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ORIGINAL ARTICLE

MOBILE AD AUTHORITY (MAA) – NEW VENTURE'S FINANCIAL FEASIBILITY STUDY

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Abstract:

Mobile Ad Authority (MAA) has commenced its business on August 2011, in USA. The company has planned to enlarge its operations in India. Mobile Ad Authority provides cutting edge solutions to corporations and enterprises globally and aids them to utilize the potential their business can reach by using Mobile Advertising as a marketing medium. This study was carried out to know the market feasibility of establishing a new venture using various financial tools.

INTRODUCTION

I .Introduction

In the new millennium India has seen a tremendous rise in teledensity from below 5% in 2001 to over 70% in 2011currently, slated to rise to 85% in 2012. This has been made possible by the exponential growth of mobile phone usage. Today, the number of people using mobile phones in India stands at over 700 million. Obviously, the mobile advertising industry is headed northwards in an almost straight line. According to a PTI report, the mobile ad industry is "expected to grow by around 300 per cent to reach a turnover of Rs 200 crores over the next 2-3 years".

Mobile advertising has huge advantage over traditional advertising media like print, TV and radio where one can never know whether the targeted audience will first of all take notice, and if they have how many have seen it. Mobile being a very personal and intimate medium, one can rest assured that the ad will be seen. Also, there is the potential to target audiences according to their profiles. The only drawback of the medium is that the rate of conversion of ads to actual business is about 1-2 percent and 8-10 percent free offering, much lower than other media.

II. Research Methodology

The methodology used for the study has been adopted keeping in view the objectives of the study.

The focus group interview was conducted with ENS group, who has a plan to start business in India. So the study was conducted to identify the financial feasibility.

To know the feasibility using short and long term capital requirement of mobile advertisement was found. To know the expected cash flows the sources and application of funds was calculated. The risk Vs return on investments (ROI) in was found. Even the price fixation was also calculated by comparing the market position.

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III. REVIEW OF LITERATURE

"The number of mobile-users is rising significantly with 10-15-million new additions every month. Also, since the cost of interaction and cost of transaction is much lower in this medium as compared to TV, print or radio, marketers are using mobiles to promote their services and products," the report quotes Amit Lall, Head Mobile Marketing, Mobile2Win, a leading mobile VAS company.

Dr. K. F. Lai, CEO, Buzz City said "India has a great scope for mobile advertising. In the last few years India has given has great revenue. Mobile advertising is no longer dominated by a handful of markets. Mobile internet advertising is now a pervasive force for marketers to spread their message, build brands and transact – a medium that we cannot afford to ignore. Also, an important fact that brand managers need to take into consideration is that feature based phones and not smartphones dominate mobile internet usage."

According to the latest Buzz City Report 2011, India continues to be at the top position contributing to mobile advertising, in the world. With a growth rate of more than 44% and 5792 million ad impressions served, India stands way ahead of its immediate next- Indonesia- which stands at a growth rate of 31% and scoring 3921 million ad impressions.

The first half of the year 2011, seemed to be very optimistic for the Indian mobile advertising industry considering the phenomenal growth that is being noted in Q1. Certainly brands are hopping on to the trend and making the most of it.

Here is the complete list of top nations:

Quarterly ranking: Top 20 mobile advertising countries

Q1 2011 ranking	Q4 2010 ranking	Country	Ad impressions served: Q4 2010	Ad impressions served: Q1 2011	Q1 growth (%)
1	(1)	India	4,024,179,385	5,792,636,581	44%
2	(2)	Indonesia	2,992,151,427	3,921,857,221	31%
3	(3)	United States	1,137,621,426	1,956,141,156	72%
4	(8)	South Korea	372,269,666	714,715,317	92%
5	(4)	South Africa	884,405,024	614,375,252	-31%
6	(6)	Saudi Arabia	519,770,665	601,936,549	16%
7	(7)	Vietnam	404,036,815	553,302,712	37%
8	(5)	Kenya	522,450,554	537,655,503	3%
9	(9)	Nigeria	331,860,161	473,396,342	43%
10	(15)	China	194,862,491	448,870,423	130%
11	(13)	Mexico	218,849,238	421,954,111	93%
12	(17)	Turkey	183,003,151	333,299,730	82%
13	(19)	Thailand	167,526,526	327,549,334	96%
14	(22)	Egypt	118,354,084	288,715,395	144%
15	(20)	Brazil	156,043,089	280,175,063	80%
16	(11)	Malaysia	253,113,015	253,276,643	0%
17	(12)	United Kingdom	235,429,708	251,415,680	7%
18	(41)	Spain	65,221,865	212,018,120	225%
19	(14)	Germany	217,500,752	211,516,423	-3%
20	(18)	Bangladesh	177,520,133	205,936,980	16%

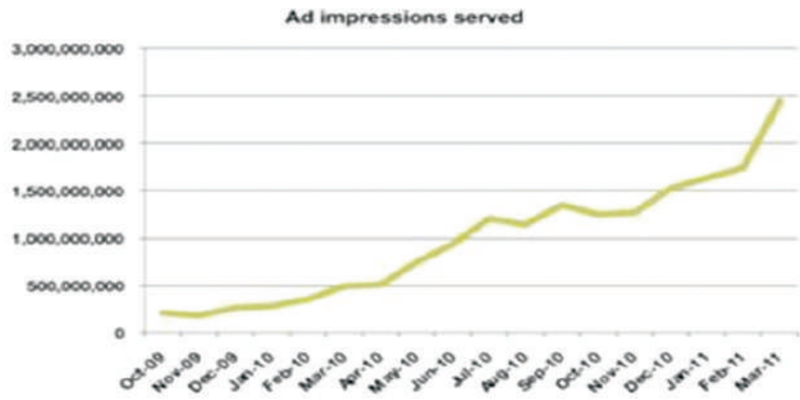
1. Some notable figures about the Indian mobile advertising industry are as follows:

· India reached its highest traffic level with 2.6 billion ads being broadcasted to 59.4 million users in the month of May, 2011.

· There was an increase of 44% banner ads served to the Indian audiences on their mobile phones

· India has the highest number of mobile game downloads with more than 14 million downloads in Q1 and a growth rate of 24% Q-on-Q.. 50% of these game downloads were of Cricket

The number of ad impressions served in India, has increase 5 times since October 2009, which the highest growth rate for any country



IV. TOOLS USED FOR DETERMINING THE MARKET FEASIBILITY

Following are the various tools available to the financial performance analysis:

- Analytical Tools - Working Capital Statement
- Financial Statement Analysis - Ratio Analysis
- Capital Budgeting tools - Pay Back period
  - Accounting Rate of Return
- Risk – Return Analysis
- Pricing Techniques - ANOVA

V. DATA ANALYSIS AND INTERPRETATION

a) Estimate the statement of working capital.

Particulars	Details	Amount (Rs)
Current assets:		
1. Debtors (20*30000)	600000	
2. Cash in hand	300000	
3. Cash at bank	200000	
Total current assets		**1100000**
Current liabilities:		
1. Creditors		**(100000)**
Net working capital = Total current assets - current liabilities		**1000000**

Interpretation: Here current assets required on total costing of about Rs 1100000 only, and the only a single liable person is the ISP (Internet Service Provider), Costing of about Rs 100000
Hence required Net Working Capital is Rs 1000000

a) Ratios:

1. Current ratio (Working capital ratio) = Current asset/ Current liability
= 1100000/100000
= 11 times .

2. Net working capital ratio = net working capital/net assets
= 1000000/1100000
= 0.909 times.
3. Cash position ratio = (Cash + marketable securities)/current liabilities
= (500000 + 0)/100000
= 1 time.
4. Current assets to proprietors fund ratio = current assets/proprietors funds
= 1100000/2000000
= 0.55 times
5. Working capital turnover ratio = cost of sales/net working capital
= 288000/1000000
= 0.288 times

Interpretation: 1. Ratios that are measured for predicting liquidity is current ratio which is estimated at 11 times of the capital.
1. The net working capital ratio is determined to be 0.909 times.
2. Quick ratio which is also termed as liquid ratio is measured as 1 times.
3. The percentage of proprietor's funds in current assets is found as 0.55 times which is the ratio between current assets to proprietor's fund.
4. The efficiency of the working capital employed is 0.288 times of working capital.
c) Opportunity cost of Equity = market rate of interest*owner's equity
= 10% of 2000000
= 10/100*2000000
= Rs 200000 p.a. Note: market rate of interest is presumed to be 10%.
Interpretation: If the owner is not capable of making better returns from his investments the loss of amount that he will face will be Rs 200000 p.a.
C) Income statement
Given: 20 products = Rs 50 lakhs
Per 1 product = Rs 250000
Product ranges from – 5000 to 300000
Consulting fee = 1 to 1.5 lakhs
Income = 250000 + 150000
= Rs 400000

Particulars	Details	Amount(Rs)
Sales		400000
(-) expenses		
Travelling	32000	
Salary	100000	
Miscellaneous expenses	20000	
Other expenses	30000	
Depreciation	36000	
Purchases	45000	
Rent	25000	
		(288000)
PROFIT = INCOME - EXPENSES		**Rs 112000**

e) Funds flow statement

Sources	Amount(Rs)	Applications	Amount(Rs)
Equity	2000000	ASSETS:	
Funds from operation	237800	Lease hold building	300000
		Machineries	800000
		Office equipments	40000
		Furnitures	47800
		Vehicles	50000
		Working capital	1000000
Total	**2237800**	**Total**	**2237800**

Interpretation: 1. The Company is capable of delivering 20 products at the rate of 50 lakhs, where the product ranges from 5000 to 300000.
2. Along with the consulting fee, the company is capable of yielding an income of maximum Rs 400000 per product.
3. The expenses for the company are Travelling, Salary, Miscellaneous expenses, Other expenses, Depreciation, Purchases, Rent and on total they are costing about Rs 288000.
4. Hence the profit is determined to be Rs 112000
5. To determine the net inflow of funds from operation the Depreciation machinery and building, provision for taxation, Transfer to general reserve with their respective percent of net profit are added with the net profit and are resulted to be Rs 237600
6. From the funds flow statement the assets owned by the business are listed and their costing are shown and that makes the sources equal to the applications.
f) Capital Budgeting
PAY BACK PERIOD

Year	Expected cash inflows(Rs)
0	(800000)
1	**560000**
2	**1120000**
3	1680000
4	2240000
5	2800000
Total	**8400000**

i) Payback period = initial investment /annual cash inflow
Meaning – The term pay back refers to the period in which the project will generate the necessary cash to recoup the initial investment.
= 1 + ((800000-560000)/1120000)
= 1.214 years
= 1 year & 3 months (appr
Interpretation: Here the initial investments are taken with 1 year and 3 months which is a less period for taking back the initial investment.
Note: since the annual cash inflows are uneven the pay-back period is found by adding up the figure of net cash inflows until the total is equal to the initial investment.

AVERAGE RATE OF RETURN

This method is also known as the Accounting Rate of Return method or Return on Investment or Average Rate of Return method.

Average rate of return original investment = (Average inflows/original investment)*100

Average inflow = $\Sigma I/5$ Where ΣI = total of cash inflows

= 560000 +1120000 +1680000 + 2240000 + 2800000

= Rs 8400000.

Average inflow = 8400000/5 = Rs 1680000.

Average rate of return original investment = (1680000/800000)*100

= 210 %

Average rate of return average investment = (Average inflow/average investment)*100

Average investment = Original investment/2

= 800000/2 = Rs 400000.

Average rate of return average investment = (1680000/400000)*100

= 420 %

Interpretation: This method establishes the ratio between the average annual profits to total outlay.

For Average rate of return original investment it is been 210 % where as in case of Average rate of return average investment is twice that of the original investment 420 %.

NET PRESENT VALUE

Years	Inflows	Present value factor K=10%	Present value = Inflow* Present value factor
1	560000	0.909	509040
2	1120000	0.826	925120
3	1680000	0.751	1261680
4	2240000	0.683	1529920
5	2800000	0.621	1738800
?Present value			**5964560**
(-) Out flow			**(800000)**
Net present value			**5164560**

Interpretation: Here the present value of cash inflows are greater than the present value of cash outflows by a difference of Rs 5164560

G) RISK ANALYSIS

Risk = number of customers turned out / number of potential customers

= (10/24)*100

p = 41.67 %

q = (1-0.4167) *100 = 58.33 %

From income statement variable cost for meeting 2 customers

= Σ (travelling + commission + miscellaneous + other expenses + purchases)

= 32000 + 35000 + 20000 + 30000 + 45000 = 162000

Variable cost for meeting 2 customers = Rs 162000

Variable cost for meeting 14 negative customers = Rs 1134000

RISK = (loss / sales revenue)*100

= (1134000 / 4000000)*100

= 28.35 %

Interpretation: The possibility of occurring a loss is 5 times more than the opportunity cost of the owner's equity. Hence the loss level is in the acceptable level.

H) PRICE ANNOVA

PRODUCT	ACTUAL PRICE	MARKET PRICE = COST OF SALES*2	VARIANCE
1	5000	7200	(2200)
2	50000	36000	14000
3	100000	72000	28000
4	200000	144000	56000
5	300000	216000	84000
6	400000	288000	112000

Interpretation: The variance is determined between the actual price and the market price. Where the market price is twice of the cost of sales.

Here the lowest product alone has a negative variance of 2200 and highest product have a variance of 112000.

VI. CONCLUSION

As the net working capital required was Rs 1000000, the company can go for investing in new business since it is financially possible by ENS group. RISK is estimated to be 28.35 %, which is quite minimal. Therefore, it is recommended that mobile advertisement venture is financially feasible in Indian Market.

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