Marketing Financial Forecasts

In this mini case study, an accounting firm is trying to forecast the likely profit from a new software program that they plan to launch onto the market – but they have two quite different profit expectations – can you help them?

About the Firm and Their Accounting Software

A local accounting firm has called you in as a marketing consultant. Over recent years, they have developed an accounting software package.

Initially, this program was designed to assist them in their own tasks and activities. However, as they have continued to enhance and develop the software, they now believe that it is at a stage where they could sell it to small businesses.

Their direct competitors would be products like MYOB and Quicken. However, they recognize that they would also be indirectly competing against do-it-yourself spreadsheets and cheap bookkeepers.

The accounting firm has provided you with their view on how their products compare to these competitors.

	Importance to customer	Our product	MYOB	Quicken	DIY S/sheets	B/keepers
Upfront cost	3	3	5	5	1	2
Ongoing cost	4	5	4	4	5	1
Support/advice	4	2	4	3	1	5
Detailed reports	2	5	4	4	1	3
Ease of use	5	4	5	4	2	4
Reliability	3	3	4	5	2	5

(Note: 5 = Excellent, 1 = poor)

Therefore, this table indicates that the product's strengths are the low ongoing cost (as they plan to provide free upgrades) and the detailed reports that it can provide.

The main partner of the accounting firm, Steve Jennings, has a strong view on developing non-labor dependent products. According to Mr. Jennings:

"In reality, our income is limited by hours. We only have so many billable hours in a day, so our income has a natural ceiling. That's why we are looking at additional products we can sell to our existing clients and attract new clients as well. This would be anything from software, to books, to even things like home loans and insurance products."

However, one of the junior partners (Julie Panacini) had just finished her MBA (specializing in strategy) and she expressed more concerns, especially as she had been selected to help develop and launch the product. Her view was:

"Diversifying away from your core skills is always risky. We have a great reputation as being reliable, trustworthy, and experts in our field. I have concerns about competing in the software market. It's not a market that we know much about.

Also, Steve has just nominated five of us to work on the product's launch. While we each have our list of tasks to complete, there's no regular meetings planned, and we still have to do our normal jobs. That's a big ask!"

There was also disagreement on the project's financial viability. While both Steve and Julie had used the ATAR model (A = awareness, T = trial, A = availability, R = repeat) as the basis for their financial calculations, they had reached different profit outcomes, as shown in the following table:

Metric	**Steve**	**Julie**
Number of Buying Units	1,000,000 Businesses in the market	2,000 Existing clients
Awareness	20% Should be able generate free publicity	100% Through their client newsletters
Trial	60% Based on concept test results below	60% Based on concept test results below
Availability	50% The product is so good that it should be able to get into Officeworks	100% As we will sell direct to our clients
Repeat	Not applicable, as we will provide free upgrades	75% Don't provide free upgrades, instead, sell a new version every three years
No. of annual purchases	1 Initial purchase only	1/3 New version every three years
Profit margin per unit	$100 Retailers sells for $125	$125 As we sell direct
TOTAL PROFIT	$6m in first year Then costs us $600,000 every 2 years in free upgrades – will stop after 2 upgrades **Therefore: total profit of $4.8m for the project (of four years)**	$150,000 in first year Then $37,500pa in upgrades **Therefore: total profit of $300,000 for the first four years of the project**

Concept test results – asked of existing customers

- Definitely would buy the software = 15%
- Probably would buy the software = 45%
- Top 2-boxes = 60%
- Probably not buy the software = 30%
- Definitely not buy the software = 10%

Student Discussion Questions

1. Looking at the competitor table, do you agree that their product's strengths are the low ongoing cost and the detailed reports that it can provide?

2. Still looking at this table, can you construct a perceptual map that might be helpful?

3. The ATAR model provided differs significantly, which one do you think is more realistic? Go through the numbers and highlight whether the number is 'roughly OK' or 'well out'.

4. While they have interpreted the concept test results in the same manner, do you think they have done so correctly?

5. From the general information in the ATAR model, do Steve and Julie assume a different launch program? What do they each have in mind?

6. Would you advise them to 'proceed' or 'stop' the development of this product? If stop, why? If proceed, under what conditions should they do so?

7. What advice would you give them on how to improve their new product development process in the future?