company reaches break even and begins to earn profits. By the end of 1998, the company projects a positive equity balance of approximately \$16,000.

The remainder of this Financial Plan consists of:

- Historical financing and key financial indicators from start-up through 1995
- Expansion financing and use of proceeds for 1996, 1997, and 1998
- Financial projections and assumptions for 1996, 1997, and 1998
- Financial analysis of ratios and comparative income statements and balance sheets

Historical Financing and Key Financial Indicators

Sources of Funds Since Start-up

Ten thousand dollars of contributed capital and lines of credit have funded EduSoft's growth.

EduSoft is a very small business that has been able to fund its growth since its start-up year in 1993 through a small amount of contributed capital and bank loans. As of December 31, 1995, EduSoft's capital structure consisted of \$10,000 in contributed capital, and \$120,000 of debt from lines of credit, secured by the owner and a relative at nine percent. In 1996, EduSoft anticipates excess seasonal cash proceeds to allow it to partially repay its line. The table below highlights the company's financing history.

Year	Source of Funds	Incremental Amount	Cumulative Contributed Capital	Cumulative Credit Lines
1993 (start-up)	Contr. capital	\$ 10,000	\$ 10,000	---
	Line of credit	\$ 20,000	\$ 10,000	\$ 20,000
1994	Line of credit	\$ 30,000	\$ 10,000	\$ 50,000
1995	Line of credit	\$ 70,000	\$ 10,000	\$ 120,000

Table 7: Sources of Capital

Key Financial Indicators

Sales and profit margins showed favorable trends during the company's first two years of operation; however, revenue per employee figures fell short of the industry average.

Several key financial indicators, such as sales and profits, and asset and liability levels are shown in the table below. Two other indicators that are particularly important in the software business are product-to-service mix, or the revenue distribution between product and service sales, and revenue per employee, a common benchmark of performance.

Key Financial Indicators	1993	1994	1995	Industry ¹²
Total Sales	---	\$33,000	\$83,000	---
Product Sales	---	\$30,000	\$75,000	---
Maintenance/ Service Sales	---	\$2,800	\$8,000	---
Sales Mix	---	91% - 9%	91% - 9%	76% - 23%

Revenue / employee	---	\$22,000	\$21,000	\$70,000
Gross Profit Mgn	---	63%	78%	79.5%
Profit / Loss	---	-36,000	-40,000	---
Profit Margin	---	-114%	-38%	-14.0%
Assets	\$30,000	\$31,000	\$63,000	---
Liabilities	\$20,000	\$57,500	\$129,000	---
Net Worth	\$10,000	-\$26,000	-\$66,000	Negative

Table 8: Key Financial Indicators

Special Note about Industry Ratios

The 1994 Culpepper Surveys on which the industry information above is based are derived from surveys of 100 “cross-industry” software companies. That is, the data represent software companies that provide products for use by *all* types of industries, from manufacturing to service to retail. Their products range from operating systems to word processors to accounting software systems.

While Culpepper provides the most meaningful industry information available for software companies, it must be qualified when comparing *niche or vertical markets like education*. For software companies in these markets, it is reasonable to expect higher performance, especially in terms of profit margins, because their target markets are dramatically smaller and their products command significantly higher prices.

This “disconnect” between cross-industry and vertical market software company performance helps explain the lower gross margin and profit margin figures listed in the industry column of the table above. These figures are based on cross-industry software companies with up to \$3 million in annual sales. Even the median ratios for *all* cross-industry software companies surveyed shows a gross margin of 77.1%, and a profit margin of 1.9%.

Expansion Financing and Use of Proceeds

Short-term financing will be used instead of traditional long-term financing to fund company expansion. EduSoft will regularly monitor each method to ensure effective capital management.

To support its new product and service development plans during the next three years, EduSoft will require additional financing. Asset-based financing such as equity or long term debt will not be pursued because of the aforementioned support from the company’s financial backer. Instead, excess cash proceeds from sales and new lines of credit will be used to operate the business, and even hire new employees and purchase new equipment.

The following table shows EduSoft’s new credit requirements, expected “financing” activities, payments to the lines, and “rolling” line balance.

Year	New Credit	Use of Short-term Credit	Payments to Line	Running Balance
1995	---	Balance on 12/31/95	---	\$120,000
1996	\$121,000	<ul style="list-style-type: none"> • Marketing (direct mail, sales presentations, collateral, etc.) • EduTracker version 2, add-on product development • Support diagnostic tools, bulletin board, hardware • System improvements • Hiring costs 	\$37,000	\$204,000
1997	\$121,000	<ul style="list-style-type: none"> • Marketing (direct mail, sales presentations, collateral, etc.) • Product upgrades, development of Modification Tool • AutoFax service, video or CD training, toll-free support • System improvements • Hiring costs 	\$86,000	\$239,000
1998	\$109,000	<ul style="list-style-type: none"> • Marketing (direct mail, sales presentations, collateral, etc.) • Product upgrades (all modules) • Support diagnostic tools, bulletin board, hardware • System improvements • Hiring costs Other operations 	\$108,000	\$240,000

Table 9: Expansion Financing and Use of Proceeds

Financial Projections and Assumptions

Sales are projected to increase from \$250K in 1996 to \$750K in 1998.

Profits are also expected to increase from break-even in 1996 to up to 8% in 1998.

EduSoft has projected the following three year financial goals, as shown below. Scenario A from the *Overall Strategy* section of this plan will be used for purposes of conservatism. All dollar values are in thousands.

Goal	1996	1997	1998	Industry
Total Sales	\$250,000	\$500,000	\$750,000	---
Product Sales	\$218,000	\$420,000	\$600,000	---
Maintenance/ Service Sales	\$32,000	\$80,000	\$150,000	---
Sales Mix	87%-13%	84%-16%	80%-20%	76%-23%
Revenue/employee	\$45,000	\$60,000	\$70,000	\$70,000
Gross margin	85.0%	82.2%	85.3%	79.5%
EBT \$	\$0	\$19,000	\$66,000	---
EBT %	0.0%	4%	9%	-13.5%
Profit (after tax) *	\$0	\$19,000	\$63,000	---
Profit margin	0.0%	4%	8%	-14.0%
Assets	\$154,000	\$235,000	\$333,000	---
Liabilities	\$221,000	\$282,000	\$315,000	---
Net Worth	-\$67,000	-\$47,000	\$18,000	Negative

Table 10: Financial Projections

* No tax in 1997 due to tax losses carried forward from prior years.

Special Note about Sales Mix

Success in the software business depends on a company's ability to generate annuity revenue from sales of services, such as training, technical support, and custom programming. This revenue model benefits software companies in several ways, including higher margins and more reliable and predictable cash flow during low product sales seasons.

The projected sales mix figures in the tables above show a widening margin between respective product and service sales. EduSoft's 1998 projection (80% and 20%) reflects a respectable improvement considering the company's current sales mix (91% and 9%). The projection reasons that a larger customer base will be required to support service revenues of 20 percent. By the end of 1998, EduSoft's projected customer base will be 86 (cumulative), which the company believes will support an 80-to-20 percent product-to-service sales mix.

Though its projections are logical, EduSoft will begin to identify new services (as discussed in the *Product and Service Strategies* above) that will help it widen the gap even more—up to a 50-to-50 percent mix—to more aggressively increase its annuity revenue from service sales.

Sales, expenses, financing, and cash flow assumptions were based on the figures derived from the acclaimed 1994 Culpepper Surveys.

General Assumptions

Many of the following assumptions are based on "Financial Operating Ratios for Software Companies" and "Software Marketing Practices" (The Culpepper Surveys, 1994). These unique reports provide detailed information about software firms' financial practices, performance, and ratios. They are derived from surveys of 100 private and public software firms across virtually every segment of the software industry. The Surveys provide more specific information about software companies' financial operations than found in other published sources such as Robert Morris Associates or Dun & Bradstreet.

Sales Assumptions

Overall:

- Number of new customers and sales will increase each year for the next three years.
- Leads will be generated from aggressive direct mail marketing track strategy, which is expected to produce a three percent response rate. EduSoft expects to close 15 percent of all *qualified* leads.
- Product-to-service revenue mix will approach 80% and 20%, respectively, by the end of 1998.
- Each school district will comprise an average of 14 schools. This is a conservative but reasonable estimate since over 90 percent of all public K-12 districts have fewer than 25 schools, according to the U.S. Department of Education, National Center for Education Statistics.
- Accounts receivable collection period will average 90 days.
- The current product pricing model will be:

Quantity (# of schools)	1-10	11-25	26-40	40-60	60+
Price per school	\$1,250	\$1,200	\$1,150	\$1,100	\$1,050
Expected ave. revenue	\$12,500	\$22,000	\$38,000	\$55,000	\$74,000

1996:

- EduSoft will sell to 13 new school districts from approximately 85 qualified leads, which will be generated primarily via direct mail contact with 2,800 *unqualified* leads.
- Average revenue per school will be \$1,225; revenue per district will be \$17,150 (14 schools per district multiplied by \$1,200 per school from pricing table above). The difference between \$1,225 and \$1,200 is due to the inclusion of training revenue in total per district revenue calculation.
- Product-to-service revenue mix will be 87% and 13% respectively, or \$218,000 and \$32,000.
- Revenue per employee will increase to \$45K in 1996 from \$21K in 1995.

1997:

- EduSoft will sell to 25 new school districts from approximately 170 qualified leads, which will be generated via direct mail contact with 5,700 *unqualified* leads. Leads that were contacted in 1996 but did not respond are included in this figure.
- Average revenue per school will be \$1,243; revenue per district will be \$17,400 (14 schools per district multiplied by \$1,200 per school from pricing table above). The difference between \$1,243 and \$1,200 is due to the inclusion of training revenue in the total per district revenue calculation.
- Product-to-service revenue mix will be 84% and 16% respectively, or \$420,000 and \$80,000.
- Revenue per employee will increase to \$60K.

1998:

- EduSoft will sell to 35 new school districts from approximately 230 qualified leads, which will be generated via direct mail contact with 7,800 *unqualified* leads. Leads that were contacted in 1996 and 1997 but did not respond are included in this figure.
- Average revenue per school will be \$1,243; revenue per district will be \$17,400 (14 schools per district multiplied by \$1,200 per school from pricing table above). The difference between \$1,243 and \$1,200 is due to the inclusion of training revenue in total per district revenue calculation.
- Product-to-service revenue mix will be 80% and 20% respectively, or \$600,000 and \$150,000.
- Revenue per employee will increase to the industry average of \$70K.

Expense AssumptionsOverall:

- Variable expenses will be 15% in 1996, and increase slightly in 1997 due to increases in the three cost of sales factors (documentation, R&D allocation, and software licensing fees). Variable expenses will then decrease in 1998 due to economies of scale. See *Appendix D: Financial Statements and Schedules for 1996, 1997, and 1998* for expense allocations.
- EduSoft's fixed expenses will be approximately \$184,000 in 1996, and are expected to increase in 1997 and 1998 as EduSoft adds additional employees to support new customers and maintain and develop new products.
- Cost of sales will not exceed 18% in any given year.
- Average vendor payment period will be 60 days.

1996:

- Marketing costs will be \$37,000.
- Product development costs (R&D) are estimated to be \$8,600.

- New service expenses will be 5,600. These are costs incurred to implement new services such as Internet, BBS, etc., net of personnel and telephone expenses.

1997:

- Marketing costs will be \$83,000.
- Product development costs (R&D) are estimated to be \$31,000.
- New service expenses will be \$7,600.

1998:

- Marketing costs will be \$119,000.
- Product development costs (R&D) are estimated to be \$30,000.
- New service expenses will be just under \$1,100.

Financing Assumptions

Overall:

- EduSoft's current debt going into 1996 was \$129K, \$120,000 of which was from a line of credit. It expects to assume additional short-term financing from new lines of credit in 1997 and 1998 to fund operations and growth.
- Interest rate on additional credit lines will average 10 percent.
- New financing sources will be lines of credit. For purposes of conservatism, interest expense will be calculated based on simple interest terms (annual interest divided by 12 months). EduSoft plans to pay back portions of its lines as cash flows permit throughout each year. See 1996-1998 *Cash Flow Statements* in Appendix D.
- Depreciation: Equipment - Straight line method, 5 years
 Fixtures - Straight line method, 10 years

1996:

- Finance operations and growth through cash from sales and \$121,000 from new line of credit. This is in addition to the line of credit outstanding at the end of 1995 of \$120,000.
- Reduce amount owed on line of credit by \$37,000 during 1996.
- Expect credit line balance to be \$204,000 at the end of 1996.
- Interest expense will be approximately \$1,525 per month based on an average line balance of \$183,000 at 10 percent annual interest.

1997:

- Finance operations and growth through cash from sales and another \$121,000 of credit. This is in addition to the line outstanding at the end of 1996 of \$204,000.
- Reduce amount owed on line by \$86,000 during 1997.
- Expect credit line balance to be \$239,000 at the end of 1997.
- Interest expense will be approximately \$5,800 per quarter based on an average line balance of \$231,000 at 10 percent annual interest.

1998:

- Finance operations and growth through cash from sales and \$109,000 new line of credit. This is in addition to the line outstanding at the end of 1997 of \$239,000.
- Reduce amount owned on line by \$108,000 during 1998.
- Expect credit line balance to be \$240,000 at the end of 1998.
- Interest expense will be approximately \$6,000 per quarter based on an average line balance of \$239,000 at 10 percent annual interest.

Cash Inflow Assumptions

Overall:

- Cash inflow will be a function of operating revenues resulting from software licenses, maintenance agreements, training and other services, and lines of credit.
- All sales are on credit, and will be collected 90 days after the sale.
- EduSoft began 1996 with less than \$1,000 in the bank, but wishes to maintain an ongoing minimum cash balance of between \$3,000 and \$5,000 *after operating expenses* to meet its most urgent obligations and achieve its liquidity ratio goals.

1996:

- EduSoft will inject approximately \$121,000 in cash from a new line of credit. It will also inject \$177,000 in cash from the sale of software licenses, maintenance agreements, and other services. This accounts for the expected 90-day collection period.

1997:

- EduSoft will inject approximately \$121,000 in cash from a new line of credit. It will also inject \$444,000 in cash from the sale of software licenses, maintenance agreements, and other services. This accounts for the expected 90-day collection period.

1998:

- EduSoft will inject approximately \$109,000 in cash from a line of credit. It will also inject \$675,000 in cash from the sale of software licenses, maintenance agreements, and other services. This accounts for the expected 90-day collection period.

Cash Outflow Assumptions

Overall:

- Cash outflow is a function of operating expenses, including interest on debt, credit line payments, and vendor payments.
- Most cash outflows will follow the income statement expense pattern, but lag 90 days from the time expenses are incurred until they are paid. Exceptions include payroll, which will be paid twice monthly, payroll and income taxes which will be paid quarterly, and other semi-annual items such as auto insurance.

1996:

- **During the third quarter, EduSoft will pay down the outstanding balance on its credit lines by \$37,000.**

1997:

- **During the third quarter, EduSoft will pay down the outstanding balance on its credit lines by \$86,000.**

1998:

- **During the third quarter, EduSoft will pay down the outstanding balance on its credit lines by \$108,000.**

Financial Analysis of Ratios and Comparative Statements

This section includes:

- Key financial ratios, and a brief analysis of these ratios as they relate to EduSoft's business.
- Trend analyses of comparative balance sheet and income statement, highlighting key changes in the company's business.

Key Financial Ratios

The table below highlights important liquidity, coverage, leverage, and operating ratios that EduSoft will measure and attempt to realize during the next three years. While there are a host of other financial ratios (14 in all), the ones listed in the table will help EduSoft measure and monitor what's most important to it:

- Cash, and the ability to cover current obligations such as accounts payable
- Its ability to meet interest payments on its lines of credit.
- Profitability

For comparative purposes, industry ratios are provided, when available.

EduSoft's projected profitability performance exceeds the industry; however, its sales to net working capital ratio (a measure of liquidity) falls short due to its short-term financing strategy.

Ratio	1995	1996	1997	1998	Industry
Quick	0.3	0.4	0.5	0.7	---
Current	0.3	0.5	0.6	0.8	0.8
Sales to Receivables	2.4	2.7	3.3	3.3	---
Sales to Net Working Capital	-0.9	-2.3	-4.8	-13.3	5.5
EBIT to Interest	-107.3	1.0	1.8	3.8	-0.2
Debt to Net Worth	-2.0	-3.3	-5.9	17.3	182.5
EBT to Net Worth	0.6	0.0	-0.4	3.6	---
Gross margin	78.5%	85.0%	82.2%	85.3%	79.5%
Operating margin	-47.6%	4.2%	8.5%	12.0%	-13.5%
Profitability (EBT)	-47.8%	0.0%	3.9%	8.8%	---
Profitability (after-tax)	-47.8%	0.0%	3.9%	8.4%	-14.0%

Table 11: Key Financial Ratios

Quick Ratio. This liquidity ratio measures EduSoft's ability to cover its current liabilities with its most liquid assets; that is, cash and trade accounts receivable. EduSoft's ability to pay its current liabilities with cash and accounts receivable is strong, though unnecessarily high. This is due in large part to its high receivables balances, especially in 1997 and

1998. The industry average is not known, but based on the *current* ratio of 0.8, the quick ratio is probably lower. EduSoft will work to raise this ratio toward 1.0 by employing the following strategies:

- Reduce accounts receivable collection period from 90 days (current assumption), to 60 days. This will generate more cash, which can be used to pay down debt more quickly.
- Maintain accounts payable payment schedule of no fewer than 60 days. Currently, supplier payments are made within 90 days. While this schedule favors EduSoft, it must anticipate that suppliers will begin to demand payment more frequently.

Current Ratio. This liquidity ratio measures EduSoft's ability to cover its current liabilities with its current assets (cash, trade accounts receivable, and inventory). EduSoft's current ratio is too low, averaging less than 0.6 during the 1995-1998 years, compared to 0.8, the industry average. The same strategies for raising its quick ratio apply here.

Sales to Receivables. This liquidity ratio measures the annual turnover of trade receivables. As mentioned above, EduSoft will work toward reducing its AR collection period from 90 days to 60 days. This will effectively increase the Sales to Receivables ratio, providing better liquidity for the company.

Sales to Net Working Capital. This liquidity ratio measures the margin of protection for current creditors and reflects the ability to finance current operations. Put another way, it indicates whether EduSoft might have too little working capital for the amount of sales, which can cause cash shortages. EduSoft is well below the industry average of 5.5. To increase this ratio, EduSoft will:

- Evaluate its financing strategy; consider assuming long-term asset-based debt instead of short-term lines of credit.
- Increase the efficiency of its working capital by reducing the margin between current assets and current liabilities. A key consideration should be to change its borrowing strategy and assume more long term debt versus short-term lines of credit.
- Work to exceed its sales goals, especially in 1997 and 1998.

EBIT to Interest. This coverage ratio measures EduSoft's ability to meet its interest payments. Its ability to show lenders that it will produce the earnings to cover its interest payments will be important in all three years. Based on projected income statements, EduSoft not only exceeds the industry average, but will be able to cover its interest, thus making it a lower risk for lenders.

Debt to Net Worth. This leverage ratio measures the relationship between capital contributed by EduSoft's creditors (the bank), and that contributed by its owners. It's clear that EduSoft's contributed capital (\$10,000 at start-up) dramatically influences this ratio. Obviously, 1996 and 1997 are concerning years because the company's net worth is

negative. However, EduSoft expects to turn the corner in 1998 with a projected positive net worth of \$18,000. This will result in a debt to net worth ratio of 17.3 which is well below the industry average of 182.5. This favors EduSoft, especially from the viewpoint of potential creditors, since it presents a lower risk lending opportunity.

EBT to Net Worth. This operating ratio measures the rate of return on tangible capital employed by EduSoft. This ratio improves from 1996 to 1998, indicating a higher rate of return on EduSoft's capital investment (loans and owner equity).

Analysis of Comparative Financial Statements

Figures 2 and 3 show comparative common-size income statements and balance sheets for 1995 through 1998. Highlighted accounts indicate important trends in the company's financial situation, and are discussed below.

Comparative Income Statement Highlights

Revenue. One of EduSoft's overall corporate strategies is to balance the revenue mix between products and services. As a relatively new company with few customers, it expects to show higher-than-average product sales compared to service sales. As the company adds more customers, it will naturally increase the number of Service Maintenance Agreements, thus change the proportion of service revenues to product revenues. EduSoft will keep close watch on these numbers, since a proper mix is important to stave off economic downturns and seasonal factors that could effect cash flow and profits.

Cost of Sales. The software business enjoys inherently low cost of sales. EduSoft allocates R&D and license fees to its COS on the premise that they are fundamental costs involved in manufacturing its products. R&D costs are expensed instead of capitalized and amortized because these costs are relatively low. Should EduSoft develop a more aggressive and costly product development plan, it will consider changing its approach.

EduSoft's COS were higher than desired in 1995, but lower in subsequent years, hitting 15 percent in 1996 and 1998. A slight increase in 1997 to 18 percent is due to the increased costs of product maintenance and development. The industry median, according to Culpepper (1994), is 22.9 percent. For software companies with less than \$3 million in annual revenues, Culpepper reports an average COS of 20.5 percent.

Payroll and Payroll Expenses. EduSoft's payroll and related expenses (total employee compensation) decreased from 90 percent in 1995 to 49 percent in 1996, and level out through projected years 1997 and 1998 to 47 percent. This is an acceptable trend, given the industry median is 46.6

Appendix D includes complete income statements, cash flow planning sheets, depreciation schedules, revenue per customer analyses, and a break-even analysis for 1996-1998.

percent for companies with annual sales under \$3 million. (Culpepper Surveys).

Sales & Marketing. EduSoft's 1995 sales and marketing expenditures were the direct result of the company's reactive sales posture; that is, it did few demand creation or lead generation activities. As the company looks to expand to \$750,000 by 1998, consistent sales and marketing activities will be paramount. Market costs related to direct mail campaigns, launching new products and product upgrades, marketing materials such as demonstration disks, and sales presentations and related expenses should be expected.

Though below the industry average of 26 percent (Culpepper Surveys), EduSoft expects to increase this expense to approximately 16 percent. Arguably, this level of spending is adequate given the highly vertical nature of EduSoft's target market. In theory, companies in very narrow niche markets should produce as much if not more for the same sales and marketing dollar.

Total Expenses. Total expenses are budgeted to reflect EduSoft's profitability goals.

Operating Income. EduSoft's operating income is projected to increase from four percent in 1996 to nine percent by 1998. Since operating income does not account for interest expense, it will be imperative for the company to make prudent borrowing decisions, such as seeking lower-interest SBA (Small Business Administration) loans.

Comparative Balance Sheet Highlights

Accounts Receivable. As a percent of total assets, EduSoft's trade accounts receivable is projected to increase from 54 percent in 1995 to 68 percent in 1998. This is due to the company's estimated collection period (assumed to be 90 days).

Taxes Payable. Taxes payable, including payroll and income taxes, will naturally increase as a percent of total liabilities plus equity as EduSoft adds personnel and realizes income from its operations.

Total Equity. EduSoft suffered a negative equity balance in 1995, 1996, and 1997; an unattractive position for investors and creditors alike. However, with projected incomes in 1997 and 1998, the company expects to change this trend and produce positive equity by 1998 of just over \$16,000.

FIGURE 2: COMPARATIVE INCOME STATEMENTS

	1995	%	1996	%	1997	%	1998	%
REVENUES								
Software License Fees	74,867	91%	218,000	87%	420,000	84%	600,000	80%
Maintenance Fees	7,025	8%	27,000	11%	65,000	13%	120,000	16%
Training	790	1%	5,000	2%	15,000	3%	30,000	4%
TOTAL REVENUES	82,682	100%	250,000	100%	500,000	100%	750,000	100%
COST OF SALES								
	17,815	22%	37,542	15%	89,083	18%	110,400	15%
GROSS PROFIT								
	64,867	78%	212,458	85%	410,917	82%	639,600	85%
EXPENSES:								
Payroll	49,058	59%	81,178	32%	147,418	29%	233,818	31%
Payroll Expenses	25,957	31%	42,952	17%	78,000	16%	123,714	16%
Supplies	1,515	2%	1,500	1%	3,000	1%	3,500	0%
Postage	2,051	2%	2,000	1%	5,000	1%	6,000	1%
Rent	-	0%	-	0%	-	0%	4,800	1%
Repairs & Mtc	75	0%	500	0%	1,000	0%	1,200	0%
Sales & Marketing	901	1%	36,808	15%	83,217	17%	118,983	16%
Customer Service	-	0%	5,660	2%	7,660	2%	1,080	0%
Auto	1,337	2%	2,000	1%	5,000	1%	6,000	1%
Accounting & Legal	6,240	8%	2,000	1%	2,000	0%	2,000	0%
Consulting Fees	250	0%	750	0%	3,000	1%	4,500	1%
Telephone	3,997	5%	3,000	1%	5,000	1%	6,000	1%
Travel	2,227	3%	3,000	1%	6,000	1%	9,000	1%
Insurance	3,850	5%	4,000	2%	6,000	1%	7,500	1%
Other expenses	834	1%	1,418	1%	3,000	1%	5,000	1%
State Corp. Tax	95	0%	500	0%	-	0%	-	0%
Depreciation	5,801	7%	7,858	3%	13,039	3%	16,744	2%
TOTAL EXPENSES								
	104,186	126%	195,125	78%	368,334	74%	549,840	73%
OPERATING INCOME								
	(39,320)	-48%	17,334	7%	42,583	9%	89,760	12%
INTEREST EXPENSE								
	367	0%	20,000	8%	23,125	5%	23,925	3%
OTHER INCOME								
	150	0%	-	0%	-	0%	-	0%
NET INCOME BEFORE TAX								
	(39,536)	-48%	(2,666)	-1%	19,458	4%	65,835	9%
PROFIT AFTER TAX								
	-	0%	-	0%	19,458	4%	62,685	8%

FIGURE 3: COMPARATIVE BALANCE SHEETS

	1995	%	1996	%	1997	%	1998	%
ASSETS								
Current Assets								
Cash	600	1%	5,482	4%	4,141	2%	5,910	2%
Accounts Receivable	34,000	54%	93,900	60%	150,000	64%	225,000	67%
Inventory	-	0%	16,638	11%	24,194	10%	28,953	9%
Total Current Assets	34,600	55%	116,020	74%	178,335	76%	259,863	78%
Fixed Assets								
Equipment	31,000	49%	42,525	27%	59,900	25%	75,950	23%
Less Depreciation	(6,200)	-10%	(8,505)	-5%	(11,980)	-5%	(15,190)	-5%
Furniture & Fixtures	3,994	6%	6,469	4%	10,594	4%	15,544	5%
Less Depreciation	(399)	-1%	(647)	0%	(1,059)	0%	(1,554)	0%
Total Fixed Assets	28,395	45%	39,842	26%	57,455	24%	74,750	22%
TOTAL ASSETS	62,995	100%	155,862	100%	235,790	100%	334,612	100%
LIABILITIES								
Current Debt								
Accounts Payable	2,342	4%	6,961	4%	16,859	7%	21,185	6%
Notes Payable	6,489	10%	204,000	131%	239,000	101%	240,000	72%
Taxes Payable (payroll, income)	6,489	10%	10,738	7%	26,310	11%	57,121	17%
Total Current Debt	128,831	204%	221,699	142%	282,169	120%	318,306	95%
Longterm Debt								
Notes Payable	-	0%	-	0%	-	0%	-	0%
Mortgage	-	0%	-	0%	-	0%	-	0%
Loan	-	0%	-	0%	-	0%	-	0%
Total Longterm Debt	-	0%	-	0%	-	0%	-	0%
TOTAL DEBT	128,831	204%	221,699	142%	282,169	120%	318,306	95%
EQUITY								
Retained Earnings	(75,837)	-120%	(75,837)	-49%	(56,379)	-24%	6,306	2%
Contributed Capital	10,000	16%	10,000	6%	10,000	4%	10,000	3%
TOTAL EQUITY	(65,837)	-104%	(65,837)	-42%	(46,379)	-20%	16,306	5%
TOTAL DEBT + EQUITY	62,995	100%	155,862	100%	235,790	100%	334,612	100%

Overall Schedule

EduSoft will remain in the "Survival" stage through 1996, then transition to the "Early Success" stage in 1997 and 1998.

This schedule highlights key events since the incorporation of EduSoft, and looks forward three years to the milestones and events that will help EduSoft achieve its strategic corporate goals.

Start-Up to Survival Stage (1992-1995)	
Began design of EduTracker	Sep. 1992
Incorporated EduSoft	Dec. 1992
Received capital contribution from silent partner	Jan. 1993
Secured first round of financing	Oct. 1993
Installed first Beta site	Oct. 1994
Shipped EduTracker version 1	Dec. 1994
Added first new customer	Dec. 1994
Shipped EduTracker version 1.2	May 1995
Added 10th new customer	Nov. 1995

Survival Stage (1996)	
Secure additional financing of \$121K	Jan.
Begin executing marketing plan	Jan.
Begin discussions with McGraw-Hill strategic alliance	Feb.
Complete business plan	Mar.
Add 1.0 FTE sales person	Feb.
Add 0.5 FTE administrative assistant	Feb.
Add new BBS and DSS support services	Jun.
Survey all customers, and hold focus groups	Jun.-Aug.
Ship EduTracker version 2	Sep.
Launch Medical Billing add-on product	Sep.
Launch Speech/Language add-on product	Nov.
Generate \$250K in revenue by adding 13 new customers	Dec.
Increase revenue per employee to \$45K from \$21K	Dec.
Achieve break-even	Dec.

Survival to Early Success Stage (1997)	
Add 1.0 FTE sales person	Jan.
Add 0.5 FTE marketing person	Jan.
Add 1.0 FTE installation/training specialist	Jan.
Secure additional financing of \$121K	Jan.
Upgrade Medical Billing and Speech/Language modules	Sep.-Oct.
Develop and launch Forms Modification Tool	Mar.-Apr.
Add autofax support, video training, toll-free support	Sep.-Oct.
Generate \$500K in revenue by adding 25 new customers	Dec.
Increase revenue per employee to \$60K	Dec.
Achieve 4 percent profitability (EBIT)	Dec.

Early Success Stage (1998)	
Add 1.0 FTE sales person	Jan.
Add 1.0 FTE development person	Jan.
Add 1.0 FTE support person	Jan.
Secure additional financing of \$109K	Jan.
Launch product line upgrade	Jun.-Aug.
Generate \$750K in revenue by adding 25 new customers	Dec.
Increase revenue per employee to \$70K	Dec.
Achieve 8 percent profitability (EBIT)	Dec.

Risks and Potential Pitfalls

This section summarizes the most relevant risk factors and potential pitfalls facing EduSoft today.

Financial Backer Pulls Out

As mentioned in the *Financial Plan*, EduSoft enjoys the backing of an individual investor whose assets support the ongoing development of the business, making short-term line financing possible. However, EduSoft should anticipate the possibility that this investor may terminate future support, particularly if revenue and profitability goals are not achieved according to the plan. EduSoft should begin to identify and assess alternative financing, even though it may never seek it.

Changes in Government Regulations

There are at least three government-related risks that warrant mention. First, any swift and/or dramatic changes in state or federal government regulations could send EduSoft (and its competitors) into a tailspin as it attempts to update its product line to comply.

A second potential risk --no matter how remote--is the possibility that state or federal officials will mandate a "single source" system for all special education monitoring and reporting.

The third risk is that new approaches in special education, like "inclusion," will replace today's "pull-out" programs, leaving fewer special education students to monitor and track and thus, diluting the cost and time savings benefits of EduTracker. By maintaining a close knowledge of the market and the government and educational regulations that surround it, EduSoft will at least be able to respond in a timely fashion.

Inadequate Lead Generation Activities

EduSoft will be in the "Survival" stage until 1997, when it is forecasting profitability. Until then, it will rely on districts buying its products to generate needed cash to pay the bills. However, EduSoft must not ignore the importance of "filling the pipeline" with qualified leads, and understanding the quality of each lead and its status in the overall sales process. Small organizations like EduSoft become spread thin very quickly, and often let lead generation and qualification become non-essential activities. To help prevent this situation, EduSoft must implement a systematic—almost automated approach—to continuously fill the lead pipeline with high quality leads.

Lost Focus on Special Education

Ancillary opportunities unrelated or remotely related to the mission of EduTracker may look appealing and profitable, but should be avoided. Instead, EduSoft must focus on becoming the “best of class” special education information system by penetrating the market with EduTracker and its two planned integrated add-on modules.

Unrealistic Development Timelines and Costs

Less than 300 hours are currently budgeted for the development, testing, and documentation for both add-on modules planned for release in 1996. Although these are very small add-on products, it may be unrealistic to deliver two high quality products without investing more than nine weeks of development time. As EduSoft gets closer to the “Feature Complete” stage (see *Software Development Process* for definition) of these products, it should revisit the entire release schedule to ensure an on-time delivery.

New Entrants

Enterprise-wide providers like McGraw-Hill, National Computer Systems, or Macro Educational Systems, may decide to aggressively promote or build (or worse yet, acquire) a special education module to sell with their student information systems. Already, McGraw-Hill has signed a distribution agreement with Learning Tools, an EduSoft competitor. This “component-replacement” strategy is taking hold as software developers look to specialize to meet customers’ more specific needs.

Appendix A

1996 Marketing Plan

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1996 Sales Goals and Marketing Strategies

Review of 1996 Sales Goals

During 1996, EduSoft plans to achieve the following customer and revenue goals:

- Customers: 13 new districts (approximately 182 schools)
 Revenue: \$250,000 total revenue (\$218,000 from software licenses, \$32,000 from maintenance contracts, support, and training)

Key Marketing Strategies and Tactics

The marketing strategies and tactics presented in this plan will be employed to help achieve these goals. Each strategy is summarized in the table below, followed by supporting tactics described throughout the remainder of this plan. At the time of this writing, some of these strategies already have been initiated. Other strategies and tactics will be implemented throughout the remainder of 1996 and are expected to effect subsequent years. See *Marketing Timeline* below.

Summary of Key Marketing Strategies

Customer Research	<ul style="list-style-type: none"> • Measure and monitor customer satisfaction and identify new product and service ideas by: <ul style="list-style-type: none"> ◊ Developing and administering a customer survey ◊ Conducting customer focus groups ◊ Establishing a customer advisory council
Product marketing	<ul style="list-style-type: none"> • Develop positioning statements, pricing strategies, and promotional materials for: <ul style="list-style-type: none"> ◊ EduTracker version 2 ◊ Speech/Language module version 1 ◊ Medicare/Medicaid module version 1 • Revamp pricing for product customization services.
Service Marketing	<ul style="list-style-type: none"> • Develop implementation plans for: <ul style="list-style-type: none"> ◊ Bulletin board service ◊ Diagnostic support service
Promotion	<ul style="list-style-type: none"> • Build broader awareness and qualify school districts through: <ul style="list-style-type: none"> ◊ Public relations ◊ Trade events • Implement a "Direct Mail Marketing Track" lead generation strategy.

Customer Research

This section includes customer research activities that EduSoft will engage in during 1996. Other marketing research activities, such as analyses of the competition, industry structure, technology, and distribution are presented in the Business Plan.

Surveys, Focus Groups, and Advisory Council

EduSoft's first order of business is to measure and monitor its customers' satisfaction and future product and service needs. In 1996, it will begin to do this through customer surveys, focus groups, and an EduSoft Customer Advisory Council.

Customer Survey

For the first time, EduSoft will survey its customer base of 13 districts and 244 schools to:

- Learn more about its customers
- Measure and monitor customers' product and service satisfaction
- Identify new product and service opportunities

EduSoft will rely on primary data gathered through survey mail questionnaires. The questionnaire will be administered twice annually, once in September/October and again in April/May. These "peak usage" periods will enable EduSoft to better measure trends in satisfaction and needs, and ensure reliability of survey results.

Survey results will be documented so that EduSoft may implement changes to its products, services and other ways of doing business that improve customer satisfaction. See Exhibit 1 of this plan for a copy of the questionnaire.

Focus Groups

To further define new product and service ideas, EduSoft will hold semi-annual focus groups made up of district and school customers. This exploratory research will help the company not only gather information about customers' wants and needs, but also prioritize that information. Focus group members may vary, but the total group size will be limited to five or six customers to maintain focus.

Customer Advisory Council

EduSoft will establish a Customer Advisory Council consisting of key district and school customers (special education administrators and instructors). The purpose of this group is to:

- Provide input and feedback to EduSoft about new product and service ideas
- Become an "Inner Circle" to help evangelize EduSoft's products and services

The Advisory Council will consist of six to eight persons and will meet at least once every year.

Product Marketing

This section discusses the positioning statements, pricing strategies, and promotional materials for EduSoft's flagship product, EduTracker, as well as its upcoming add-on products.

Positioning Statements

A positioning statement should succinctly communicate what the product is, who it is for, and why it is different. EduSoft has developed the following positioning statements for EduTracker and its two soon-to-be-released add-on modules, Speech/Language and Medical Billing.

EduTracker:

EduTracker is a graphical, easy-to-use special education information system that delivers on-demand access to special education student information for administrators and instructors in the public K-12 school system.

Speech/Language:

Speech/Language is a graphical, easy-to-use module that integrates seamlessly with EduTracker to provide special educators with data query and reporting features required by Speech Therapists.

Medical Billing:

Medical Billing is a graphical, easy-to-use module that integrates seamlessly with EduTracker to provide public K-12 school districts with automated medical billing service for qualifying special education services.

These statements will serve as the “centerpieces” for future product communications. EduSoft will use them, modified appropriately, in everything from sales presentations to follow-up sales letters, direct mail campaigns, and trade shows.

Pricing Strategies

As discussed in the *Marketing Strategy* section of the Business Plan, EduSoft will not change the current mid-range price point of EduTracker. However, pricing decisions must be made for Speech/Language and Medical Billing modules, and pricing must be revamped for the customization service EduSoft currently provides at no charge.

Add-On Module Pricing

Prior to making final pricing decisions for either add-on module, EduSoft will evaluate information gathered from its Customer Advisory Council. Prices will be established at least 60 days before each product is released. Three pricing models will be considered:

1. Simple price schedule like that used for EduTracker
2. Per student pricing strategy, based on the number of active special education student portfolios recorded by the school district
3. Percent of total qualifying special service billing amount (Medical Billing module only)

These pricing decisions are separate from promotional prices EduSoft may extend to existing customers.

Product Customization Pricing

Currently, EduSoft provides district customization services for no additional charge. As discussed in the Business Plan, this practice will stop in 1996. Instead, EduSoft will implement the following two-point customization pricing strategy.

1. Allocate state customization costs. For state-mandated changes, include customization costs in the normal software license price, potentially increasing EduTracker's published price. Allocate the state-specific cost of customization back to each district based on the number of districts in that state and a reasonable penetration forecast.
2. Charge for district customization services. During 1996 and if necessary, part of 1997, provide district level customization service for a premium fee. When the "forms modification tool" is complete, price it along with training to ensure an acceptable profit margin.

Promotional Materials

EduSoft will develop a "basic", yet quality suite of marketing materials to help move a prospective customer from the first point of contact through on-site sales presentation.

With its limited marketing budget, EduSoft will adopt a "guerrilla" strategy that delivers the most promotional impact for the dollar. It will do this by developing promotional materials—mainly literature—that have a high quality, four-color process appearance, yet are flexible, and can be distributed via mail, fax, or electronically with minimal quality compromise.

Masthead Template

Each marketing piece (e.g. fact sheet, pricing schedule) will begin with a blank "template" on which a four-color masthead will be printed. The masthead will provide a consistent look and feel to EduSoft's collateral, along with a more upscale four-color image. Additionally, the masthead template can be produced more economically than smaller quantity runs of individual marketing pieces.

EduSoft will use desktop publishing software (and an outside graphic artist, if necessary) to create the "body" of its marketing pieces. Copy and graphics will be laser printed to produce the desired literature piece. For high quantity jobs, the masthead template will be over-printed by a local printer. This approach will provide the most cost-effective, flexible use of EduSoft's materials and marketing dollars.

Literature

Several marketing pieces will be enhanced or produced using the masthead template. This plan does not include copy and graphics for each piece since most already have been written. However, once supplies run out, all literature will be updated and re-printed on the masthead template.

Literature for 1996 includes:

- Company Backgrounder—The company's mission statement and brief history.

- **Product Overview**—A summary of each product EduSoft develops.
- **Product Fact Sheets**—A more detailed description of each product (one fact sheet per product). Each fact sheet includes a refined positioning statement for that product (EduTracker, Speech/Language, or Medicare/Medicaid), along with a description its features and benefits, and system requirements.
- **Customer Services Info Sheet**—An overview of the services EduSoft provides, including their availability and price.
- **Product Pricing Schedule**—A table listing all product and service prices.
- **Satisfied Customer Sheet**—A sales piece listing testimonials of various customers.

The masthead design also could be printed on a high-utility folder and used to “kit” EduSoft’s marketing pieces for fulfillment purposes.

EduTracker Product Demo Disk

Another important marketing tool for 1996 will be a product demo disk that prospective customers can use to see how EduTracker looks, feels, and works. Since EduTracker is EduSoft’s “core” module to which its add-on products will integrate, in 1996 the company will focus on developing a demo disk for EduTracker.

A product demo disk can be cumbersome and difficult to use, and reflect poorly on the product. However, it also can be an excellent fulfillment piece to which prospective customers will respond, thus helping EduSoft better qualify its leads.

The EduTracker demo disk will attempt to make evaluating the product fun and informative for both expert and novice users. To achieve this goal, the demo disk will have the following characteristics:

- It will fit on one 3.5” disk, and can be run off the disk or copied to the hard drive
- It will run either on a Macintosh or Windows compatible computer, and be audio-enabled
- The user will have the option to interact with the demo or simply watch it run
- The demo will require no more than 15 minutes to complete

With its literature and demo disk, EduSoft will be adequately armed with the basic promotional materials to educate and inform its prospective customers until it has an opportunity to make a more formal, on-site sales presentation.

Service Marketing

New Services

Based on expected results from the customer survey, EduSoft will prepare to expand its service offering in 1996 by adding two new services: Bulletin Board Service (BBS) and Diagnostic Support Service (DSS). Its overall goals for expansion are to improve customer satisfaction and differentiate itself from its competitors. A description of each service, including pricing and promotional materials follows.

Bulletin Board

The objectives of EduSoft's BBS are to:

- Provide EduSoft customers with an alternative way to get product support.
- Provide for EduSoft an electronic means to download product bug fixes, updates, and even upgrades to its customers.
- Provide a support service that is available 24 hours a day, seven days a week.

The EduSoft BBS will be a private board available only to EduSoft customers. It will be monitored daily, and possibly on weekends, to ensure timely responses to customers' questions. Based on survey results, EduSoft may consider a guaranteed 24-hour response to customers' questions.

In the future, EduSoft will probably blend its BBS into an Internet Web site. K-12 School districts have not yet adopted the Internet to an extent that warrants this approach in 1996. However, EduSoft believes most districts have modems and the rudimentary software (which is often shareware) necessary to use a simple BBS system. Additionally, EduSoft has the expertise required to implement a BBS system, whereas an Internet Web site would require new skills to implement at a time that its customers aren't demanding Internet access.

Diagnostic Support Service

The objectives of EduSoft's DSS are to:

- Provide a higher level of product service for EduSoft customers who require interactive, hands-on support without actually being at a customer's site.
- Differentiate its suite of services from its competitors' offerings.

Based on competitive research, no other supplier offers interactive diagnostic support for its customers. EduSoft perceives this to be an opportunity since many users, especially special education instructors, are computer novices who often require "hands-on" support.

The DSS will be available during normal support hours and, initially, by appointment only. An EduSoft support technician will simply dial in via modem to assume control of the customer's computer using commercially available tools like TimBuk2, CloseUp, or Carbon Copy. The technician then can explore the customer's forms, directories, folders, even scripting code if necessary to identify and resolve the problem.

EduSoft will consider survey, focus group, and advisory board feedback and results prior to investing in the necessary technology and implementation.

Promotion

Awareness building and lead generation activities will be vital to EduSoft's ability to achieve its customer acquisition and revenue goals for 1996. This section discusses these activities, including actual direct mail marketing letters and materials.

Awareness Building

EduSoft's will work to build broader awareness among K-12 districts and schools through public relations and trade events. During 1996, the company will not attempt to participate in every show or PR activity. Rather, it will focus on the following events that best support its 1996 customer acquisition and revenue goals. Going forward, EduSoft will consider broadening its awareness building activities both in breadth and depth.

Public Relations

EduSoft will focus its public relations efforts on publications and associations. These audiences are divided into three tiers:

1. Special education audiences (primary audience)
2. Technology audiences
3. General education audiences

Publications

All publications are considered Tier 1 since they focus on special education topics. They are:

- LRP Publications
- Education Handicapped Law Report
- Special Education
- Special Education Report
- Inclusive Education Programs
- Counterpoint

Associations and Councils

Tier 1:

- Council for Exceptional Children (CEC)
- Council of Administrators of Special Education (CASE)
- National Association for Gifted Children
- Council for Learning Disabilities

Tier 2:

- International Society for Technology in Education
- Technology and Information Educational Services (TIES)
- National Educational Computing Association, Inc.
- Association for the Advancement of Computing in Education

Tier 3:

- National Education Association
- National Association of Federally Impacted Schools
- National Reading Styles Institute, Inc.
- Council for Advancement and Support of Education
- National Association for the Education of Young Children
- National Middle School Association

- National Association of Independent Schools
- Association for Counselor Education and Supervision
- Parents as Teachers National Center, Inc.

EduSoft will implement a three-part communication plan to all audiences, with variations in messages and timing as appropriate:

- **Information Kit.** General information about EduSoft and its products and services. This kit also will contain a request for information about story and advertising opportunities with trade publications and associations.
- **Press Kits.** When EduSoft releases a new product or has some other potentially newsworthy event to communicate, press kits will be sent to these audiences.
- **Phone Contact.** Tier 1 and 2 audiences will receive periodic phone contact to maintain higher-than-normal awareness levels and support EduSoft's corporate position.

Trade Events

According to the Educational Research Information Council, there are over 100 education conferences scheduled for 1996 alone. Below is a list of key special education events and technology events that EduSoft will attend during 1996 as a conference attendee and/or exhibitor.

Event	Date	Location	Contact
National Educational Computing Association, Inc., National Educational Computing Conference	Jun. 9-13	Minneapolis	Donella Ingham 503/346-2834
LRP Educational Technology Conference & Expo '96	Aug. 4-7	San Francisco	800/727-1227
Council of Great City Schools Annual Fall Conference	Oct. 22-27	Minneapolis	202/393-2427
Council of Administrators of Special Education International: Public Policy on Special Education	Nov. 16-18	Scottsdale, AZ	Dr. Jo Thomason 505/243-7622
International Society for Technology in Education: 5th International Conference	Dec. 5-8	Tampa, FL	Lori Novak 503/346-2411

Direct Mail Marketing

EduSoft's three year customer acquisition and revenue goals will depend on its ability to generate and qualify and manage enough leads to "fill the pipeline" to ensure sufficient lead closure. This is an ongoing exercise that generally must occur before phone contact or on-site presentations are pursued. By maintaining an intimate knowledge of each lead, its quality, and its stage in the sales process, EduSoft can be confident in its customer acquisition and revenue forecasts, and in its ability to achieve those forecasts.

The process EduSoft will implement to generate and qualify leads is a direct mail marketing track strategy. This approach systematically moves leads through the critical early stages of the sales cycle based on prospects' budget, time frame, and level of interest. These factors are measured based on prospects' responses to certain direct mail offers.

Target Market Segment—EduSoft’s “Point-of-Attack”

EduSoft will focus its direct mail lead generation efforts on *district special education directors*. EduSoft’s “point-of-attack” market will consist of those districts that have more than 500 special education students, and spend more than \$4,000 per student. The result is a more defined market of approximately 2,600 districts (of over 16,000) throughout the country.

Lead Definitions

Leads are either unqualified or qualified. Unqualified leads have *not* been contacted, while qualified leads have been *and* have responded to an offer. Qualified leads will be further divided into two types:

- Type 1: Those that have budgeted for a system and intend to buy within 12 months (“hot”).
- Type 2: Those that plan to budget for a system to buy within 24 months (“warm”).

All other leads have neither the budget nor the intention to buy, and will be classified Type 3.

The goal of the marketing track strategy is to filter out Type 2 and 3 leads in order to focus on Type 1 leads. Eventually, some Type 3 leads will become Type 2, some Type 2 will become Type 1, and some Type 1 leads will become new customers.

Lead Identification

To begin the lead identification and management process, EduSoft will set up two marketing tracks consisting of mailers and corresponding offers. Each track will give the prospect an opportunity to “raise his hand” to each offer.

Track 1: This track will consist of an Initial Mailer and Initial Offer:

Initial Mailer. This *mass mailer* will be sent to all *unqualified* special education directors (whose names are not known) in EduSoft’s point-of-attack market. It will include a cover letter with key messages about the benefits of EduTracker, an offer, and a response form requesting important data about the district’s budget, time frame, current special education information system, director’s name, and so forth.

Initial Offer. EduSoft probably will have to test several different offers to determine which yield the highest response rates. Initially, it will offer a simple “Free Information Kit” containing a cover letter, company background, and product overview.

EduSoft’s expected response rate for Track 1 is three percent. Leads that don’t respond to the Track 1 offer will be considered Type 2 or 3 leads. The marketing budget will support *re-mailing* to these leads, which EduSoft will consider depending on the response rate to its initial mailer. Response rates often increase dramatically when the lead sees the offer for a second or third time. EduSoft also may consider testing several offers as part of the initial mailer to identify which yield the best response rates.

EduSoft will stay in contact with these districts by mail or fax in an effort to move them “up” to a Type 1 or 2 lead status.

Track 2: This track will consist of a Follow-up Mailer and Follow-up Offer:

Follow-up Mailer. This mailer will be sent to *qualified* leads that respond to Track 1, and will include a cover letter, the Information Kit, and Follow-up Offer. Cover letters will be personalized, since directors' names will be known at this juncture.

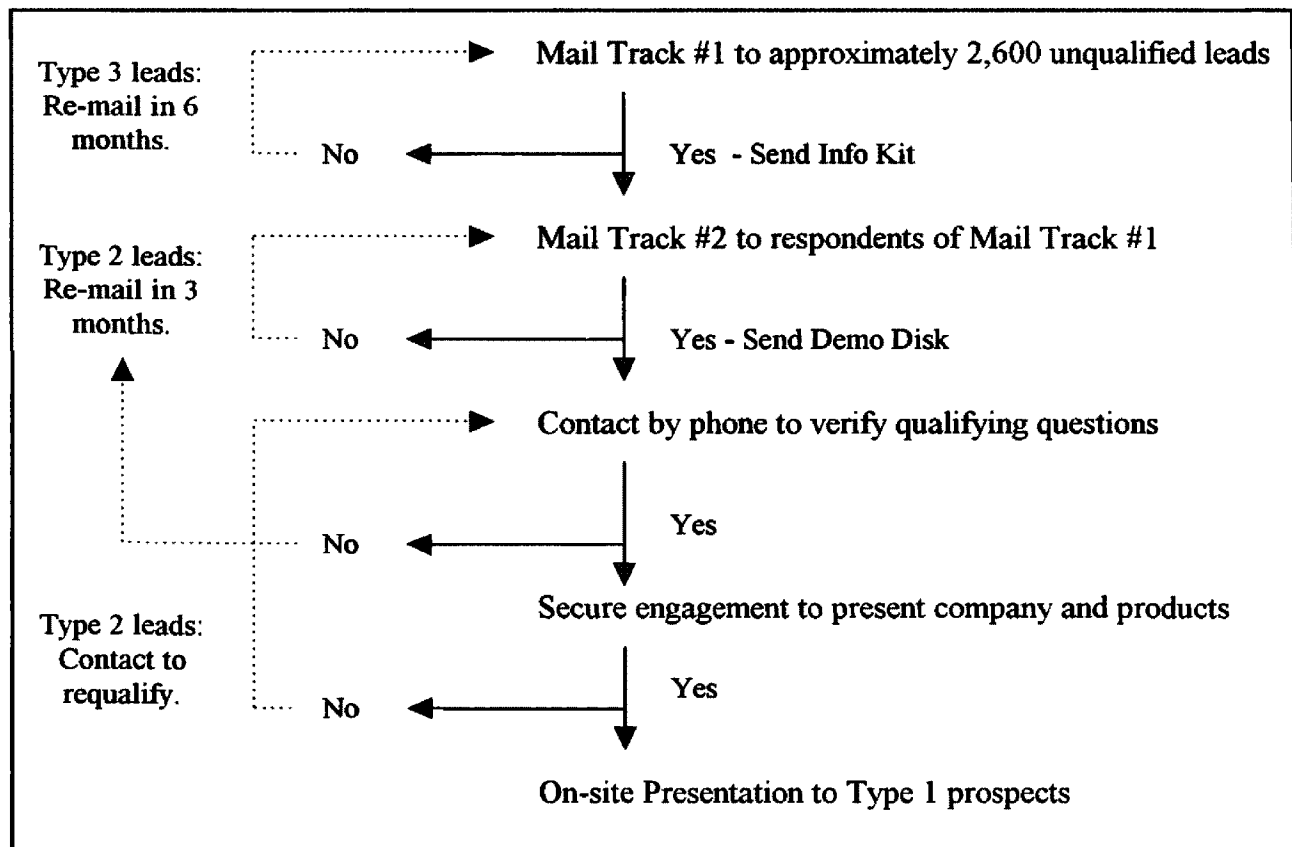
Follow-up Offer. The Follow-up Offer will consist of a cover letter and EduTracker product demonstration disk.

EduSoft expects a 10 percent response rate for this Track. Leads that don't respond to this Track will be considered Type 2. EduSoft will periodically re-mail the Track 2 offer to these districts, since repeating the same offer can produce better results over time. Districts that don't respond to two consecutive Track 2 offers will be classified as Type 3 leads.

Actual cover letters and response forms are included in the exhibits of this plan.

Lead Management Process

The direct mail marketing strategy will be the first of several steps between EduSoft's first point of contact with unqualified leads through qualification, management, and ultimately, closure. The simple flowchart below illustrates the lead management process that EduSoft expects to follow.



Marketing Timeline

The calendar below shows when EduSoft will execute on its marketing strategies.

<p>January</p> <ul style="list-style-type: none"> • Hold marketing strategy meeting • Launch direct mail campaign to regional districts 	<p>February</p> <ul style="list-style-type: none"> • Revise 1996 forecast • Follow up on January direct mail campaign 	<p>March</p> <ul style="list-style-type: none"> • Develop new direct mail marketing track strategy • Draft direct mail letters • Develop offers • Complete list of "point-of-attack" leads
<p>April</p> <ul style="list-style-type: none"> • Launch direct mail marketing track campaign to 2,600 point-of-attack leads (Track #1 mailing) • Establish Customer Advisory Council • Design demo disk offer 	<p>May</p> <ul style="list-style-type: none"> • Fulfill Track #1 offers • Complete demonstration disk for Track #2 offer • Launch Track #2 mailing to Track #1 respondents • Developer Speech/Language positioning statement, pricing strategy, and promotional materials • Follow up on Type 1 leads (ongoing) 	<p>June</p> <ul style="list-style-type: none"> • Develop new customization pricing strategy; prepare to roll-out by September 1st • Develop new "Masthead" literature template • Design Bulletin Board service (BBS) based on survey conclusions • Attend/exhibit at NECC, Jun. 9-13, Minneapolis
<p>July</p> <ul style="list-style-type: none"> • Conduct first of two customer focus groups • Develop new literature pieces • Develop and test BBS • Design Diagnostic support service (DSS) based on survey conclusions 	<p>August</p> <ul style="list-style-type: none"> • Develop Medical Billing positioning statement, pricing strategy, and promotional materials • Hold first Customer Advisory Council meeting • Re-mail to Type 2 leads • Develop and test DSS • Attend/exhibit at LRP Technology Conference, Aug. 4-7, San Francisco 	<p>September</p> <ul style="list-style-type: none"> • Roll-out new customization pricing strategy • Roll-out new BBS and DSS services, if appropriate • Administer customer survey
<p>October</p> <ul style="list-style-type: none"> • Launch Medical Billing Add-on product • Re-mail to Type 3 leads • Attend/exhibit at Council for Great City Schools Annual Fall Conference, Oct. 22-27, Minneapolis • Compile survey results 	<p>November</p> <ul style="list-style-type: none"> • Attend/exhibit at CASE conference, Nov. 16-18, Scottsdale, AZ 	<p>December</p> <ul style="list-style-type: none"> • Attend/exhibit at International Society for Technology in Education, Dec. 5-8, Tampa, FL

Marketing Budget

The estimated cost to execute this marketing plan follows. A more detailed list of all operating expenses, including market and sales costs, can be found in the *Financial Plan*.

1996 Marketing Budget

Customer Research	
Customer survey	\$225
Focus group	200
Customer Advisory Board	200
Product Marketing	
Develop demo disk	2,250
Launch Medical Billing	3,500
Launch Speech/Language	3,500
Promotion	
Direct mail tracks	8,667
Public Relations	5,000
Trade Events	12,500
TOTAL	\$36,042

Includes cost to produce promotional materials. Travel, media, and personnel costs are included in "Promotion."

EXHIBITS TO 1996 MARKETING PLAN

- Exhibit 1: Existing Customer Survey**
- Exhibit 2A: Track #1 Cover Letter**
- Exhibit 2B: Track #1 Offer Request Form**
- Exhibit 3A: Track #2 Cover Letter**
- Exhibit 3B: Track #2 Offer Request Form**
- Exhibit 4: Sample Point-of-Attack Lead List**

EXHIBIT 1: EXISTING CUSTOMER SURVEY

EduSoft values your important feedback!

Our goal at EduSoft, maker of the EduTracker™ special education information system, is to provide you with the best possible products and services, and your insight and opinions are essential in enabling us to reach that goal. We would appreciate feedback on your satisfaction with our products and services, and any suggestion you have for new products and services. The survey will take approximately three minutes.

Please fax the completed survey to 1-800-555-INFO or mail it to EduSoft at 100 Main Street, Anytown, USA. Your response by <insert date> would be appreciated. Thank you.

Dr. Tom Christianson
President, EduSoft, Inc.

General Information about Your District

1. What best describes your position in the district?
 - Director
 - Instructor
 - Administrative Assistant
 - Other (please specify): _____

2. Are you actively using the EduTracker software program?
 - Yes
 - No

If NO, please explain:

3. What type of personal computer do you use most often?
 - IBM or compatible
 - Macintosh
 - Powerbook
 - Other (please specify): _____

4. What type of printer is connected to the computer?
 - Bubble jet
 - Dot matrix
 - Ink jet
 - Laser
 - None
 - Other (please specify): _____

5. Does the computer have a modem?
 - Yes
 - No

If YES, on average, how often do you use the modem?

- Daily
 - Weekly
 - Monthly
 - Less than once a month
6. Do you have Internet access?
 - Yes
 - No

 7. Do you have access to a FAX machine?
 - Yes
 - No

 8. How many schools are in your district?

 9. Approximately how many special education students are in your district?

Product Satisfaction

10. How satisfied are you with the following EduTracker product features? Please circle your responses.

a) Appearance of forms:						
	1	2	3	4	5	N/A
	Very Dissatisfied				Very Satisfied	

- b) Data entry:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- c) Data searches and queries:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- d) Data exporting:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- e) Reporting:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- f) Printing:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- g) Documentation:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- h) Online help:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- 11. Overall, how satisfied are you with EduTracker?

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	

Comments:

Service Satisfaction

12. How satisfied are you with the following services? Please circle your responses.

- a) Telephone support:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	

- b) Training:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- c) Program updates:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- d) Portfolio maintenance:

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	
- 13. Overall, how satisfied are you with the EduTracker services you have received?

1	2	3	4	5	N/A
Very Dissatisfied				Very Satisfied	

Comments:

New Product and Service Ideas

14. What other product features would you like to see EduTracker have?

15. What other services would you like provided?

Thank you for your insight and opinions!

**EXHIBIT 2A:
TRACK #1 INITIAL COVER LETTER**

**We'd like to take you on a tour of
order your FREE EduTracker™ Information Kit today!
We'll show you how Special Education Professionals
all over the country are working even smarter, not harder,
to end the special education paper chase.**

Dear Special Education Professional:

The complexities and administrative hassles of running an effective special education program sometimes are staggering. We know, because we have over 40 years of experience in special education administration and instruction.

We've experienced what makes special education programs work effectively, and what makes them administrative nightmares. That's why we developed EduTracker™, a state-of-the-art computer information system designed by special education professionals, for special education professionals.

You don't have to live with the nagging inefficiencies of traditional paper document systems or outdated or hard-to-use computerized systems. Now, you can move up to the most intuitive, easy-to-use special education information system available--EduTracker from EduSoft, Inc., Inc.

**Find out how you can put EduTracker™ to work in your schools
and central office with your FREE EduTracker Information Kit.
You'll learn how EduTracker can take the hassle out of IEPs,
slash paperwork and reporting time, and
save you and your district time and money.**

More and more special education professionals across the country have adopted EduTracker as their information system of choice. Here's why:

"Using EduTracker saves the district an enormous amount of time and money in generating data for our monthly Headcount reports. EduTracker also provides much more accurate data at both the schools and district office than any system we've used in the past."

-- Bob Jones, Systems Analyst

"We've been using EduTracker for about a year and a half and have found it to be an amazing tool for both our teachers and administrators."

-- Pat Smith, Director of Special Services

"The versatility of EduTracker and the ability customize it for our own district has been absolutely key to the program's success."

-- Connie Anderson, Special Services Assistant

Find out how you can work even smarter, not harder, to end the special education paper chase. Fax your completed request form to 1-800-555-INFO or mail it to EduSoft, Inc., Inc. at 100 Main Street, Anytown, USA to order your FREE EduTracker Information Kit.

Sincerely,

Dr. Tom Christianson
President, EduSoft, Inc.

PS--Your FREE EduTracker Information Kit will include everything you need to learn how this easy-to-use special education information system can help you and your district save time and money. Order today!

EXHIBIT 2B: TRACK #1 OFFER REQUEST FORM**R E Q U E S T F O R M*****EduTracker Information Kit***

Find out how you save time and money for your district with EduTracker!

- Yes, I would like to know more about how EduSoft, Inc. and EduTracker can take the hassle out of IEPs, slash paperwork and reporting time, and save valuable time and money for my district. Please send my *EduTracker Information Kit* right away!

PLEASE COMPLETE THE FOLLOWING TO RECEIVE YOUR KIT:

District Name _____
 Contact Person _____
 Mailing Address _____
 City, State, Zip _____
 Daytime Phone (____) _____

1. Our current method for recording, tracking, and monitoring special education student information is:

2. Other special education information systems we are researching are:

3. Our district has budgeted for a new special education information system:

Yes No

4. We intend to invest in a new special education information system within:

3 months 3-6 months
 6-12 months More than 12 months

Fax This Request Form To: 800-555-INFO

To order your EduTracker Information Kit by phone, call 800-555-1111.

You may also order by mail by sending this form to:
 EduSoft, Inc. * 100 Main Street, Anytown, USA

**EXHIBIT 3A:
TRACK #2 FOLLOW-UP COVER LETTER**

**Seeing is believing.
If you want to end the special education paper chase
and save valuable time and money for your district,
order your FREE EduTracker™ Demonstration Kit today,
and see how you can put EduTracker to work for you.**

Dear <INSERT DIRECTOR'S NAME>:

As a education professional, you understand the substantial benefits that technology can bring to your district. But finding time to evaluate and decide on the appropriate system can be challenging.

You have to choose the system that best fits the needs of your district office and your instructors. This FREE EduTracker Demonstration Kit allows you to learn about EduTracker at your convenience and in the comfort of your own office.

You'll see a demonstration of the features and functionality of EduTracker, and learn why EduTracker is becoming the special education information system of choice among school administrators and instructors.

EduTracker's "what-you-see-is-what-you-get" data entry forms are customized to look just like the paper forms your instructors are used to, so they don't have to learn a new way to work.

What's more, EduTracker's state-of-the-art document control, data entry, and data management features make it powerful, yet easy to learn and use. And EduTracker's data integration capabilities make transferring data to district systems, like McGraw-Hill's TSS, fast and accurate. Here's what just one of our customers had to say:

"You have developed a wonderful piece of software that's enhancing my effectiveness as an administrator and our teachers' effectiveness as instructors. I'm thrilled to be able to have information about our students at my fingertips. Now I can call up information in seconds that used to take me a week to collect."

-- Robin McMannis, Director of Exceptional Education

See how you and your district can benefit from EduTracker. Order your FREE EduTracker Demonstration Kit today. Simply fax your completed request form to 1-800-555-INFO or mail it to EduSoft, Inc., Inc. at 100 Main Street, Anytown, USA.

Sincerely,

Dr. Tom Christianson
President, EduSoft, Inc.

PS--Order your FREE EduTracker Demonstration Kit today and see for yourself how you can save your district time and money, and end the special education paper chase.

EXHIBIT 3B: TRACK #2 OFFER REQUEST FORM**R E Q U E S T F O R M*****EduTracker Demonstration Kit***

Find out how you can end the special education paper chase in your district with EduTracker!

- Yes, I would like to know more about how EduSoft, Inc. and EduTracker can help me save valuable time and money for my district. Please send my *EduTracker Demonstration Kit* right away!

PLEASE COMPLETE THE FOLLOWING TO RECEIVE YOUR KIT:

District Name _____
 Contact Person _____
 Mailing Address _____
 City, State, Zip _____
 Daytime Phone (____) _____

1. Our current method for recording, tracking, and monitoring special education student information is:

2. Other special education information systems we are researching are:

3. Our district has budgeted for a new special education information system:

Yes No

4. We intend to invest in a new special education information system within:

3 months 3-6 months
 6-12 months More than 12 months

Fax This Request Form To: 800-555-INFO

To order your EduTracker Demonstration Kit by phone, call 800-555-1111.

You may also order by mail by sending this form to:

EduSoft, Inc. * 100 Main Street, Anytown, USA

Exhibit 4: SAMPLE POINT-OF-ATTACK LEAD LIST

State	AK				
	Zip +4	District Name	Address	City	Phone
	99519	ANCHORAGE	PO BOX	ANCHORAGE	907-333-9561
	99645	MATANUSKA	PO BOX 1688	PALMER	907-746-9200
	99669	KENAI	148 NORTH	SOLDOTNA	907-262-5846
	99707	FAIRBANKS	PO BOX 1250	FAIRBANKS	907-452-2000
	99801	JUNEAU	10014 CRAZY	JUNEAU	907-586-2303

State	AL				
	Zip +4	District Name	Address	City	Phone
	35244	HOOVER CITY	1855 DATA	HOOVER	205-985-2425
	35807	HUNTSVILLE	PO BOX 1256	HUNTSVILLE	205-532-4640
	36040	LOWNDES	PO BOX 755	HAYNEVILLE	205-548-2131

State	AR				
	Zip +4	District Name	Address	City	Phone
	72115	NORTH	PO BOX 687	NORTH	501-771-8000
	72201	LITTLE ROCK	810 WEST	LITTLE ROCK	501-324-2100
	72216	PULASKI	PO BOX 8601	LITTLE ROCK	501-490-2000



State	DE				
	Zip +4	District Name	Address	City	Phone
	19703 1237	BRANDYWINE	1000	CLAYMONT	302-792-3800
	19711 4671	CHRISTINA	83 E MAIN ST	NEWARK	302-454-2000
	19720	COLONIAL	318 E BASIN	NEW CASTLE	302-323-2700
	19801	RED CLAY	1400	WILMINGTON	302-651-2666
	19804 3499	NEW CASTLE	1417	WILMINGTON	302-995-8000
	19901 3498	CAPITAL	945 FOREST	DOVER	302-736-5555



Appendix B

Detailed Competitive Information

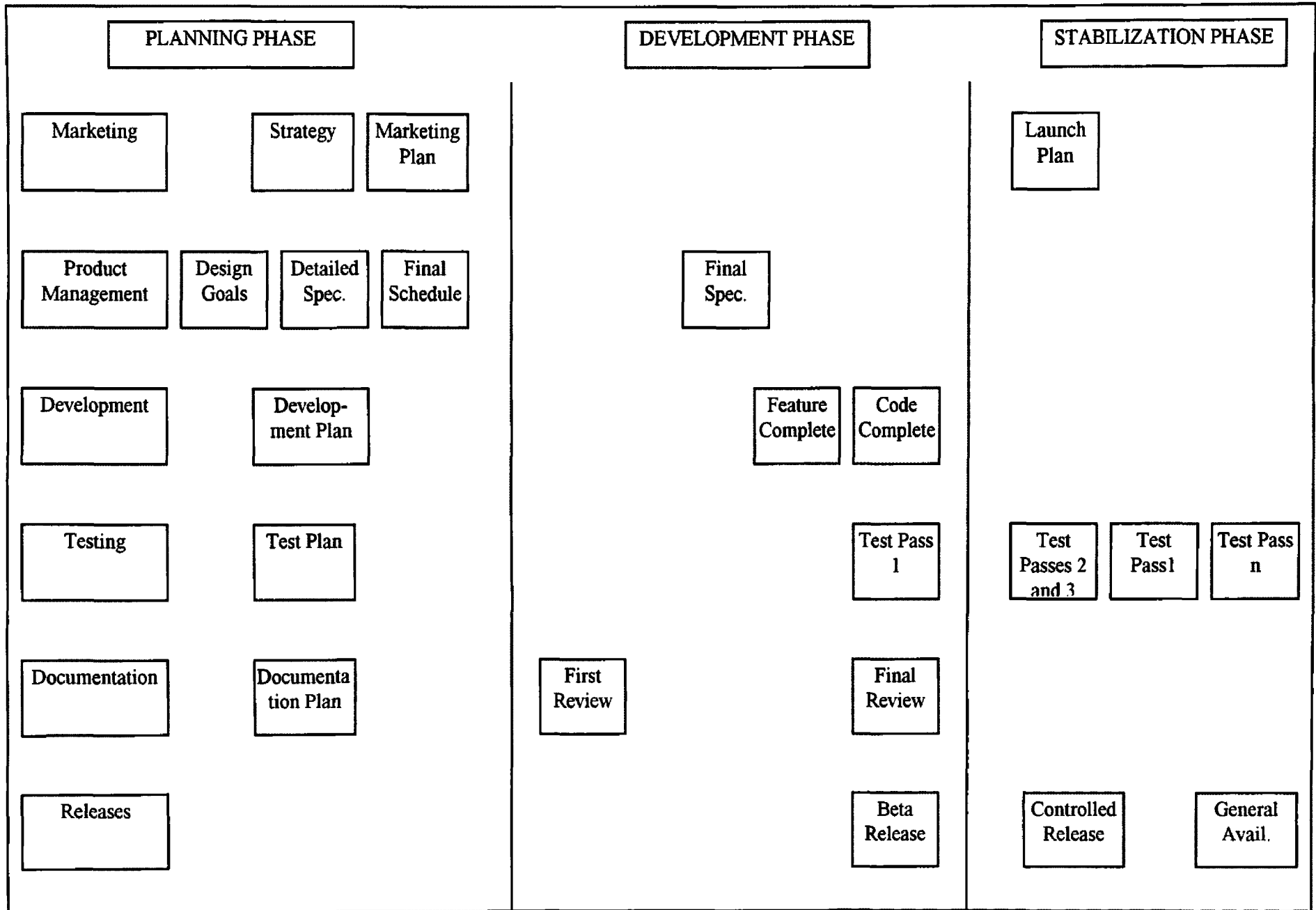
APPENDIX B: DETAILED COMPETITIVE INFORMATION

Company Phone #	HQ Location # of Employees	Annual Sales	# of Customers (Districts)	Product & Price Services & Price	Configurations	Underlying Technologies	Core Competencies
ACE Software, Inc. 800/837-2692	Grove City, OH Private 25 employees	\$3-5 million	100 (K-12) districts 800-900 schools EC module installed in 75%	Secondary Educational Administrative System	Single user DOS Multi user network - Novell Multi user network - HP MPE	HP VECTRA, DOS, SCO-UNIX, HP-UX. Not true client server architect. Windows release w/in 12 months	Entire school district management from financials to schedul- ing, attendance, grading, special ed.
Carter-Pertaine, Inc. 713/558-1270	Houston, TX	---	---	STUDENT/3000	---	HP3000, HP3000/900 MPE, MPE/iX	Breadth of product line, including EC module
Infoworld Membership Systems 513/435-2644	Dayton, OH Private 5 employees	---	---	Teacher and Student Evaluation System (MARS) Price: \$16,000	---	HP3000, HP3000/900 MPE, MPE/iX	Breadth of product line, including EC module. EC module handles multiple departments
Learning Systems	Baltimore, MD	---	---	---	---	---	---
Learning Tools, Inc. 800/333-9954	Windsor, CA	---	2,000	Individual Plan- ning System (IPS) \$50,000 - \$300,000	Single user and multi user (LAN)	PC, Macintosh, Text- based user interface	Specialize in special education software; McGraw-Hill "Solution Partner.
MacGraw Hill Software Systems	Vancouver, BC	---	---	The School System; McGraw- Hill School Sys.	Single user and multi user (LAN); client-server (NT)	MS DOS, Windows 95 and Windows NT (future release)	Enterprise wide system with large installed base
PSST, Inc. 502/244-9280	Louisville, KY		Unknown - "not what we do well...don't see a market..."	Education Executive Information Systems (EEIS)	Single-user Multi-user	DOS, Macintosh, Data General, IBM, Novell, Unisys, DOS/Windows	Focus on financial management of central office (district)
Tera Systems, Inc. 800/865-8372	Burlington, VT Private 7 employees	\$0 - new company as of Mar. 1995	84 disticts in Vermont	MasterTrack \$50,000 - \$170,000 depending on number of students	Single-user Multi-user LAN	DOS, Macintosh Windows (in DOS mode). Written in FoxPro	Specialization in EC information systems

Appendix C

Development Process Flowchart

**APPENDIX C:
DEVELOPMENT PROCESS FLOWCHART**



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Appendix D

Financial Statements and Schedules

1996, 1997, and 1998

INCOME STATEMENT PROJECTIONS, 1996													
Sales cycle trend line -->	5%	5%	10%	15%	15%	4%	1%	5%	10%	15%	14%	1%	100%
PERIOD	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
REVENUES													
Software License Fees	10,900	10,900	21,800	32,700	32,700	8,720	2,180	10,900	21,800	32,700	30,520	2,180	218,000
Maintenance Fees	-	-	-	-	-	-	-	-	-	9,000	9,000	9,000	27,000
Training	250	250	500	750	750	200	50	250	500	750	700	50	5,000
TOTAL REVENUES	11,150	11,150	22,300	33,450	33,450	8,920	2,230	11,150	22,300	42,450	40,220	11,230	250,000
COST OF SALES													
Documentation, Packagin	-	3,558	-	-	-	-	3,558	-	-	-	-	-	7,117
R&D allocation	958	958	958	958	958	958	958	639	639	319	319	-	8,625
License fees allocation	1,090	1,090	2,180	3,270	3,270	872	218	1,090	2,180	3,270	3,052	218	21,800
TOT COST OF SALES	2,048	5,607	3,138	4,228	4,228	1,830	4,735	1,729	2,819	3,589	3,371	218	37,542
GROSS PROFIT	9,102	5,543	19,162	29,222	29,222	7,090	(2,505)	9,421	19,481	38,861	36,849	11,012	212,458
GROSS MARGIN %	82%	50%	86%	87%	87%	79%	-112%	84%	87%	92%	92%	98%	85%
EXPENSES:													
PAYROLL	4,088	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	81,178
PAYROLL EXPENSES	2,163	3,579	3,579	3,579	3,579	3,579	3,579	3,579	3,579	3,579	3,579	3,579	41,536
SUPPLIES	125	125	125	125	125	125	125	125	125	125	125	125	1,500
POSTAGE	167	167	167	167	167	167	167	167	167	167	167	167	2,000
RENT	-	-	-	-	-	-	-	-	-	-	-	-	-
REPAIRS & MNTNC	42	42	42	42	42	42	42	42	42	42	42	42	500
SALES & MARKETING	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	36,808
CUSTOMER SERVICE	-	-	730	-	-	1,180	-	500	1,083	1,083	1,083	-	5,660
AUTO	167	167	167	167	167	167	167	167	167	167	167	167	2,000
ACCOUNTING,LEGAL	167	167	167	167	167	167	167	167	167	167	167	167	2,000
CONSULTING FEES	100	100	100	100	100	100	100	100	100	100	100	100	1,200
TELEPHONE	250	250	250	250	250	250	250	250	250	250	250	250	3,000
TRAVEL	250	250	250	250	250	250	250	250	250	250	250	250	3,000
INSURANCE	333	333	333	333	333	333	333	333	333	333	333	333	4,000
OTHER EXPENSES	118	118	118	118	118	118	118	118	118	118	118	118	1,418
STATE CORP. TAX	-	-	125	-	-	125	-	-	125	-	-	-	500
DEPRECIATION	655	655	655	655	655	655	655	655	655	655	655	655	7,858
TOTAL EXPENSES	11,692	16,028	16,883	16,028	16,028	17,333	16,028	16,528	17,236	17,111	17,111	16,153	194,158
OPERATING INCOME	(2,590)	(10,485)	2,279	13,194	13,194	(10,243)	(18,533)	(7,107)	2,245	21,749	19,737	(5,141)	18,300
OPERATING MARGIN %	-23%	-94%	10%	39%	39%	-115%	-831%	-64%	10%	51%	49%	-46%	7%
INTEREST EXPENSE	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	18,300
OTHER INCOME	-	-	-	-	-	-	-	-	-	-	-	-	-
NET INCOME	(4,115)	(12,010)	754	11,669	11,669	(11,768)	(20,058)	(8,632)	720	20,224	18,212	(6,666)	0
PROFIT MARGIN %	-37%	-108%	3%	35%	35%	-132%	-899%	-77%	3%	48%	45%	-59%	0%
INCOME TAX													-
PROFIT AFTER-TAX													0
NET PROFIT MARGIN %													0%

CASH FLOW PLANNING SHEET, 1996													
PERIOD	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	TOTAL
CASH ON HAND (BEG OF MONTH)	600	5,345	5,160	4,547	3,703	5,298	5,111	4,719	4,855	5,996	5,888	5,477	
CASH RECEIPTS													
(A) CASH SALES	-	-	-	-	-	-	-	-	-	-	-	-	-
(B) COLLECTIONS	6,890	6,890	6,890	11,150	11,150	22,300	33,450	33,450	8,920	2,230	11,150	22,300	176,770
(C) LOAN CONTRIB	22,000	15,000	13,000	18,000	8,000	-	-	-	10,000	26,000	9,000	-	121,000
TOT CASH RCPTS	28,890	21,890	19,890	29,150	19,150	22,300	33,450	33,450	18,920	28,230	20,150	22,300	297,770
TOT CASH AVAIL	29,490	27,236	25,050	33,697	22,853	27,598	38,561	38,169	23,775	34,226	26,038	27,777	
EXPENSES:													
USER'S GUIDES			3,558					3,558					7,117
DEVELOPMENT FEES	958	958	958	958	958	958	958	639	639	319	319	-	8,625
LICENSE FEES	1,090	1,090	2,180	3,270	3,270	872	218	1,090	2,180	3,270	3,052	218	21,800
PAYROLL	4,088	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	7,008	81,178
PAYROLL EXPENSES	6,489			10,738				10,738			10,738	3,579	42,282
SUPPLIES	125	125	125	125	125	125	125	125	125	125	125	125	1,500
POSTAGE	167	167	167	167	167	167	167	167	167	167	167	167	2,000
RENT	-	-	-	-	-	-	-	-	-	-	-	-	-
REPAIRS & MNTNC	-	-	125	-	-	125	-	-	125	-	-	125	500
SALES & MARKETIN	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	3,067	36,808
CUSTOMER SERVICE	-	-	730	-	-	1,180	-	500	1,083	1,083	1,083	-	5,660
AUTO	167	167	167	167	167	167	167	167	167	167	167	167	2,000
ACCOUNTING, LEGAL	-	-	-	-	800	-	-	-	800	400	-	-	2,000
CONSULTING FEES	-	-	300	-	-	300	-	-	300	-	-	300	1,200
TELEPHONE	250	250	250	250	250	250	250	250	250	250	250	250	3,000
TRAVEL	100	100	100	100	100	500	500	100	100	100	100	100	2,000
INSURANCE	2,000	-	-	-	-	-	2,000	-	-	-	-	-	4,000
INTEREST	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525	18,300
OTHER EXPENSES	118	118	118	118	118	118	118	118	118	118	118	118	1,418
STATE CORP. TAX	-	-	125	-	-	125	-	-	125	-	-	125	500
INCOME TAX PMT													
SUBTOTAL	20,145	14,575	20,504	27,493	17,555	16,487	26,841	18,314	17,779	28,338	20,561	13,295	241,889
LOAN PRIN PYMNT	-	-	-	-	-	6,000	7,000	15,000	-	-	-	9,000	37,000
CAPITAL PURCHASE	4,000	7,500		2,500									14,000
START-UP COSTS													-
INCOME TAXES													-
OWNER WITHDRAWAL													-
TOT CASH PD OUT	24,145	22,075	20,504	29,993	17,555	22,487	33,841	33,314	17,779	28,338	20,561	22,295	292,889
CASH POSITION	5,345	5,160	4,547	3,703	5,298	5,111	4,719	4,855	5,996	5,888	5,477	5,482	
LINE BALANCE \$120,000	142,000	157,000	170,000	188,000	196,000	190,000	183,000	168,000	178,000	204,000	213,000	204,000	
AVERAGE MONTHLY LINE BALANCE													182,750

INCOME STATEMENT PROJECTIONS, 1997 and 1998													
						\$ 500,000							\$ 750,000
						1997							1998
Sales cycle trend line -->	20%	34%	16%	30%	100%		20%	34%	16%	30%	100%		
PERIOD	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL	% SALES	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL	% SALES	
REVENUES													
Software License Fees	84,000	142,800	67,200	126,000	420,000	84.0%	120,000	204,000	96,000	180,000	600,000	80.0%	
Maintenance Fees	13,000	22,100	10,400	19,500	65,000	13.0%	24,000	40,800	19,200	36,000	120,000	16.0%	
Training	3,000	5,100	2,400	4,500	15,000	3.0%	6,000	10,200	4,800	9,000	30,000	4.0%	
TOTAL REVENUES	100,000	170,000	80,000	150,000	500,000	100.0%	150,000	255,000	120,000	225,000	750,000	100.0%	
COST OF SALES													
Documentation	2,847	4,839	2,277	4,270	14,233	2.8%	3,000	5,100	2,400	4,500	15,000	2.0%	
R&D allocation	7,813	7,813	7,813	7,813	31,250	6.3%	7,500	7,500	7,500	7,500	30,000	4.0%	
License fees allocation	8,720	14,824	6,976	13,080	43,600	8.7%	13,080	22,236	10,464	19,620	65,400	8.7%	
TOT COST OF SALES	19,379	27,476	17,066	25,162	89,083	17.8%	23,580	34,836	20,364	31,620	110,400	14.7%	
GROSS PROFIT	80,621	142,524	62,934	124,838	410,917	82.2%	126,420	220,164	99,636	193,380	639,600	85.3%	
GROSS MARGIN %	81%	84%	79%	83%	82%		84%	86%	83%	86%	85%		
EXPENSES:													
PAYROLL	36,855	36,855	36,855	36,855	147,418	29.5%	58,455	58,455	58,455	58,455	233,818	31.2%	
PAYROLL EXPENSES	19,500	19,500	19,500	19,500	78,000	15.6%	30,929	30,929	30,929	30,929	123,714	16.5%	
SUPPLIES	750	750	750	750	3,000	0.6%	875	875	875	875	3,500	0.5%	
POSTAGE	1,250	1,250	1,250	1,250	5,000	1.0%	1,500	1,500	1,500	1,500	6,000	0.8%	
RENT	-	-	-	-	-	0.0%	1,200	1,200	1,200	1,200	4,800	0.6%	
REPAIRS & MNTNC	250	250	250	250	1,000	0.2%	300	300	300	300	1,200	0.2%	
SALES & MARKETING	16,643	28,294	13,315	24,965	83,217	16.6%	23,797	40,454	19,037	35,695	118,983	15.9%	
CUSTOMER SERVICE	1,915	1,915	1,915	1,915	7,660	1.5%	270	270	270	270	1,080	0.1%	
AUTO	1,250	1,250	1,250	1,250	5,000	1.0%	1,500	1,500	1,500	1,500	6,000	0.8%	
ACCOUNTING, LEGAL	500	500	500	500	2,000	0.4%	500	500	500	500	2,000	0.3%	
CONSULTING FEES	600	1,020	480	900	3,000	0.6%	900	1,530	720	1,350	4,500	0.6%	
TELEPHONE	1,250	1,250	1,250	1,250	5,000	1.0%	1,500	1,500	1,500	1,500	6,000	0.8%	
TRAVEL	1,200	2,040	960	1,800	6,000	1.2%	1,800	3,060	1,440	2,700	9,000	1.2%	
INSURANCE	1,500	1,500	1,500	1,500	6,000	1.2%	1,875	1,875	1,875	1,875	7,500	1.0%	
OTHER EXPENSES	750	750	750	750	3,000	0.6%	1,250	1,250	1,250	1,250	5,000	0.7%	
STATE CORP. TAX	-	-	-	-	-	0.0%	-	-	-	-	-	0.0%	
DEPRECIATION	3,260	3,260	3,260	3,260	13,039	2.6%	4,186	4,186	4,186	4,186	16,744	2.2%	
TOTAL EXPENSES	87,473	100,383	83,784	96,694	368,334	73.7%	130,836	149,384	125,537	144,084	549,840	73.3%	
OPERATING INCOME	(6,852)	42,141	(20,850)	28,143	42,583	8.5%	(4,416)	70,780	(25,901)	49,296	89,760	12.0%	
OPERATING MARGIN %	-7%	25%	-26%	19%	9%		-3%	28%	-22%	22%	12%		
INTEREST EXPENSE	5,781	5,781	5,781	5,781	23,125	4.6%	5,981	5,981	5,981	5,981	23,925	3.2%	
OTHER INCOME	-	-	-	-	-		-	-	-	-	-		
NET INCOME BEFORE TAX	(12,633)	36,360	(26,631)	22,362	19,458	4%	(10,397)	64,799	(31,882)	43,314	65,835	9%	
PROFIT MARGIN %	-13%	21%	-33%	15%	4%		-7%	25%	-27%	19%	9%		
INCOME TAX											3,150		
PROFIT AFTER-TAX					19,458						62,685		
NET PROFIT MARGIN %					4%						8%		

CASH FLOW PLANNING SHEET, 1997 and 1998											
PERIOD	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	
CASH ON HAND (BEG OF QUARTER)	5,482	3,270	3,890	4,519		4,141	3,930	6,105	5,409		
CASH RECEIPTS											
(A)CASH SALES	-	-	-	-	-	-	-	-	-	-	
(B)COLLECTIONS	93,900	100,000	170,000	80,000	443,900	150,000	150,000	255,000	120,000	675,000	
(C)LOAN,CONTRIB	26,000	31,000	20,000	44,000	121,000	6,000	45,000	-	58,000	109,000	
TOT CASH RCPTS	119,900	131,000	190,000	124,000	564,900	156,000	195,000	255,000	178,000	784,000	
TOT CASH AVAIL	125,382	134,270	193,890	128,519	582,061	160,141	198,930	261,105	183,409	803,584	
EXPENSES:											
USER'S GUIDES	2,847	4,839	2,277	4,270	14,233	3,000	5,100	2,400	4,500	15,000	
DEVELOPMENT FEES	7,813	7,813	7,813	7,813	31,250	7,500	7,500	7,500	7,500	30,000	
LICENSE FEES	8,720	14,824	6,976	13,080	43,600	13,080	22,236	10,464	19,620	65,400	
PAYROLL	36,855	36,855	36,855	36,855	147,418	58,455	58,455	58,455	58,455	233,818	
PAYROLL EXPENSES	10,738	19,500	19,500	19,500	69,238	30,929	30,929	30,929	30,929	123,714	
SUPPLIES	750	750	750	750	3,000	875	875	875	875	3,500	
POSTAGE	1,250	1,250	1,250	1,250	5,000	1,500	1,500	1,500	1,500	6,000	
RENT	-	-	-	-	-	1,200	1,200	1,200	1,200	4,800	
REPAIRS & MNTNC	250	250	250	250	1,000	300	300	300	300	1,200	
SALES & MARKETING	16,643	28,294	13,315	24,965	83,217	23,797	40,454	19,037	35,695	118,983	
CUSTOMER SERVICE	1,915	1,915	1,915	1,915	7,660	270	270	270	270	1,080	
AUTO	1,250	1,250	1,250	1,250	5,000	1,500	1,500	1,500	1,500	6,000	
ACCOUNTING,LEGAL	500	500	500	500	2,000	500	500	500	500	2,000	
CONSULTING FEES	600	1,020	480	900	3,000	900	1,530	720	1,350	4,500	
TELEPHONE	1,250	1,250	1,250	1,250	5,000	1,500	1,500	1,500	1,500	6,000	
TRAVEL	1,200	2,040	960	1,800	6,000	1,800	3,060	1,440	2,700	9,000	
INSURANCE	1,500	1,500	1,500	1,500	6,000	1,875	1,875	1,875	1,875	7,500	
INTEREST	5,781	5,781	5,781	5,781	23,125	5,981	5,981	5,981	5,981	23,925	
OTHER EXPENSES	750	750	750	750	3,000	1,250	1,250	1,250	1,250	5,000	
STATE CORP. TAX	-	-	-	-	-	-	-	-	-	-	
INCOME TAX PMT	-	-	-	-	-	-	6,810	-	-	6,810	
SUBTOTAL	100,611	130,380	103,371	124,378	458,741	156,211	192,825	147,696	177,499	674,231	
LOAN PRIN PYMNT	-	-	86,000	-	86,000	-	-	108,000	-	108,000	
CAPITAL PURCHASE	21,500				21,500						
START-UP COSTS											
INCOME TAXES											
OWNER WITHDRAWAL											
TOT CASH PD OUT	122,111	130,380	189,371	124,378	566,241	156,211	192,825	255,696	177,499	782,231	
CASH POSITION	3,270	3,890	4,519	4,141		3,930	6,105	5,409	5,910	21,353	
LINE BALANCE	230,000	261,000	195,000	239,000		245,000	290,000	182,000	240,000		
\$204,000											
AVERAGE QUARTERLY LINE BALANCE					231,250					239,250	

PROJECTED BALANCE SHEETS							
		START-UP	1994	1995	1996	1997	1998
ASSETS							
Current Assets							
Cash		10,000	9,300	600	5,482	4,141	5,910
Accounts Receivable		-	300	34,000	93,900	150,000	225,000
Inventory		-	-	-	16,638	24,194	28,953
Total Current Assets		10,000	9,600	34,600	116,020	178,335	259,863
Fixed Assets							
Equipment		20,000	25,200	31,000	42,525	59,900	75,950
Less Depreciation		-	(5,040)	(6,200)	(8,505)	(11,980)	(15,190)
Furniture & Fixtures		-	1,634	3,994	6,469	10,594	15,544
Less Depreciation		-	(163)	(399)	(647)	(1,059)	(1,554)
Total Fixed Assets		20,000	21,631	28,395	39,842	57,455	74,750
TOTAL ASSETS		30,000	31,231	62,995	155,862	235,790	334,612
LIABILITIES							
Current Debt							
Accounts Payable		-	5,428	2,342	6,961	16,859	21,185
Notes Payable		20,000	50,000	120,000	204,000	239,000	240,000
Taxes Payable (payroll, income)		-	2,104	6,489	10,738	26,310	57,121
Total Current Debt		20,000	57,532	128,831	221,699	282,169	318,306
Longterm Debt							
Notes Payable							
Mortgage							
Loan							
Total Longterm Debt		-	-	-	-	-	-
TOTAL DEBT		20,000	57,532	128,831	221,699	282,169	318,306
EQUITY							
Retained Earnings		-	(36,300)	(75,837)	(75,837)	(56,379)	6,306
Contributed Capital		10,000	10,000	10,000	10,000	10,000	10,000
TOTAL EQUITY		10,000	(26,300)	(65,837)	(65,837)	(46,379)	16,306
TOTAL DEBT + EQUITY		30,000	31,231	62,995	155,862	235,790	334,612

CASH BREAKEVEN ANALYSIS (1996)		
COSTS	FIXED AMOUNT	VARIABLE %
RAW MATERIALS		27%
DIRECT LABOR		0%
MERCHANDISE		0%
PAYROLL	60,884	(assumes 75% fixed)
PAYROLL EXPENSES	32,214	(assumes 75% fixed)
SUPPLIES	1,500	
POSTAGE	2,000	
REPAIRS & MAINTENANCE	500	
SALES & MARKETING	36,808	
TRAVEL	3,000	
CUSTOMER SERVICE	5,660	
AUTO	2,000	
ACCOUNTING,LEGAL	2,000	
CONSULTING FEES	1,200	
TELEPHONE	3,000	
INSURANCE	4,000	
INTEREST	18,300	
OTHER EXPENSES	1,418	
STATE CORP. TAX	500	
TOTALS	174,984	
BREAKEVEN POINT = \$	239,704	
Revenue/district = \$	17,154	
Revenue/school = \$	1,225	
Breakeven point in # districts =	14	
Breakeven point in # schools =	196	

DEPRECIATION SCHEDULE

PP&E	From B/S	1	2	3	4	5	Ttl	Ttl
Y1	EQUIP	5,040	5,040	5,040	5,040	5,040	25,200	
	F&F	163	163	163	163	163	163	1,634
Y2	EQUIP	6,200	6,200	6,200	6,200	6,200		
	F&F	399	399	399	399	399	399	3,994
1996	EQUIP	8,505	8,505	8,505	8,505	8,505		
	F&F	647	647	647	647	647	647	6,469
1997	EQUIP	11,980	11,980	11,980	11,980	11,980		
	F&F	1,059	1,059	1,059	1,059	1,059	1,059	10,594
1998	EQUIP	15,190	15,190	15,190	15,190	15,190		
	F&F	1,554	1,554	1,554	1,554	1,554	1,554	15,544

REVENUE PER CUSTOMER ANALYSIS				
	End YR-2	1996	1997	1998
Forecast revenue *	---	223,000	435,000	609,000
Actual revenue *	105,107	---	---	---
# new districts	13	13	25	35
# new schools/district	244	182	350	490
Ave. schools/district **	19	14	14	14
Ave. revenue/district	8,085	---	---	---
Ave. revenue/school	431	---	---	---
Annual revenue @ YR-2 trend	---	105,107	202,128	282,979
Required revenue/district to meet forecast	---	17,154	17,400	17,400
Required revenue/school to meet forecast	---	1,225	1,243	1,243
* Excludes maintenance fees				
** Average schools/district is higher at end of 1995 than projected for 1996 and beyond due to larger-than-expected sale in 1995 to an 80-school district.				

END NOTES

¹ National Center for Education Statistics, "Education Department Submits Proposal to Reauthorize Individuals with Disabilities Education Act (IDEA)", Internet WAIS: Educational Resource Information Center, June 30, 1995.

² National Center for Education Statistics, "Department of Education Fiscal Year 1996 Budget: Summary and Background Information", Internet WAIS: Educational Resource Information Center, February, 1995.

³ Based on interviews with companies that develop and market special education and related software products.

⁴ Occasionally individual schools will purchase EduTracker without the endorsement or involvement of the district. EduSoft has made such sales, but does not target individual schools because it is not cost-effective.

⁵ Holznagle, Don, Director of Technology, Northwest Regional Educational Laboratory, Portland, OR. Telephone interview. January 6, 1996.

⁶ National Center for Education Statistics, "CD Directory of Public Elementary and Secondary Education Agencies 1993-94," U.S. Department of Education Office of Educational Research and Improvement. December, 1995.

⁷ International Data Corporation, "IDC Applications Solutions: 1994 Worldwide Markets and Trends", 1994.

⁸ National Center for Education Statistics, Internet WAIS: Educational Resource Information Center, February, 1995.

⁹ Quality Education Data, "1995-96 Technology Purchasing Forecast," December 5, 1995, p. 1.

¹⁰ "Apple's announcement of layoffs short on details," Knight-Ridder, January 21, 1996, p. 3.

¹¹ Hackner, Chuck, Director of Channel Relations, McGraw-Hill Software Systems, Atlanta, GA. Telephone interview. February 22, 1996.

¹² "Financial Operating Ratios for Software Companies," The Culpepper Surveys, 1994. Based on the arithmetical averages of ratios of companies with up to \$3 million in annual sales.