



**Global Enterprise Experience  
Business Proposal**

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GLOBAL EDUCATION AND TRAINING  
**INNOVATE** 

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## Executive Summary

INNOVATE Education and Training is a global education company that provides general education and formal skills training solutions to people at low income levels, living in less developed countries around the world. INNOVATE will supply basic portable DVD players, or PDPs, at very low cost to communities and individuals who require education and skills training to aid in their development and welfare. The implementation of an ongoing educational DVD distribution program, using the PDPs as the medium through which education and skills training programs can be delivered to its users, will make up the second element of INNOVATE's range of product and service offerings. By leveraging alliances and partnerships with governments and other large multinational companies around the world, INNOVATE will be able to utilize a profitable business model, which at the same time will have the potential to benefit millions of people in developing countries.

## Business Overview

### Business Opportunity

- Importance of Education

For many years, education has been widely regarded as the means to economic prosperity, the key to combating unemployment, and the route to scientific and technological advancement for developing countries around the world<sup>1</sup>. For this reason, numerous developing countries undertake enormous efforts towards creating and educational and training systems capable of supplying them with a workforce necessary to fulfill their developmental needs<sup>2</sup>. However, despite the great sums of money and effort spent by governments on education as the vehicle to achieve social equality, it is still an area which faces many difficulties and challenges.

- Basic Literacy Skills – Children in Developing Countries

In J. Chimombo's 2005 article on education in developing countries, he cites a number of challenges of providing people with basic education, including the costs of schooling, accessibility to education, efficiency and quality of the education that is provided, and the relevance of education. This is a direct result of the high costs of educational materials and services, burdensome procedures and mechanisms for educational spending, and the use of inappropriate technologies and educational methods<sup>2</sup>. According to UNICEF, the number of children living in developing countries is approximately 1.9 billion<sup>3</sup> - a market which presents a sizeable opportunity for INNOVATE. Additionally, 10% of the developing world's total GDP is allocated to education<sup>4</sup>; therefore, if INNOVATE can implement a system of education which is efficient, inexpensive and effective, the potential for significant profits is immense.

In addition to the business opportunity presented by the education of the children population in developing countries, there is also the potential market of educating the adult population. The literacy rates in the developing world hover around 81% for males and 66% for females, compared with 99% for an industrialized country like Australia<sup>4</sup>. This is an opportunity which INNOVATE can easily capitalize on, using the same methods as educating children in basic literacy.

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<sup>1</sup> Chimombo, J. (2005) Issues in Basic Education in Developing Countries: An Exploration of Policy Options for Improved Delivery. *Journal of International Cooperation in Education*; 8(1); p129-152.

<sup>2</sup> UNESCO (1995) Education in the Least Developed Countries. UNESCO Education Sector, September 1995.

<sup>3</sup> Did you know... (2005) The State of the World's Children. [Online]. Available at: <http://www.unicef.org/sowc05/english/poverty.html> (accessed 17 May 2008)

<sup>4</sup> Statistical Tables (2005) The State of the World's Children. [Online]. Available at: <http://www.unicef.org/sowc05/english/statistics.html> (accessed 17 May 2008)

- Basic Skills Training

Another opportunity that INNOVATE will also be able to exploit is in the area of formal skills training in developing countries. In recent times, there has been strong evidence of fast developing countries, like India and China, increasing their demand for workers trained in a myriad of skills, particularly in the areas of languages and manufacturing. According to many economists, the biggest winners by far are those with the education and skills to take advantage of new opportunities, leaving many lagging far behind<sup>5</sup>. To give an idea of the scale of potential in the languages market, the value of China's \$2.7-billion English language training market could reach a mammoth \$4.3 billion by 2010<sup>6</sup>.

At the same time, there is increasing demand in the least developed world, especially countries in Africa, for the teaching of better and more sustainable agriculture practices<sup>7</sup>. This has been due to the world's rising population causing higher demands for food, and also high oil prices making the transportation of food more expensive. Further exacerbating the situation is the "neglect of agriculture by institutions and by governments around the world over the last 30 years"<sup>7</sup>. The education of people from developing countries in the area of sustainable agriculture is another basic skill that can be delivered by INNOVATE.

- Next Generation BoP Strategy

Many large multinational companies have recently placed more effort in using corporate initiatives to reach the "base of the pyramid" (BoP) – the more than four billion people globally with per capita incomes below \$1,500. However, most of these "first generation" BoP strategies, such as Nike's "World Shoe", have been criticized as representing arm's length attempts to quickly tap into a new market<sup>8</sup>. This failure is usually a result of the newly introduced business remaining alien to the communities that it intends to serve. Therefore, opportunity exists for INNOVATE to assist these businesses in building close, personal business partnerships with BoP communities. INNOVATE's education distribution network, using its portable DVD players, can reach tens of millions of people in BoP communities, provide the means of educating the target market in newly introduced products and services. This will give businesses, hoping to enter the BoP market, the ability to have constant and deep interaction with the wider community, becoming more in tune with the broader community's needs and wants, and as a result provide products and services that will be relevant to different BoP communities globally.

### Business Objectives

INNOVATE's business objectives has two distinct parts. The first are the objectives related to the provision of our product and service:

- To provide relevant education and formal skills training to people at low income levels, living in developing countries, to aid in their development and welfare
- To provide effective and efficient education to children and adults in developing countries that will provide them with the essential literacy skills

The second part of the objectives, are associated with ensuring our business model will be profitable:

- To establish alliances with governments of developing countries with the aim of obtaining revenue to be used in providing the means of education to the local people; and also as a source of profitable income for INNOVATE

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<sup>5</sup> Davis B. et al (2007). Globalisation's Gains Come with a Price [online]. *Wall Street Journal*. (3 June, 2007).

<sup>6</sup> Industry Canada (2007). The Language Training Market in China [online]. Available at: [http://strategis.ic.gc.ca/epic/internet/inlain-inla.nsf/en/h\\_qs00132e.html](http://strategis.ic.gc.ca/epic/internet/inlain-inla.nsf/en/h_qs00132e.html). (Accessed 20 May, 2008)

<sup>7</sup> Blair, D. (2008). Green revolution needed to feed the poor, says UN. *Sydney Morning Herald*. (20 May, 2008).

<sup>8</sup> Simanis E., Hart S. (2008). The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy. Second Edition.

- To develop partnerships with multinational companies hoping to enter a 'base of the pyramid' market and earn revenue through educating a large potential market on the need for new products which are beneficial to the local population - which can therefore increase in future demand and revenue as the consumers' economic position improves over time

### **INNOVATE's Products and Services**

INNOVATE's range of products and service offerings will be reflected in two interrelated entities; an inexpensive, basic portable DVD player, and an ongoing educational DVD distribution service.

#### **Product – Portable DVD Player (PDP)**

The PDP is a basic portable DVD player, supplied and sold by INNOVATE to be used as the medium for the educational DVD, also to be provided by INNOVATE. The player will be produced at extremely low costs through partnership with an established electronics company, to be mass manufactured in the country that can supply large volumes at the lowest possible cost. The DVDs will either be sold, or distributed for free, depending on the type of agreement reached with a local government on the specifics of distribution. The PDPs will most likely be distributed for free in the least developed countries, while sold at a price lower than US\$20 in the larger and faster developing nations, in order for it to be affordable to the local BoP population.



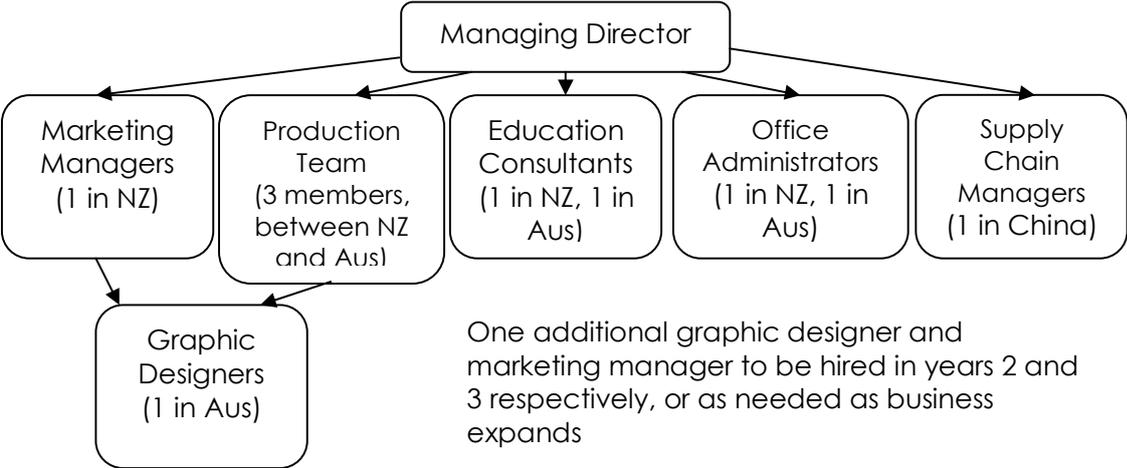
#### **Service – Educational DVD Distribution**

The educational DVDs, which are to be produced in either Australia or New Zealand, will focus on a number of areas, including basic literacy skills, languages (in particular English), and sustainable agriculture techniques. There is potential for the range of topics to be expanded in the future, depending on demand. The educational material will be of a high quality, and both relevant and specific to individual countries and communities. It will be produced by INNOVATE, with the assistance of other organisations and businesses who may have expertise in the area of need. It will be essential that the educational material provided is created with the needs of the target community in mind, to ensure that it will be effective in aiding the development and welfare of the people. These DVDs will either be distributed for free, sold individually, or sold as part of a subscription service, depending on the nature of the agreement with the local government, or the income levels of the local people.

### **Management Plan**

#### **Business Structure**

INNOVATE will be based from two main offices, with one in New Zealand and the other in Australia. This will allow the company to apply for and receive government funding and grants from both countries. There will also be other remote offices established in the developing countries where INNOVATE's products and services will have a presence, especially in China, for supply chain purposes, as this is where the DVD players will likely be manufactured. The initial management structure of the head offices will be as follows:



**Marketing Plan**

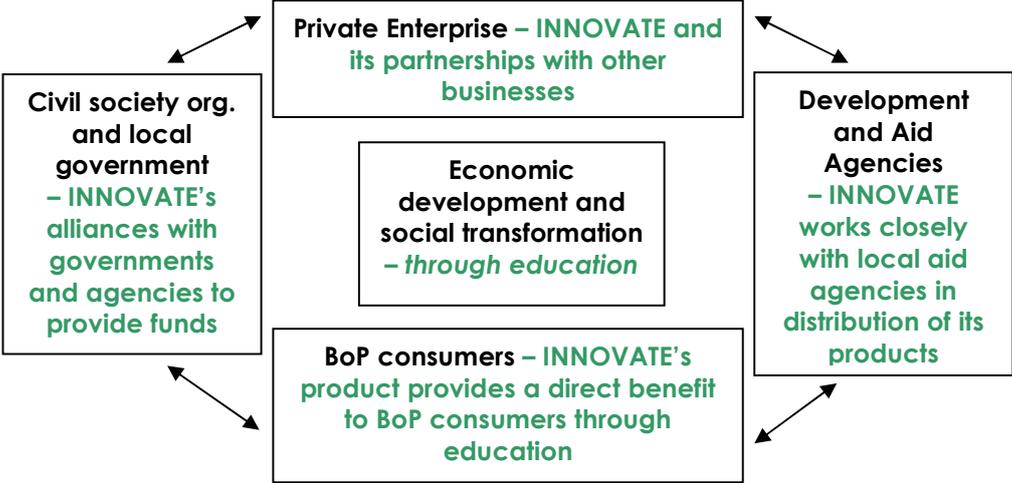
**Market Analysis**

INNOVATE's product and service will differ slightly depending on the market segment. It will focus its business on two main segments: fast developing countries, e.g. India, China; and least developed countries, e.g. Rwanda, Congo, as defined by the UN<sup>9</sup>. For the fast developing countries, the focus will be on the education of language skills, in the teaching of foreign languages such as English or French, which will be of great benefit in the global business environment. For the least developed countries, the focus will be on raising basic literacy skills of children and adults, and on sustainable agriculture skills. These distinct areas of focus in the two different markets will ensure the delivery of education that is both relevant and of most benefit to the local people.

**Emphasis on the Bottom of the Pyramid**

The INNOVATE business model is heavily influenced by C.K. Prahalad's BoP framework<sup>10</sup>, and principles of innovation:

**Bottom of the Pyramid Framework – C.K. Prahalad**



<sup>9</sup> UN recognition of the least developed countries (2007). Available at: <http://www.unctad.org/Templates/Page.asp?intItemID=3618&lang=1> (accessed 21 May, 2008)

<sup>10</sup> C.K. Prahalad (2002). What is the Bottom of the Pyramid?. Available at: [http://www.12manage.com/methods\\_prahalad\\_bottom\\_of\\_the\\_pyramid.html](http://www.12manage.com/methods_prahalad_bottom_of_the_pyramid.html) (accessed 21 May, 2008)

### Principles of Innovation for Bottom of the Pyramid Markets

- **Focus on price performance** – modification of an existing product (DVD players) in order to achieve minimal costs, and use of economies of scale
- **Scaleable and transportable operations** – education material is specific and tailored to meet the specific needs of individual communities and markets
- **Distribution methods** – INNOVATE's products and services will be distributed through local distribution teams. Distribution in newly acquired markets will be initially centralized in large cities, to firstly reach highly dense urban markets. Smaller distribution teams will then travel out to reach highly dispersed rural markets once market share has been established
- **Educate customers on the product** – distribution teams will not only just sell the product, but also educate the user on its functions and benefits. The DVD players will be very easy to use, and highly adaptable across heterogenous customer bases

### Competitors

Although there are many governments and aid agencies with a focus on improving education in developing countries, INNOVATE's business model is unique, with its integrated and unified approach towards education globally. It leverages the strengths of different stakeholders, using C.K. Prahalad's BoP framework to provide a profitable product and service that can benefit people living in developing countries. Also, due to the enormous size of the BoP market, the impact of any competition will be minimal, even welcome, as it will only serve to improve the lives of millions.

### Financial Plan

#### Financial Strategy

The initial growth of INNOVATE will be moderate with risk kept to a minimal as projects require little capital investment and a strong cash position will be maintained to bolster the low initial interest coverage ratio.

Revenue will predominantly be derived from clients engaging our service to create awareness of their brands, corporate social responsibility or other specific information through our DVD distribution program. The consumer aspect of our revenue will be minimal as we will supply the PDPs and DVDs at cost prices or below to accommodate for their low income. We will approach Phillips to modify their PET706 7" PDP to a 5" LCD screen version with minimal features to keep costs at a minimum. Leveraging the social benefits of our projects and the potential access into the enormous rural Chinese market, we anticipate the ability to enlist Phillips as a partner and acquire this minimal-specification model for NZ\$20. Factoring in a 10% premium to cover supply chain and distribution costs, INNOVATE expects to sell the PDP model to consumers will for NZ\$22 or RMB120. Further reductions to this price point is subject to subsidies provided by government organizations and our non-profit organization partners.

Marketing expenditure is minimal given that INNOVATE draws clients and partners through pitch presentations to relevant management levels and no paid media will be engaged. A reinvestment rate of 80% is planned for the first three years will a review scheduled after the third year. This is in-line with the maintenance of a strong cash position.

#### Sources of Finance

Capital will compose primarily of debt derived from a business loan with ANZ, drawn by the Australian office. Given the social benefit of INNOVATE projects and the Sino-New Zealand and Sino-Australia trade implications, three government grants will be applied for.

INNOVATE will apply for the ANZ Capital Boost business loan with a five year maturity for the amount of A\$200,000. INNOVATE is sourcing an unsecured loan and given the speculative

characteristics of INNOVATE's ability to service the debt, a 365 basis point premium above the BBSW can be expected resulting in a 10.90% p.a. variable interest rate. Debt will comprise 81% of initial capital and provide a sizeable tax benefit for INNOVATE. However, INNOVATE recognizes the downside risk to such high gearing but a strong cash position will minimize default risk.

A number of grants will be applied by both the New Zealand and Australia offices. INNOVATE will apply for the Enterprise Development Grant under New Zealand Trade and Enterprise in two components:

- Market development component of NZ\$5,000 to be used for advertising and promotion spend
- Capability building component of NZ\$5,000 to be used for strategic business development

The Australian grants will consist of \$30,000 from the Australian China Council on the basis that INNOVATE projects in rural China will help develop long-term links between individuals and institutions in Australia and counterparts in China. A second grant will be applied for under the Australia-China Agriculture Cooperation Agreement (ACACA) for the amount of A\$10,000. INNOVATE will send a team to China to liaise with the Chinese Ministry of Agriculture to investigate the best approaches that INNOVATE's PDP program can work to benefit rural agriculture in China. INNOVATE will then seek to encourage agricultural trade between China and Australia. Continued funding is expected from the Chinese Ministry of Agriculture and the Australian Department of Agriculture, Fisheries and Forestry.

### Projected Profit and Loss

Pro Forma Profit and Loss (NZ\$)			
	FY 2008	FY 2009	FY 2010
Sales	\$1,100,000	\$1,408,000	\$1,900,800
Advertising Revenue	\$567,000	\$907,200	\$1,632,960
Subsidies	\$59,000	\$12,000	\$12,000
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Total Revenue	\$1,667,000	\$2,315,200	\$3,533,760
Cost of Goods Sold	\$1,100,700	\$1,408,896	\$1,902,010
Other Production Expenses	\$16,000	\$25,600	\$46,080
Payroll	\$495,000	\$525,000	\$620,000
Sales and Marketing and Other Expenses	\$5,000	\$11,400	\$18,000
Depreciation	\$0	0	0
Information Technology and Telecommunications	\$6,000	\$6,000	\$6,000
Utilities	\$4,500	\$4,500	\$4,500
Office Lease	60,000	60,000	60,000
Travel Expenses	18,000	27,000	33,000
Other	\$0	\$0	\$0
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Total Operating Expenses	\$1,705,200	\$2,068,396	\$2,689,590
EBIT	<b>-\$38,200</b>	\$246,804	\$844,170
Interest Expense	\$27,250	\$27,250	\$27,250
Taxation	<b>-\$19,635</b>	\$65,866	\$245,076
Net Profit	<b>-\$45,815</b>	\$153,688	\$571,844

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