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Building the Business Case – Modelling Market Penetration

Our business case is starting to take shape. We've got our revenue and staff cost in here.

We are going to put our market data at the top. We are going to look at what our market penetration is like. Although that doesn't directly contribute to our MPV, it is really useful to see what our market penetration is. Let's model that now.

The Australian pet owning population is going to be calculated here. We can see the population is that number there and we can multiply that by 54%. We can see there that there is 12.5 million Australians who own pets. It will be the simple option if I do the calculation in one column and then copy the entire column across. We have already calculated the Honey Corp pet owning customers, so I can pull that through from my Revenue page. Acquired number of customers, we can get that from our Revenue page also. That is the number of customers that we've used to calculate our revenue. Just look at our net cumulative number of customers - we changed that to be average number of customers and it's important to be very descriptive about what you put into your model. Before I move on, I am just going to change the title to net average cumulative customers. I can now take that number there. Honey Corp penetration; I can calculate my penetration by saying how many customers did we get as a percentage of the market share. The Honey Corp penetration is going to be that divided by the number of customers we got on the total market (the people that own pets, not the entire population). That's 1.3% and then the market penetration of the entire country market, we will calculate that as well just for interest sake. 14.8 divided by 12.5 million so very small. We can then say in our meeting tomorrow that we've been quite conservative the way that we are modelling. We are only

expecting to get 0.1% of the total market. We will copy that across. That is what your formulas should look like.

What we can do now is calculating our overhead costs, our media and marketing and our product development costs. Our overheads are $4.50. We will go back to our assumptions page and put that down as $4.50 and as a named range 'OH'. Go back to P&L page and I can calculate straight off here. I have go the acquired number of customers and I can multiply that. It would be better practice; rather than picking it up from there because it is actually causing a spaghetti link or 'daisy chain' i.e. a link that links to a link etc. It is better practice to go directly to the source. It is very tempting because it is right there on the page. I am going to do that here. I am going to link back to my Revenue page and I am going to use this number here and multiply that by my overheads. I can copy that across.

There is a bit of a debate sometimes. This is based on a real life case study and the client said let's base this on the year-end number of customers because we have two counts of number of customers; average and year-end number of customers. The client wanted to be conservative. Let's use year-end number of customers because it is conservative. Overheads are the cost of having a customer on board. It's things like phone calls, admin, stationery and that sort of thing. The client wanted to be conservative and I disagree. I think that the place for conservatism should be the scenario analysis. That's why we have done it based on the average number of customers. We've based it on the same value as we've used for our revenue calculation.

What we are going to is calculate our media and marketing and this is an interesting one, so we've spent ages calculating exactly what our population projections are and indexing our customers to our population projections and working out exactly what we think our numbers are going to be. Then we go the media and marketing department ask “how much do we need to market this product?” They say about 0.5 million dollars.

“Based on what? Can you give me a bit more background and back it up by something?”

“No, not really, it's just what we think.”

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“What about year two or three?” They say, about half that. “Keep halving it?” They go, no should flatten out after about four years. That's all I had to go on. That's what I had to use for this business case. Sometimes that is all you get. Sometimes you can go into a huge amount of detail and you can document and you should do that if you can but it's not always possible. This is very high level business case and we've got just one big number, 0.5 million dollars for the first year and it's going to decrease in half for four years and it's going to flatten out after that. We will put that down as an assumption. We are going to keep all of our assumptions on a single page so we will put that in here. We've got a 0.5-million-dollar product development cost as well. Copy that down. Its only once off, once you developed that product for the first year, that's it. Next, halve the media and marketing for four years and then it's going to flatten out. Again we have inconsistent formulas. We will put down a red border as before to show that. Then you can copy that across. This is halving until year four and then it's going to remain constant after that. You can link that through to your P&L page. That is our expenses.

Our P&L is now starting to take shape.

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