Technology Entrepreneurship
Department Of Engineering and Technology Management
Fall 2004
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Agenda

- The Need
- Current Approach
- MIRCHI - Data Management Solutions
- Market Analysis
- Product Overview
- Competitor analysis
- Sales and pricing
- Organizational structure
- Financial Plan
- Exit Strategy
- Q & A
The Need

- Security and Privacy of Information
- Proactive Threat Protection
- Electronic Data Interchange
- Outsourcing
  - Less or No Control
  - Confidence
  - Cultural Differences
- HIPAA – Healthcare Industry
  - HIPAA driver for clinical data security implementations
  - Rise in IT budgets to address HIPAA regulation
  - Fines - $250K per year and 10 Year imprisonment
  - Public disclosure of violations – Additional Litigation
Current Approach

- Manual Control
- Must Train And Certify in HIPAA

Limitations
- Trust
- Manpower Turnaround
- Old applications are modified.
- No or Less Control

Current approach / fix to protect Personal Health Information and to comply to HIPAA regulations
- Protect Sensitive Information by encrypting individual fields
- Controlled access through roles and responsibilities
- Centralized control with minimal or less changes
- A complete solution, compared with existing partial products
- Mask data that’s displayed by application programs
- Outsource(d) users will see encrypted data
- Rapidly resolve data problem in production
Market Analysis - Size

- Healthcare expenditures 1.2 trillion, 1999 to 2.1 trillion by 2007
- 5% goes towards IT infrastructure; i.e., $60 to $110 billion
- Government Regulation is driving a demand for data confidentiality
- Most immediate need for data confidentiality is Health care industry – HIPAA

Insurance companies Top 5 business concerns

<table>
<thead>
<tr>
<th>Compliance and privacy</th>
<th>1</th>
<th>--</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workflow and business rules management (business process)</td>
<td>2</td>
<td>Q1</td>
</tr>
<tr>
<td>Policy administration</td>
<td>3</td>
<td>Q1</td>
</tr>
<tr>
<td>Self-service exchanges and portals</td>
<td>4</td>
<td>Q1</td>
</tr>
<tr>
<td>Claims processing and management</td>
<td>5</td>
<td>Q2</td>
</tr>
</tbody>
</table>

Source: METAGroup Study 2004
Market Analysis - Research

- **IDC Group** - "The spending on IT outsourcing will shoot up from a $16 billion, as of 2004, to a whopping $46 billion by year 2007."

- **Cognizant Technology** - "50% of companies understand that there are security issues with OFFSHORING, but the real issues are cultural and in compliance and regulation."

- **GARTNER** – “When it comes to outsourcing IT operations in foreign countries, companies often focus on slashing costs and gaining productivity, but fail to take into account cultural differences that may affect their data security.”

- **META Group** – “The offshore outsourcing market will continue to grow nearly 20% annually through 2008”
Market Segmentation

- IT Industry
  - Size
    - IT Spending
  - Location
    - National (USA)
      - International
  - Industry
    - Healthcare
  - Others (Banking, Finance,...)
Customer Value Drivers

MIRCHI saves time and resources allows companies to focus on their core business

- Spend less or no time on data management
- Concentrate on core application development
- No need to write new programs or modify existing ones
- Outsource with confidence
- Save money, time and manpower to manage customer privacy
- Maintain customer confidence
- Flexibility
- Protect sensitive production data in tests
Product Overview

- Proxy server that provides access to clients database(s)
- Rule based protection of various types of data
- Protection for various types of databases
- Protect all environments
- Secured remote connectivity for external clients (outsource)
- Tools for protecting sensitive information in documents
- Highly scalable server

Protection of Personal Health Information & other sensitive information with the help of MIRCHI
Before MI RCHI

Unprotected data - open to user – noncompliance with HIPAA
MIRCHI encrypts / masks data to comply with HIPAA
## Competitor Analysis

<table>
<thead>
<tr>
<th>Companies</th>
<th>Competitors Offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPUWARE</td>
<td>- Focus on project specific needs</td>
</tr>
<tr>
<td>TCS</td>
<td>- Do not provide a complete solution</td>
</tr>
<tr>
<td>INFOSYS</td>
<td>- No production support</td>
</tr>
<tr>
<td>WIPRO</td>
<td>- No centralized control</td>
</tr>
<tr>
<td>Others</td>
<td></td>
</tr>
</tbody>
</table>
Sales Strategy

Sales - FOCUS STRATEGY
- It is concept of serving a particular target in such an exceptional manner, that others cannot compete.

Pricing - Market Penetration Strategy
- Aid us gain control over the market in the near future.

Distribution Strategy
- On-premises sales and direct sales

Advertising and Promotion - Pull Strategy
<table>
<thead>
<tr>
<th>Product &amp; Services</th>
<th>Unit Price</th>
<th>Expected # of Users/Client</th>
<th>Net Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proxy Server</td>
<td>* $50,000</td>
<td>100</td>
<td>$525,000.00</td>
</tr>
<tr>
<td></td>
<td>**$5,000/user/year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tools</td>
<td>$2000</td>
<td>$2,000 * 100</td>
<td>$200,000.00</td>
</tr>
<tr>
<td>Support &amp; Consulting</td>
<td>$200 per hr</td>
<td>640 Hrs * $200</td>
<td>$128,000.00</td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td></td>
<td>$30,000.00</td>
</tr>
</tbody>
</table>

As per estimate, the expected Gross Net Price for the product = $ 881,000.00

* - $ 50,000 for initial five users of a client

** - $ 5,000 for each additional users after the initial purchase
Founding partners during code development

Phase I – Additional resources will be added if required

Near Phase I Completion
  Venture support will be sought
  Support Staff will be added

Organizational Structure

SIVAKUMAR THURAIYUR
CEO & LEAD SYSTEM ANALYST

MICHAEL WRIGHT
CFO & MARKETING DIRECTOR

LIJU OOMMEN
CTO & LEAD SYSTEM ANALYST

SAMARJIT SINGH
MANAGER AND LEAD ANALYST
Financial Plan

- Expected Break Even Period: 1.5 years
- Development Period: 9 Months
- Brisk Sales Expected: after 1.5 years
- Software Product
  - Low Operational Cost with Large Profits
Driven by licensed user with access to proxy server
- License is a per user / per year basis
- Year after Year increase in license seats
- After 5 years of sales up to 10,000 licenses
- Yields revenue of $50 million
### Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue Generated</td>
<td>$1,150,000</td>
<td>$8,000,000</td>
<td>$22,800,000</td>
<td>$37,000,000</td>
<td>$55,000,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$1,400,000</td>
<td>$3,500,000</td>
<td>$7,800,000</td>
<td>$12,000,000</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$(250,000)</td>
<td>$4,500,000</td>
<td>$15,000,000</td>
<td>$25,000,000</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>Net income (@33% Corporate tax)</td>
<td>$(167,500)</td>
<td>$3,015,000</td>
<td>$10,050,000</td>
<td>$16,750,000</td>
<td>$26,800,000</td>
</tr>
</tbody>
</table>

### Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing Promotion</td>
<td>$50,000</td>
<td>$400,000</td>
<td>$500,000</td>
<td>$800,000</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>$25,000</td>
<td>$150,000</td>
<td>$250,000</td>
<td>$500,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>$400,000</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$800,000</td>
<td>$900,000</td>
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<tr>
<td>Salaries</td>
<td>$800,000</td>
<td>$2,050,000</td>
<td>$5,700,000</td>
<td>$8,000,000</td>
<td>$9,500,000</td>
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<tr>
<td>Research &amp; Development</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$350,000</td>
<td>$900,000</td>
<td>$1,400,000</td>
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<tr>
<td>Variable Costs</td>
<td>$75,000</td>
<td>$350,000</td>
<td>$500,000</td>
<td>$1,000,000</td>
<td>$1,200,000</td>
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<tr>
<td>Total Operational Expense</td>
<td>$1,400,000</td>
<td>$3,500,000</td>
<td>$7,800,000</td>
<td>$12,000,000</td>
<td>$15,000,000</td>
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</tbody>
</table>
Projected Revenue & Costs

MIRICHI Projected Revenue and Costs

- Revenue
- Net Income
- Operating Expenses

Projected Revenue & Costs

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Net Income</th>
<th>Operating Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$10,000,000</td>
<td>$-10,000,000</td>
<td>$10,000,000</td>
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<tr>
<td>2006</td>
<td>$20,000,000</td>
<td>$-20,000,000</td>
<td>$20,000,000</td>
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<tr>
<td>2007</td>
<td>$30,000,000</td>
<td>$-30,000,000</td>
<td>$30,000,000</td>
</tr>
<tr>
<td>2008</td>
<td>$40,000,000</td>
<td>$-40,000,000</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>2009</td>
<td>$50,000,000</td>
<td>$-50,000,000</td>
<td>$50,000,000</td>
</tr>
</tbody>
</table>
After first 6 months MIRCHI will seek out VC

Seek $1.5 million to fund end of Phase I and Phase II

- Used to hire additional support staff.
- Aid in transition from development to implementation
Exit Strategy

Acquisition

- MIRCHI will offer after 3 years of profit making

Initial Public Offering

- Will be considered after gaining market share
- Probably in its 5th year of operation
Future Scope

- **Other industries with data privacy issues**
  - Financial industry - Sarbanes-Oxley Act
  - Education
  - E-business
  - Call Centers
### NPV and ROI

**Tooling Cost/Return Analysis Sheet:**

**MIRCHI CASH FLOW**

**Number Casting per Quarter:**

**Program Development Cost/Return Analysis:**

**Dollar Sales per Quarter:**

<table>
<thead>
<tr>
<th>Location</th>
<th>Date</th>
<th>IRR</th>
<th>BUM</th>
<th>Cash Flow Time Schedule</th>
<th>4 Quarters</th>
<th>Prog. Mgr.</th>
<th>Payback Period Before Taxes</th>
<th>Qtrs</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>307.99%</td>
<td>NPV 45,193,056</td>
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**Engineer:**

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<tr>
<th>Quarters</th>
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<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capitalized Facilities</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<td>0</td>
</tr>
<tr>
<td>Tooling expenses</td>
<td>2</td>
<td>(350,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(350,000)</td>
</tr>
<tr>
<td>Tool Proving</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Development Cost</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>Net Project Investment.</strong></td>
<td>7</td>
<td>(350,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(350,000)</td>
</tr>
<tr>
<td><strong>B. NET INCOME (COST)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor Saving (Variable Rate)</td>
<td>8</td>
<td>(250,000)</td>
<td>4,500,000</td>
<td>15,000,000</td>
<td>25,000,000</td>
<td>40,000,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>84,250,000</td>
</tr>
<tr>
<td>Materials</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>Inventory Reduction Interest (12%)</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
</tr>
<tr>
<td>Depreciation</td>
<td>11</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cont. Margin for Increased Sales</td>
<td>12</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Saving (Cost)</strong></td>
<td>17</td>
<td>(250,000)</td>
<td>4,500,000</td>
<td>15,000,000</td>
<td>25,000,000</td>
<td>40,000,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>84,250,000</td>
</tr>
<tr>
<td><strong>Profit Before Tax</strong></td>
<td>18</td>
<td>0</td>
<td>(250,000)</td>
<td>4,500,000</td>
<td>15,000,000</td>
<td>25,000,000</td>
<td>40,000,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TAXES @ 37%</strong>**</td>
<td>19</td>
<td>0</td>
<td>92,500</td>
<td>(1,665,000)</td>
<td>(5,550,000)</td>
<td>(9,250,000)</td>
<td>(14,800,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>20</td>
<td>0</td>
<td>(157,500)</td>
<td>2,835,000</td>
<td>9,450,000</td>
<td>15,750,000</td>
<td>25,200,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**C. CASH FLOW**

| Depreciation Addback (Line 11) | 21 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash Flow (Line 7+20+21) | 22 | (350,000) | (157,500) | 2,835,000 | 9,450,000 | 15,750,000 | 25,200,000 | 0 | 0 | 0 | 0 | 0 | 52,727,500 |
| **Cumulative Cash Flow** | 23 | (350,000) | (507,500) | 2,327,500 | 11,777,500 | 27,527,500 | 52,727,500 | 52,727,500 | 52,727,500 | 52,727,500 | 52,727,500 | 52,727,500 | 52,727,500 |
Challenges and Risks

- First to Market
- Funding and Timing
- Competing with IT leaders
- Market Penetration
- Technology and Value
- Managing People – Employee Turnaround
- Win Customer Confidence
- Market Sustenance
High Level Architecture

MIRCHI

Production Database

Internet

Client Application (1)

Client Application (2)

Oracle Tools

Outsourced

Client Application (1)

Client Application (2)