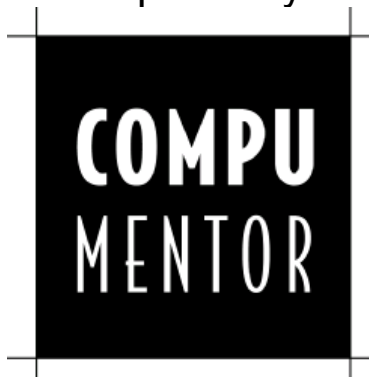

DiscounTech Business Plan

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Partnership on Nonprofit Ventures
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Preface

Business planning is a dynamic, ongoing process that does not simply end with entry into a national competition such as the one sponsored by the Yale School of Management--Goldman-Sachs Foundation Partnership on Nonprofit Ventures. Nor does it end with the initial launch of the venture itself. Strategic thinking constantly evolves and adapts to the realities of the business and philanthropic environments surrounding each venture. Much of this thinking goes on informally in meetings, telephone, and email, often finding its way into grant proposals, contracts, and memoranda of understanding. The exercise of writing a business plan forces an organization to pause from the constant tactical flux of operations long enough to capture its best thinking and projections. Assumptions can be analyzed, challenged, and refined in a process that catalyzes deep, shared understanding.

The business plan you are about to read is such a document. It represents CompuMentor's best thinking at the time of our plan's submission (late April of 2003.) Everything contained in the plan was based on the best information available to us.

Those familiar with the DiscounTech service will notice that some assumptions or outcomes may have changed in the months since the competition. Plans for international product distribution are not included due to space and scope limitations. We've made significant progress on operational improvements, as well as launched a strategic re-branding initiative not reflected in this plan.

Nonetheless, we believe the fundamental underpinning of our business plan will continue to serve CompuMentor well into the future, and has already proven to be an invaluable tool for guiding long-term strategy and fostering shared understanding both internally and externally. In the six months since the plan earned a grand prize in the National Business Plan Competition, CompuMentor secured \$1.4 million investment capital from Nonprofit Finance Fund (NFF). The Yale Conference provided not only the introduction to Clara Miller, President and CEO of NFF, but also the context and much of the substance necessary to make this capital investment possible.

Anyone considering developing a business plan for their own social venture should heed the investment in time and human capital required to thoroughly meet the goals of the planning process. It is an intense effort requiring tremendous collaboration and can strain your organization. Nevertheless, the benefits will extend far beyond the rewards of the competition itself.

Sincerely,

The CompuMentor Team
December 2003

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1. Executive Summary

DiscounTech is a unique Web-based service that distributes donated and discounted technology products, services, and support to nonprofits across the United States at the lowest possible cost to the receiving nonprofit. DiscounTech differentiates itself by aligning its product distribution with unbiased product information and reviews, tools, checklists, resources and a community of more than one million motivated nonprofit technology users found on one of the most popular nonprofit technology information Web sites for nonprofits—TechSoup.org. DiscounTech offers high-demand products at the lowest possible cost by working closely with leading technology companies such as Microsoft, Cisco Systems, Symantec, and Intuit to donate or steeply discount their products especially for the nonprofit sector. Earned-income is generated by charging a low but sustainable administrative fee for each item distributed. Products offered include operating systems, office applications, networking equipment, Web site tools, hosted applications, database applications, online training, refurbished computers and credit card processing hardware. Future plans include the addition of more computer hardware, contact management applications, payroll processing services, printers, LCD projectors, and sub-sector focused solutions such as Electronic Records Management for community health clinics. DiscounTech’s customers are the decision makers at the 1.6 million U.S nonprofits who lack the time, knowledge, staffing, and resources to find and afford the right technology products they need to run their organizations and programs better.

Nonprofit Funds Freed for Direct Mission-Related Services

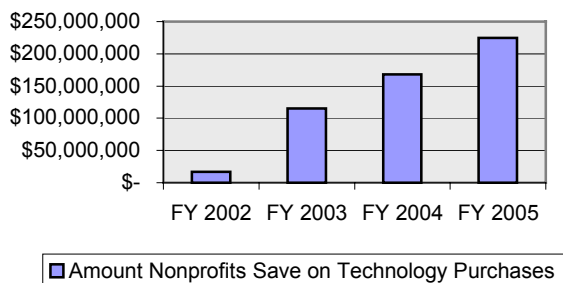


Chart 1: Social Value Indicator

Key Objectives:

- Distribute a total of **\$538M** in retail value of donated technology products to the nonprofit sector by FY 2005
- Provide over **36,500** nonprofit customers affordable access to tech products and services by FY 2005
- Generate cumulative cash flow of **\$2.2M** by FY 2005 to support parent nonprofit’s core mission, sustainability, and value-added services

DiscounTech’s social purpose is to help resource-strapped nonprofits get the technology they need and save money that can be applied to further their organizational missions and improve productivity. Not only does this service increase the capacity and efficiency of nonprofits, it also frees would-be infrastructure funds for direct services that might not otherwise happen. This means more beds can be purchased for homeless shelters, more tutors can be hired and supplies purchased for after school programs, and more meals can be prepared in soup kitchens.

The nonprofit business market is one of the largest underserved business markets in America contributing 6.7% to the U.S. GDP. The high costs to manufacturers for running their own in-house donation programs and the lack of consolidated product availability and adequate support service for nonprofit technology customers combine to create a viable market opportunity for DiscounTech.

Potential competitors include Gifts In-Kind International, TechMarketplace, Consistent Computer Bargains, and traditional commercial retailers. Recent exits from this marketplace include 501click,

which failed largely due to an over-reliance on discounted products rather than donated products resulting in unfavorable price comparisons.

DiscounTech enjoys key competitive advantages over these alternatives including: 1) Strategic alignment with TechSoup and CompuMentor that provides a relevant nonprofit technology information context, a highly targeted community of motivated nonprofit technology information seekers, and a deep institutional knowledge of nonprofit technology issues and needs; 2) An exclusive product donation relationship with Microsoft Corporation for all Microsoft products distributed to 501(c)(3) organizations in the United States; 3) Key product donation relationships with Cisco Systems, Symantec, Intuit and other leading technology companies.; 4) Lowest prices available on most products; 5) Market leading customer service.

As an early-stage venture, DiscounTech has already established proof-of-concept. Since its launch in January 2002, DiscounTech distributed 95,251 products to 10,533 nonprofits that saved an estimated \$42M off of the retail prices for these products.

The marketing plan for DiscounTech is designed to acquire new customers via partnerships, visitor/customer referrals, search engines, advertising, public relations, conferences, direct mail, and promotions; and to foster loyalty among repeat customers via DiscounTech publications and customer communications, a loyalty rewards program, weekly e-newsletter features, Web site merchandising, and integration with TechSoup content during the first two years of operation. In FY 2004 and FY 2005, two key strategies will be pursued: leveraging the larger customer base to grow orders less expensively through repeat and referral visits; continuing new customer acquisition by using alternative channels that expand reach and target key audience segments.

DiscounTech is run by a General Manager who holds an M.B.A. from Columbia University with extensive operational and executive experience. The Business Development Director for this service has twenty years of corporate sales and business development experience with companies as well as nonprofit marketing experience. DiscounTech also enjoys strong commitment from CompuMentor's Board and senior management as well as access to critical shared resources for Marketing, Finance, Human Resources, Management Information Systems, and Fundraising & Development that keep operating costs at a minimum.

DiscounTech operations take place in cyberspace and in a 4800 sq. ft. warehouse facility in San Francisco. Nonprofits read about technology products and eligibility requirements on the TechSoup and DiscounTech Web sites and place orders online. IRS 501(c)(3) determination letters are faxed and a staff of fifteen verifies tax-exempt status, provides customer service, processes and fulfills orders, manages inventory and launches new products on the service. Operational meetings are held each morning to review key metrics and goals.

DiscounTech projects a 3-Year Pro Forma Statement of Activities indicating revenue growth of 220% in FY 2003, 51% in FY 2004 and 27% in FY 2005 reaching revenues of \$8.3M in FY 2004. Cumulative cash flow of \$2.2M by the end of FY 2005 will contribute approximately 2.5 months of cash reserves for CompuMentor.

Major risks include an adverse economic climate and supplier vulnerability. Sensitivity analysis indicates that careful partner management, expanding suppliers to include new donors, and cost control would enable the venture's business model to remain successful under multiple scenarios.

An investment of approximately \$1.5M in the next six-month period would enable DiscounTech to make, ahead of plan, critical operational improvements to scale for expected growth, add and promote more products/vendors, keep administrative fees as low as possible, adequately support the rich technology context provided by TechSoup and CompuMentor's Consulting Services, ensure sufficient cash receives for the stability of the parent organization, and ultimately better serve the nonprofit sector.

2. Description of Social Business Venture

DiscounTech distributes donated and discounted software and hardware technology products to nonprofits across the United States at the lowest possible cost to the receiving nonprofit through a Web environment rich in nonprofit technology information that promotes effective use and maximum positive impact from the technology. DiscounTech differentiates itself by aligning its product distribution with unbiased product information and reviews, tools, checklists, resources and a community of more than one million motivated nonprofit technology users found on one of the most popular nonprofit technology information Web sites for nonprofits-- TechSoup.org. DiscounTech's customers are the decision makers at small- and medium-sized nonprofits who lack the time, knowledge, staffing, and resources to find, afford, and appropriately use the right technology products to fit their information management needs.

DiscounTech is operated by a non-profit organization, CompuMentor, whose mission is to enable the missions of other nonprofits through the effective use of technology. CompuMentor's core operations consist of related services that include nonprofit technology consulting services in the areas of technology planning, database planning and implementation, network and infrastructure installation, scheduled technical support services, and special practices for community technology centers, community health clinics, domestic violence agencies, and schools.

2.1 Mission

DiscounTech's mission is to help resource-strapped nonprofits free funds for direct service while furthering their organizational missions, improving productivity, and meeting their information management needs through affordable access to and effective deployment of technology. DiscounTech aims to do this by operating a sustainable technology donation distribution service that provides nonprofits with the greatest selection of technology products and services at the lowest possible cost, coupled with unbiased information and technical support.

2.2 Target Market

The total market for DiscounTech is the 1.6 million nonprofits in the United States. Each of these nonprofits shares needs for technology products to improve operations and impact programming and has a limited technology budget. General product offerings, such as printers or operating systems, are broadly targeted to this entire group. Bundling products from multiple vendors is planned to address more complex nonprofit technology needs. Within the total market, three market segments emerge with unique product needs and/or unique channels through which they can be reached: budget size, sub-sector, and geography.

2.3 Business Model

The high costs to technology companies for running their own donation programs and the lack of consolidated product availability for nonprofit technology consumers combine to create a viable market opportunity for DiscounTech. By establishing a centralized, information-rich location for product donations to be made available to nonprofits, DiscounTech bridges the gap between corporations and nonprofits to create a "one-to-many" relationship in lieu of the costly alternative of "many-to-many."

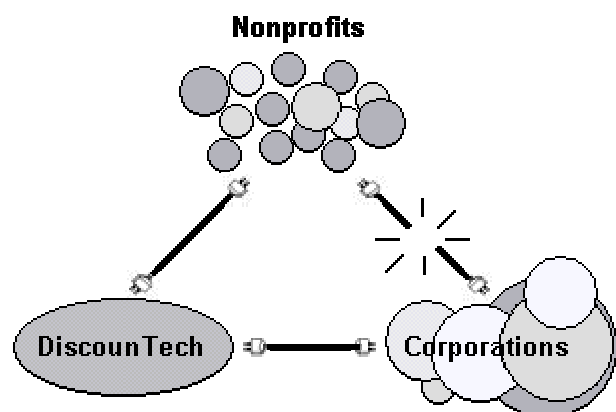


Figure 1. DiscounTech Market Opportunity

DiscounTech's business model has the unique characteristic of receiving products as donations, consequently inventory is not booked as an asset and there is virtually no cost of goods sold. DiscounTech generates earned-income by charging an extremely low but sustainable administrative fee for each item distributed. Operating costs are kept at a minimum by directing nearly all marketing and customer transactions toward one centralized point of sale located in cyberspace on a secure e-commerce Web site and by sharing critical resources with the parent organization.

DiscounTech's business model is predicated on an innovative "triple-win" strategy, which it uniquely created in this sector. This strategy actively creates value for each of the three primary stakeholders: receiving nonprofits, product donors, and its parent nonprofit.

Receiving Nonprofits, by their own account, enjoy easy and significant cost savings on high demand technology products and services that free revenues for other direct service expenditures. They also gain access to general technology information, decision support, and the opportunity to keep up to date with the latest technology. (See Appendix A: DiscounTech Registered User Survey Highlights.)

Product Donors gain access to a central resource connecting nonprofits nationwide to succinct information about the donating company's products or services; a major national platform that publicizes and promotes the corporation's giving programs; no cost outsourcing of product donation distribution and administration according to their guidelines; and the assurance that donations are combined with the information and resources found on www.techsoup.org so that they may be used to maximum effectiveness.

DiscounTech's Parent Nonprofit, CompuMentor, gains broader mission impact across the nonprofit sector while generating earned income to sustain its core operations. DiscounTech contributes to rather than competes with CompuMentor's related TechSoup services ; technology planning consulting, database planning and implementation consulting, network and infrastructure consulting, mentor matching, scheduled technical support, and in its special technology practices for community technology centers (CTCs), domestic violence agencies, schools, and community health clinics.

2.4 Product Offering

Products offered create a comprehensive response to a broad range of nonprofit needs including operating systems, office applications, networking equipment, Web site tools, media and design tools, hosted applications, database applications, online training, refurbished computers and credit card processing hardware. Future plans include the addition of more computer hardware, contact management applications, payroll processing services, printers, LCD projectors, and sub-sector focused solutions such as Electronic Records Management for community health clinics. (See Appendix A: DiscounTech Registered User Survey Highlights.)

2.5 Value Proposition

DiscounTech's unique value proposition is the ability to combine, under one service, the material benefits of vital product selection and low cost with the social benefits of informing, educating, and supporting nonprofits to make better informed technology decisions and more effective use of technology so that they might reap the greatest possible impact from technology in pursuit of their own unique missions and outcomes.

2.6 Business Objectives

- Distribute a total of **\$538M** in retail value of donated technology products to the nonprofit sector by FY 2005.

- Generate cumulative cash flow of **\$2.2M** by FY 2005 to support parent nonprofit's core mission sustainability and value-added services.
- Provide over **36,500** nonprofits with affordable access to technology products by FY 2005.
- Add **9-12** new product donors per year for a total of 37-43 FY 2005.
- Increase donation volume by **7%** from product donors by FY 2005.

2.7 Track Record

DiscounTech launched with 3 product donors in January 2002. In its first 14 months of operation, it has expanded to include 19 corporate product donors, more than 118 distinct products, and distributed 95,251 items to 10,533 nonprofits that saved \$42M off of the retail prices for these products. DiscounTech broke even in mid FY 2003 after distributing approximately 60,000 units.

The donation distribution model is based on a prior software distribution program that CompuMentor operated as early as 1989 when it received review copies of software from journalists and began distributing them to nonprofit clients during consulting engagements. In 1995, CompuMentor developed cautious product distribution partnerships with Microsoft and Lotus. This fledgling program enabled CompuMentor to forge the key corporate relationships that would later make DiscounTech possible.

In 2000, CompuMentor, launched www.techsoup.org. TechSoup.org published the know-how and expertise CompuMentor had gained in the field after years of performing on-site technology assistance in nonprofits. TechSoup.org created a unique technology information portal and online community where nonprofits could learn about and discuss technology issues relevant to their nonprofit experience. In each of its first two years, TechSoup was ranked No. 1 by the British organization IT for Charities in its resource list titled: "Top 10 Most Useful Technology Web Sites For Charities: 2001." IT for Charities says of TechSoup: "If you want to find out about IT information or resources for charities, then this is the place to go on the Web. A technology site dedicated to the non-profit sector and with a fantastic amount of the most useful and important information."

CompuMentor quickly recognized that combining its software program with TechSoup's online platform, its rich array of nonprofit technology information and resources, its growing online audience, and the distributed power of the Internet would enhance both programs dramatically. In January 2002, CompuMentor launched DiscounTech on TechSoup and transformed the previous model of software distribution to include a relevant context of nonprofit technology information and an e-commerce storefront that facilitates ease of use and removes geographic barriers to access. It also made possible a much broader array of leading technology companies as donors, the ability for smaller corporations to participate either as donors or discounters, greatly expanded product offerings, and improved mechanisms for customer relationship management and feedback.

2.8 Management

Prior to launch, CompuMentor's executive team had the vision and foresight to supplement its nonprofit experience with relevant business expertise. They recognized that key personnel would be needed who were capable of successfully managing an eCommerce business, its warehousing, inventory management and customer service operations and who could establish and manage strategic relationships with leading technology corporations. This led to two key hires: a General Manager and a Business Development Director.

The General Manager, Rebecca Masisak holds an M.B.A. from Columbia University and most recently held the position of SVP of Strategy and Operations with the largest privately held Internet and local telecom service provider in the U.S. The Business Development Director, Gayle Carpentier also brings 20 years of corporate sales and nonprofit marketing experience to bear to secure new product donations from technology companies. (See Appendix E: Key Staff Resumes and Bios.)

2.9 Critical Success Factors

DiscounTech’s long-term success will be determined by several critical factors:

- Obtaining a comprehensive selection of high-demand products
- Maintaining extremely low price points.
- Ease of use and a satisfying customer experience
- Brand recognition and high visibility to the nonprofits, product donors, and the general public.
- Excellent customer service and long-term customer relationship management
- Outstanding partner management
- Maintaining a consistent “triple-win” among the three primary stakeholders: receiving nonprofits, product donors, and DiscounTech’s parent nonprofit, CompuMentor.

3. Industry and Market Analysis

The nonprofit sector is one of the largest underserved business markets in America. (B2P, Solutions for the Nonprofit Sector). Over 1.6 million nonprofit corporations employ more than 10 million paid employees (Independent Sector). Nonprofits exist in all 50 states, with 10 states having the highest concentration (Philanthropy of the American Economy, 2000). Nonprofits also contribute a surprisingly large amount to the U.S. gross domestic product (6.7%) ahead of banking, technology, and the federal government (McKinsey & Co.). At an annual rate of 5.1%, the nonprofit market is growing faster than the national gross domestic product, which is growing at approximately 3.1% per year. (McKinsey & Co.)



The 10 States with the most Nonprofits

Map 1. Source: Council of Economic Advisers, Office of the President, Philanthropy in the American Economy, 2000

Few nonprofits have in-house technology personnel. In fact, only about one percent of tax-exempt organizations list a Top Technology Position on their IRS Form 990. (Guidestar). Technology decisions often fall to either “accidental techies” (i.e., staff members who happen to possess some computer knowledge and support the organization’s technology infrastructure in addition to their primary role, or senior management, frequently Executive Directors, who have limited time or technical knowledge.

National Nonprofit Sector Statistics	
Number (firms with more than one employee)	1,626,000
Spending (annual)	\$551.6 Billion
Growth (newly formed entities)	82,000 per year
Size (% under 100 employees)	82%
Contribution to Economy (% of GDP)	6.7%
Paid Employees (full- and part-time)	10,600,000
Income (annual revenues/income)	\$66.5 Billion
Technology (leading desktop software)	Microsoft: 90% Intuit: 21%

Table 1. Source: The Independent Sector

The nonprofit market is also fragmented across many sub-sectors. The National Taxonomy of Exempt Entities (NTEE) - Core Codes Reference Guide lists over 1,700 major separate classifications of US nonprofit types, such as public charities, private schools, foundations, healthcare providers, religious organizations, arts and cultural institutions, and human service providers. As a result of this fragmentation and the limited number of nonprofit channels,

businesses seeking to sell to nonprofits have found it difficult to target the nonprofit market economically and effectively. While a company might seek to reach all 1.6 million nonprofits, the only available methods to reach them have traditionally been fragmented into their particular service areas.

3.1 Market Trends

Mario Morino, Chairman of Venture Philanthropy Partners, Chairman of the Morino Institute, and a special partner at the private equity investment firm, General Atlantic Partners, sees a grave funding crisis ahead for the nonprofit sector. In a paper written in October 2002, Mr. Marino offers the following perspective:

“In the midst of a continuing economic downturn, a number of storm fronts have collided, reducing the supply of funding for many community-based nonprofit organizations and greatly increasing the demand for their services. The colliding fronts include the decline in public and private equity valuations, the implosion of the high-tech sector, the rise in unemployment, the expiration of welfare term limits, incongruously high housing prices, severe state budget shortfalls, and the new budgetary demands of domestic and international security.” (Source: *Mario Morino, The Perfect Storm, October 2002*--<http://www.vppartners.org/learning/perspectives/storm.html>)

Despite this crisis in funding, research suggests that nonprofits are nonetheless wired, willing, and ready to adopt Information Technology. Seventy-seven percent of human services nonprofits provide Internet access to their staff. Eight in 10 human services executives see information technology as a timesaving and production-enhancing tool and believe that improvements in their organizations' information technology would yield a wide range of benefits. (Source: *Princeton Survey Research Associates, December 2001*)

In such a climate, the smart, imaginative, and effective use of technology may be more important than ever. Nonprofits will have to accomplish more with less, reduce staff costs, and reduce technology costs, while simultaneously striving to continue to improve programs, service delivery, and social impact.

3.2 Market Factor: Technology Product Philanthropy

Key to addressing the technology needs of nonprofit organizations is understanding the role of Technology Product Philanthropy. Many technology companies donate products to nonprofits but find running in-house product donation programs costly and difficult to operate. Similarly, nonprofits find obtaining donations directly from companies time-consuming and difficult. Several factors make it hard for nonprofits to get donations the “old” way. In traditional product donation programs, a nonprofit would need to:

- Understand that they needed a technology product/service.
- Determine that the only way to get this needed resource was via a donation or negotiated discount.
- Research which firms would offer this option.
- Request an application to the donation program.
- Complete application forms and requirements – usually paper based and often involving dozens of pages and submitted copies of required documentation.
- Perform each of these tasks for each vendor of each product they wish to request.

The manual review cycle could take anywhere from weeks to months, during which time the nonprofit would have no idea of the status of their request. These difficulties are compounded by the fact that little or no consolidated product offerings exist for nonprofit technology customers.

3.3 Market Segmentation

The total market of 1.6 million U.S. nonprofits can be divided into meaningful market segments: using three segmentation approaches: budget size, sub-sector, and geography. With these segmentations, needs can be more effectively addressed by matching the right products with the right organizations. Many available outreach channels are aimed at a general nonprofit audience and certain technology needs are universal. For this reason it is also useful to consider the entire nonprofit sector when developing needs and targeting customers.

Budget Size

Based on data from GuideStar, nonprofits can be grouped into three segments by budget size. Over 94% of nonprofits have budgets under \$1M. Segmentation by budget shows correlation with the type of products that may be needed, and whether or not there is likely to be a dedicated technology decision maker. For example, budget size and organizational maturity will impact need for server-based products and more sophisticated networking and licensing solutions.

Number of Nonprofits by Budget Size		
Under \$1M	\$1-5M	Over \$5M
977,148	61,047	20,323
94.1%	5.9%	2%

Table 2. Source: Guidestar

Outreach efforts can also be effectively targeted to this segment, for example through direct mail and demographically targeted advertising.

Sub-sector

Sub-sector refers to the type of service provided by a nonprofit organization. According to a survey of 1 million IRS-recognized nonprofit organizations (GuideStar based on NTEE data), the four sub-sectors with the largest number of nonprofits, Human Services, Education, Public/Societal, and Health Services represent about 41.3% of all nonprofits.

Some sub-sectors require unique products and technology solutions. For example, Community Health Clinics share a common need for Electronic Medical Records (EMR) software that is compliant with The Health Insurance Portability and Accountability Act of 1996 (HIPPA). For the larger sub-sectors, there are also targeted outreach channels. By reaching the right organizations with the right products, DiscounTech can have a much greater impact on a nonprofit's core mission.

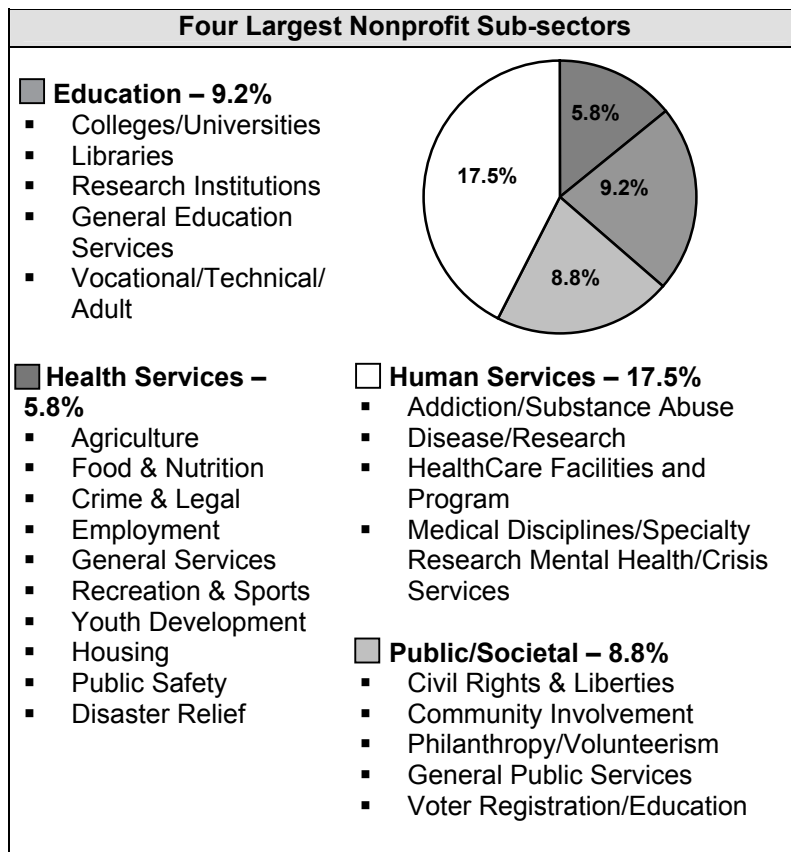


Chart 2. Source: Guidestar

Geography

Geography is also used to determine product needs. Rural and urban locations have different requirements for technology infrastructure and tools, as well as support and advice. For example, organizations in rural communities need wireless connectivity. Targeting rural locations is also a way to reach communities that are particularly underserved, increasing the overall impact of the donations. Geographic segmentation can also create greater opportunities to integrate technology products with local support content on TechSoup. For example, a nonprofit based in California's

rural central valley can order a computer on DiscounTech and then find a local technology consultant on TechSoup’s central valley resource list to help them install and maintain it.

All Nonprofits

All 1.6 million nonprofit organizations share the problem of having limited technology resources (time, expertise, and funding). They also share a need for many technology products and solutions, such as operating systems, printers, and office applications.

Across the market, additional global factors provide insight into behavior in this marketplace: decision maker, decision influencer, and technology capacity.

- **Technology Capacity:** Understanding an agency’s technology adoption capacity profile can help determine product offerings and outreach programs that meet their needs. Key indicators include: the number of technology-dedicated staff, the presence of computers and other technology infrastructure, and where the organization is in its technology lifecycle.
- **Decision Maker:** Those making decisions about the use of technology in nonprofits include: Top Technology Position, “Accidental Techies”, and the senior management of the organization, most often the Executive Director. Each has a large impact on the decision to use a service like DiscounTech, but require different modes and channels of communication. The “Accidental Techie” is a particularly important decision maker. This refers to staff member(s) or volunteer(s) who happen to have some computer knowledge and support an organization’s technology infrastructure in addition to their primary role. Most nonprofits rely on such a person to manage their technology due to lack of resources to hire full-time, professional technology staff. Though little hard data exists to describe this phenomenon, only about one percent of tax-exempt organizations filing 990 with the IRS, list a Top Technology Position. (Guidestar) This suggests what CompuMentor consultants have for years observed in the field -- that few organizations have in-house technology leadership.
- **Decision Influencer:** There are also two groups of key influencers when it comes to nonprofits filling technology needs: funders and technology/management support organizations.

3.4 Competitive Analysis

A handful of organizations provide technology products to nonprofits at charitable pricing:

Alternative Product Distribution Channels	Target Nonprofits Exclusively	Description
For- Profit Alternatives		
Consistent Computer Bargains	✓	For-profit charity pricing reseller. Discounts range from subsidized charity program rates (approximately 20% of retail) to promotional discounts of 5%-15% off retail costs.
TechMarketplace by TechFoundation	✓	For-profit organization offering very limited, specialized discounted and donated technology products for nonprofits; No online ordering functionality; Discounts vary depending upon vendor contract.
Other Charity Resellers		For profits that offer technology products that are specially discounted for nonprofits. Charity pricing is higher than the cost of donated products.
Other Commercial Retailers (Office Depot, Office Max, CompUSA)		For-profit resellers and retailers offering technology products at bargain or charity pricing rates; Costs linked to the vendor pricing programs – no additional cost savings come from the retailer on average.
Nonprofit Alternatives		
Gifts in Kind International	✓	Nonprofit serving nonprofits; Donated and discounted products, without a specific technology focus; Charges membership fee in addition to fees by product, no decision support or technical support. Minimum membership fee \$250. Lowest single product admin fee \$15.00.
DiscounTech	✓	Nonprofit serving nonprofits; Donated and discounted leading products; Technology Focus; Nominal service fees for products and no membership fees; Focus on customer service and technology education via connection with TechSoup.

Table 3. Source: DiscounTech market research

As indicated above, many of the alternative product distribution channels are for-profit resellers. DiscounTech is the only entrant in this market with exclusive product donation rights for Microsoft products distributed to nonprofits in the United States. Some organizations attempt to also serve this market, by positioning themselves as a central point of discounts for all nonprofits. This business model was most recently attempted by 501click, a for-profit venture. 501click found that gathering discounts alone was insufficient to bring nonprofits to their site and was forced to exit the market. Surviving entities combine either an extensive array of choices at low prices, or combine donations/discounts with extensive additional resources.

Gifts in Kind International

Gifts in Kind International (GIKI) is a large generalist product philanthropy organization providing discounted products to nonprofits in areas diverse as office supplies, building supplies, education/recreation, and consumer products. GIKI has international outreach in 10 countries through their connections with United Way. Though generalists, they carry tech offerings that include products from a range of technology companies. Hardware includes: 3Com, Nortel, PowerQuest, Used Computer Systems, and IBM used laptops. They have fairly high visibility and name recognition. Based upon information from current technology partners, GIKI does not provide technical assistance to the nonprofits that would acquire these products. This process can make selection difficult unless a user already knows what they want or need. Several product donors who have distributed donations through GIKI, and subsequently moved all or part of their donation programs to DiscounTech, say they have done so because they recognized the value added by TechSoup and CompuMentor's consulting services experience in providing information and technical support to the recipient. GIKI users must register with GIKI and pay a registration fee before they are able to access the majority of GIKI donation offerings.

Consistent Computer Bargains

Consistent Computer Bargains (CCB) is a for-profit reseller with a division called "CCBNonprofits". They target nonprofits exclusively and offer both software and hardware, but enjoy much better margins on software products and have moved their business mix in this direction. They currently have name brand software from Microsoft as a Charity Reseller, Macromedia (academic pricing only), Corel, MacAfee, Computer Associates, Cisco, and some smaller companies via their reseller channel. Their hardware discounts are not as great since they are a pass-through for Compaq, Gateway, and Acer. Hardware discounts have been the hardest for CCB to negotiate. CCB charges a \$5 handling fee on all purchases under \$500 plus \$4.95 for all license orders.

TechMarketplace

A project of the TechFoundation, TechMarketplace provides highly targeted discounted product offerings specifically for nonprofits. Current product offerings include WebEvent, WebEx, Mission Maestro, and Awards among others. An online ordering platform has been listed as coming soon for the last year of operation but is not yet in place.

Charity Licensing Resellers

A number of online technology stores have become licensed agents to distribute a separate category of low cost software charity licensing. Microsoft and Symantec have the most publicized programs that allow verified nonprofits to receive software at 80-90% off retail pricing. There are specific rules and restrictions regarding how this software can be acquired and strong dictates that products received under these rules cannot be re-sold or used by for-profit entities.

Other Commercial Retailers

Many nonprofits that are unaware of services such as DiscounTech turn to commercial retailers of technology products such as Office Depot, CompUSA, or a local computer store. These retailers cannot offer the same deep savings to nonprofits that DiscounTech offers.

3.5 Competitive Advantage

Strategic Alignment with TechSoup and CompuMentor

- Integration with TechSoup's rich array of nonprofit technology information, integrated product content, articles, resources, and installed user base of more than a million motivated seekers of nonprofit technology information
- Grounding in CompuMentor's deep in-house knowledge from more than 16 years of hands-on nonprofit technology consulting experience
- A nonprofit status that provides access to donations and first-hand knowledge of market that commercial competitors cannot match

Lowest Pricing Available

- Donation and Pricing strategies that ensure that products offered on DiscounTech are at or below the lowest cost available through alternative channels

Comprehensive Product Selection

- Exclusive product donation contract with Microsoft makes DiscounTech the only source for donated Microsoft software for small- and medium-sized nonprofits in the U.S.
- Comprehensive selection of high demand donated and discounted nonprofit technology products available addressing broad range of nonprofit needs: Operating systems, office suites, servers, databases, Web tools, accounting software, project management tools, intranets, donor management tools training, Application Service Providers
- Key product donation relationships with Cisco Systems, Symantec, Intuit, and other leading technology companies

Market Leading Customer Service

- Unique focus on combining technology products with decision support, customer service, and technical support
- 98% of customers agree strongly or somewhat that they will use DiscounTech again and 93% express satisfaction with the service overall
- Ease of use: clear eligibility requirements for each program and offering, Web-based registration and instant access to product offerings
- No membership fees
- Access to TechSoup community and resources
- Exclusive focus on technology
- Responsiveness to donor requirements as they evolve over time
- Typical order fulfillment turnaround time of 24-48 hours

Proven Experience

- Proof-of-concept in inaugural year
- Established customer base from CompuMentor's prior offline software program, TechSoup users, and first year of operations
- Experienced management team

3.6 Market Share and Buying Behavior

Since its launch in January 2002, DiscounTech has garnered 17,142 registered users. This represents a market share of less than 1.25% with great potential for growth. Of registered users, 10,533 nonprofits have demonstrated willingness to pay approximately \$5.7M for the distribution of 95,251 products.

Survey data from September 2002 shows the following:

- 95% agree strongly that the DiscounTech platform saves their organization money.

- 98% agreed strongly or somewhat that they will use the service again.
- 93% agreed strongly or somewhat that DiscounTech “charges reasonable fees for its products and services.” (See Appendix A: DiscounTech Registered User Survey Highlights.)

Lastly, 71% reported they considered DiscounTech better than all other providers when asked, “In general, how would you say DiscounTech compares with other services or retailers you use for technology purchases (including major retailers like CompUSA and all other providers of technology products/services)?”

Of non-purchasers, only 4% cite lack of funds as the reason for not buying. Other users state that they need software or products not currently available on the service. Most commonly requested items are software for Macintosh computers, Adobe software, and an array of hardware that includes requests for lower priced laptops/desktops and printers. Users also request very specific software for their industry, detailed reporting and tracking tools, and a wish for DSL or other broadband connectivity. (See Appendix A: DiscounTech Registered User Survey Highlights.) The current DiscounTech business plan projects that market share of approximately three percent will be achieved over the next three years.

3.7 Product Needs and Interests of Customer Base

In the September 2002 survey, a statistically significant sample of registered DiscounTech users indicated over 30 specific software needs in an open-ended question. The top five hardware and software needs are shown in the adjacent charts.

In February of 2003, Microsoft offerings were enhanced to include more office applications, server products, and databases. As part of this product offerings change, Operating Systems that had been available were reduced, leaving only an upgrade version currently available. This change created an unmet need for those nonprofits that use older, donated machines without installed operating systems. Design of a separate program with Microsoft to meet these needs is underway and expected to be operational by June 2003.

With the above changes as well as the addition of Macromedia products in March 2003 – these top-five software needs will be substantially met. Other products/services that are of a high level of interest include: broadband connectivity at 68% and book-based technology training at 64%.

(See Appendix A: DiscounTech Registered User Survey Highlights.)

To meet this first need, negotiations are underway with two leading US telecommunications companies to offer connectivity along with bundled offerings that combine connectivity, networking, and computers. To address the second need, discussions have been initiated with major book-based technology firms to explore acquiring donated editions for re-distribution and with hands-on training to supplement the online training already available on DiscounTech.

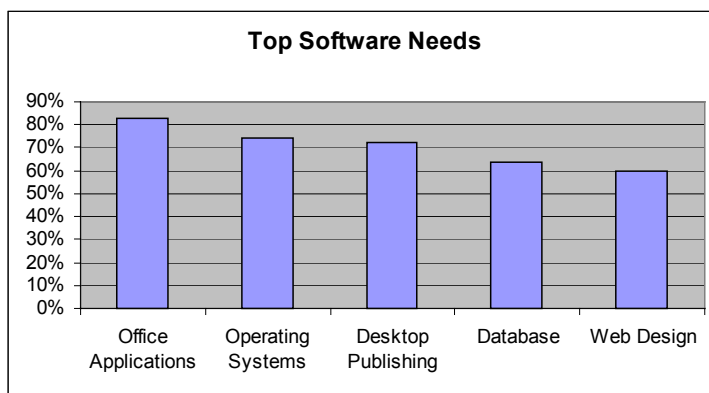


Chart 3. Source: Appendix A: DiscounTech Registered User Survey

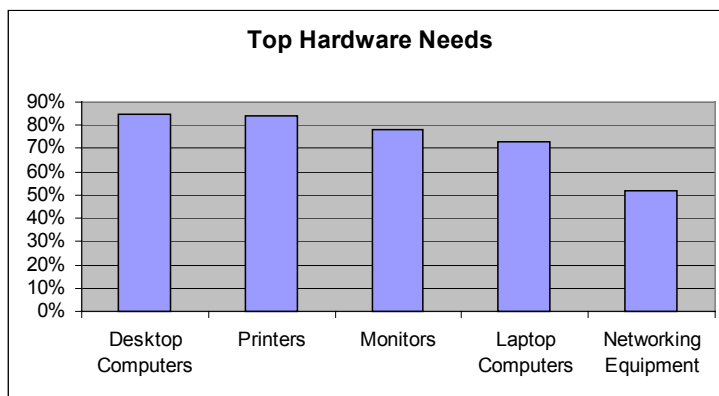


Chart 4. Source: Appendix A: DiscounTech Registered User Survey

4. Marketing Strategy and Plan

In the first year of DiscounTech operations, the outreach strategy focused on converting customers from the previous software program, and using proprietary channels to cost-effectively acquire targeted new customers. These channels included: the TechSoup Web site and weekly e-newsletter "By the Cup", CompuMentor's Web site, and print newsletter. Public relations activities were also pursued. This outreach, plus word-of-mouth and customer satisfaction, drove referral and repeat visits. In FY 2003, an investment in advertising grew to ensure orders every month and build a base of new customers. In FY 2004 and FY 2005, two key strategies will be pursued: leveraging the larger customer base to grow orders less expensively through repeat and referral visits; continuing new customer acquisition by using alternative channels that expand reach and target key audience segments. The service will also be renamed and repositioned for long-term success, so that it better reflects its mission and important relationship with TechSoup.

Positioning and Branding

Although the service grew consistently since launch, and nonprofits surveyed were very satisfied, key stakeholders began to express concerns about the name and positioning of DiscounTech. Some partners felt that the DiscounTech name was too commercial and did not represent their philanthropic intentions. A few donating partners were frustrated that their greater contributions were being presented equally alongside discounting partners. Internally, concerns grew that DiscounTech was perceived as too separate from TechSoup and that it was not adequately reflecting its social purpose.

As a result, and with an eye towards building the TechSoup brand long-term, the service will be renamed and repositioned. The new name will achieve the following goals for the service: fit more conceptually with TechSoup; be positioned as a special service of TechSoup; communicate that the service is philanthropic in nature; give special recognition to donating partners. This positioning will be carried from the name through the Web site screens and into outreach messages. Success will lie in finding a name and a positioning that balances the concerns of all stakeholders: donating and discounting partners, nonprofits, and the internal organization. A re-launch is scheduled for July 2003.

4.1 Product

DiscounTech currently has over 118 products from 19 vendors. (See Appendix B: DiscounTech Product List.) Discussions are currently underway with a wide array of industry technology leaders. One focus is to complete the common product set that most nonprofits regardless of segment are likely to need. Adding better PC options, printers, Personal Digital Assistants, projectors, and other commonly requested products would help further round out the product set. A second focus will be the development of product bundles from multiple vendors packaged with support and services that present a more of a solution to nonprofits.

The One Economy / Cisco bundling pilot is an example of a sub-sector focused solution. DiscounTech is working with One Economy (a national nonprofit focused on bringing access to technology to low-income housing residents), Cisco, and other potential donors to combine donated networking equipment, wiring and access with networking installation and training and make it available on DiscounTech for qualified low-income housing contractors. CompuMentor may also supply hands-on consulting services in the Northern California region together with Access One, a joint venture of One Economy that specializes in subcontracting for network installations. As this offering evolves, donated computers, monitors, wireless components, printers and DSL connectivity -- even standard or fiber optic cable -- may be added. Once the concept has been proven effective with the low-income housing sub-sector, the plan is to explore other bundled

solutions with nonprofit and profit partners in other segments, either by vertical classification, by organizational size, or by location.

4.2 Distribution

Customers access the products available on DiscounTech through an online application that allows for a streamlined, user-friendly method for nonprofits to acquire donated products and services. Anyone can browse the site and the product catalog, including eligibility rules. An individual must create an ID and be associated with a registered organization to place an order. DiscounTech also has a quarterly print catalog that is been mailed to approximately 13,000 registered users.

Nonprofits who approach DiscounTech, either through phone, email or other methods are guaranteed to reach a service representative who can either answer their questions, or can direct them to an increasing number of online, print or other resources to help them make sensible, well informed, technology selections for their organization.

Technology products currently on the site are distributed to customers in a variety of ways. For some products, an email with instructions on how to download the software is sent to the customer and an email to validate their order is sent to the vendor partner. Some products are provided by Application Service Providers. For these offerings, a DiscounTech staff member will create an account with the donor partner and notify the customer by email how to access their new account. The Microsoft offerings are now supplied through their eOpen Licensing program. Orders are uploaded from DiscounTech to Microsoft's Order Entry Tool and an account is created for the customer. This account information is downloaded into DiscounTech's system and a customer email is automatically generated. Customers must then visit a Microsoft website to install their licensing. Media orders for this licensing are requested through the same Microsoft Order Entry Tool, but are mailed by Microsoft's fulfillment house directly to DiscounTech customers. Other products, such as Symantec's, are warehoused and involve picking, packing and shipping by DiscounTech staff. Lastly, products, such as refurbished computers and networking equipment, are warehoused by the vendor. DiscounTech staff qualifies customer orders and sends them, in spreadsheet form, to the vendor partner for fulfillment.

4.3 Pricing

DiscounTech's goal always will be to provide technology to nonprofit organizations with the knowledge, training, and guidance to use it well. Making nonprofits take technology donations seriously through a small financial commitment is part of that process. Feedback from the sector has shown that this financial aspect not only motivates a nonprofit to use their donation, but also gives them a very real and tangible understanding of its real value to their organization. When nonprofits consider the administrative fee and the ease and speed with which a product donation can be obtained through DiscounTech as compared to the typical direct corporate philanthropy donation program, the administrative fees and service of DiscounTech represent a solid value proposition for them.

The cost to nonprofits for distribution of products found on DiscounTech is referred to as an Administrative Fee. Administrative Fees are uniquely set for each donation prior to its launch on the DiscounTech site and are based on recovering costs at a projected volume of distribution.

Considerations include, but are not limited to negotiation and scoping, project planning, market analysis; rollout – ongoing administration (marketing, public relations, surveying, etc.); customer service (training, preparation and actual nonprofit interface); DiscounTech Website and systems (new technical components required/site improvements including ordering and reporting systems.); and additional custom expenses (TechSoup special content development).

The final price point varies tremendously depending upon the desired outcomes and complexities of a particular donation program. However, on a general basis, a fee of 3-35% of retail pricing equates to a substantial savings for a nonprofit and serves as a measurable commitment to a new technology tool or service.

An on-going percentage of Administrative Fees also directly supports the hands-on technical assessments, improvements, and trainings delivered to nonprofits by CompuMentor's own consulting staff as well as the development and maintenance of the TechSoup website content and community. As a result, technology donations are better targeted, will have great impact, and benefit donor brand.

4.4 Promotions Plan

This promotion plan highlights four key marketing strategies. These strategies are designed to reach DiscounTech's target audience segments using a mix of marketing vehicles and messages as well as the nonprofit audience as a whole.

As illustrated in the chart below, traffic from advertising and loyalty programs has increased as percentage of overall site traffic since launch. During this time period, the business has grown significantly. Promotion strategies are based, in part, on insights gained from past experience, and an understanding of the nonprofit marketplace.

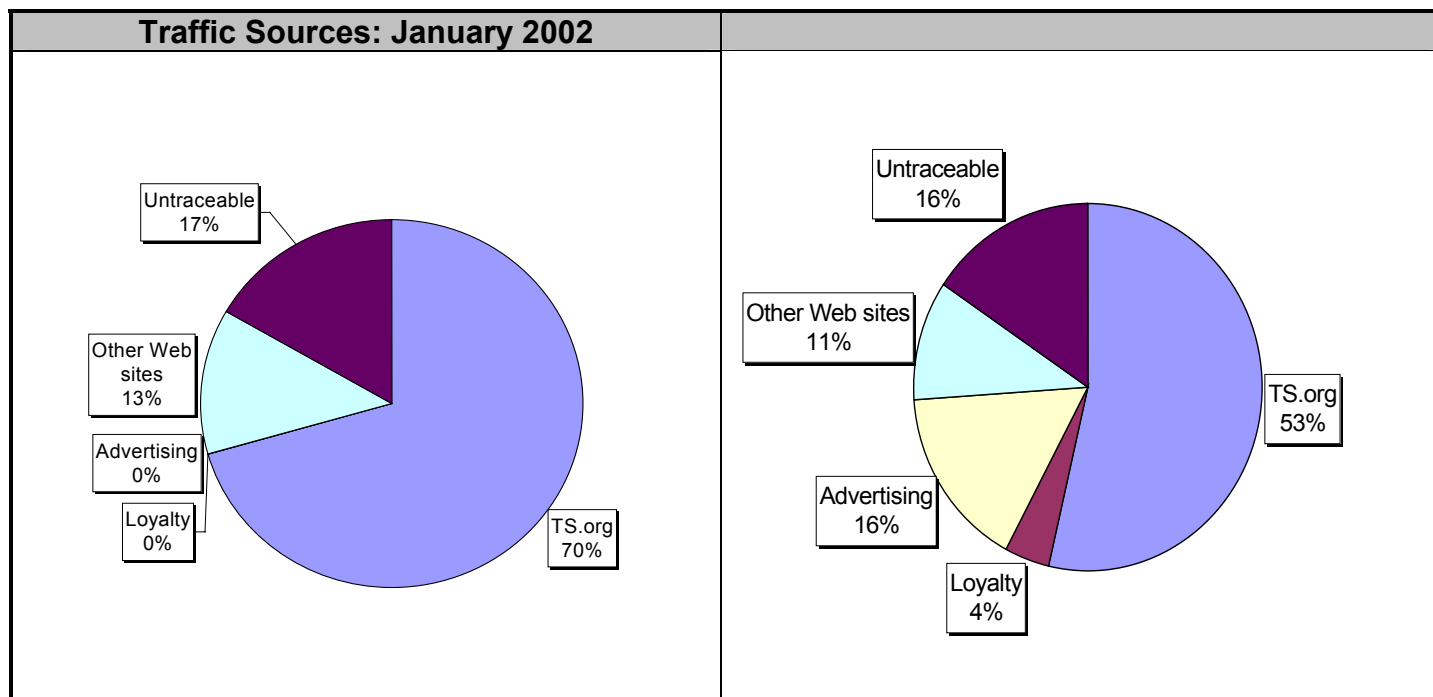


Chart 5. Source: DiscounTech traffic sources

Key Marketing Strategies

TechSoup.org

TechSoup is a vital part of the promotion strategy. Largely through an extensive network of links on targeted websites, it has grown to become one of the largest and most well respected online channels in the nonprofit sector. TechSoup properties include the website and "By the Cup", TechSoup's weekly e-newsletter. Because this is a proprietary channel, it can be used to reach an audience very effectively and inexpensively. TechSoup reaches the "All Nonprofits" audience. Emerging sub-sector content (e.g., CTC) and geographic content (e.g., TechSoup Local Editions) will also enable promotion of DiscounTech to these targeted audience segments. Going forward, there are three initiatives for optimizing TechSoup as an outreach channel: integrate DiscounTech

more tightly into TechSoup's content so there are more points of entry to the product distribution service; revise the TechSoup membership concept to include DiscounTech more effectively; choose a new name for the service that works well with TechSoup.

Marketing Partnerships

Partners are very valuable sources of traffic that have great potential for growth. Visitors from these sites are highly qualified, they come with the partner's endorsement, and historically costs to DiscounTech have been very low. Currently, this traffic arrives at DiscounTech through two different sources represented on the earlier chart: Other Web sites, and Untraceable.

Partnerships can be very time consuming to develop and maintain, however, so their outreach potential has not yet been fully realized.

To cast the widest net most quickly and efficiently, a self-serve linking program will be implemented. This will enable partner sites to link themselves directly to DiscounTech for free. Partners can download copy, logos, and trackable links that best fit their site environment.

Deeper partnerships can take many forms. The linking program can be expanded to become an affiliate model, possibly including revenue sharing. Co-marketing programs, such as direct mail efforts or advertising campaigns, can be developed with a wide range of partners to reach all target segments. Potential partners include: other nonprofit product/service providers (e.g., Blackbaud), nonprofit information sources (e.g., Nonprofit Times), state nonprofit associations (e.g., California Association of Nonprofits) and sub-sector association groups (e.g., American Public Health Association). Partnerships with nonprofit influencers – the funding and technical assistance provider communities - can also be developed. And partnerships can be developed with large nonprofits that will directly endorse DiscounTech to their staff. National organizations that have local affiliates, such as the United Way, the Red Cross, and Habitat for Humanity are examples of this partnership type.

Advertising

In FY 2003, since establishing the business and meeting monthly revenue goals was key, advertising was the primary promotional strategy. Efforts have reliably ensured that each month, a certain number of visitors would arrive and convert into a certain number of customers.

Building on a donated banner ad campaign from FY 2002, the majority of DiscounTech's initial online advertising appeared in nonprofit-facing vehicles such as Nonprofit Times, Philanthropy Journal and Charity Channel. Creative included banner ads, e-newsletters, and direct emails. After saturating those vehicles, an expansion into general audience online media targeted by psychographics and lifestyle was undertaken. These media included: technology (e.g., CNET, Information Week); online newspapers (e.g., politics, education); and "social change" (e.g., Mother Jones, About.com's environmental section). Traffic from this advertising effort grew from 0% to 16% of total traffic to DiscounTech.

Going forward, emphasis on advertising activity will be decreased as other traffic sources are established. Advertising will remain an essential outreach strategy, but its role will change. A baseline level of cost-effective online advertising will be maintained, so a presence in key spaces is constant. Offline vehicles will be added, such as print advertising and direct mail to the mix. These vehicles are more expensive and so they will be used tactically, such as when there is big news to report or in support of a larger outreach effort. This type of advertising will also be continued as a brand builder to reinforce DiscounTech's positioning to both prospective and current customers.

Customer Loyalty

Given the low cost of retaining current customers and vendor restrictions that limit how often a nonprofit can request a donation, loyalty programs are crucial to success. In FY 2002, building on a base of customers who used the previous software program, orders by repeat customers

accounted for 40% of total orders. In FY 2003, an e-update was developed just for current DiscounTech customers, links from which currently make up 6% of all traffic to DiscounTech.

Loyalty programs can be designed to encourage different types of purchasing behavior, such as product upgrades and cross-purchasing of complementary products. Loyalty programs will be based on three key attributes: customer status, product interest, and audience segmentation. An example of such a loyalty program would be to create a program for CTCs who have already made a Microsoft donation request and can now be offered an hour of complimentary technology planning related to their purchase. Loyalty programs can also be built on providing rewards and incentives including: early new product notifications and the ability to reserve products in advance; previews of new products; “special offers” (e.g., free shipping); and promotions (e.g., free technology planning services, promotional items such as TechSoup t-shirts and mugs). Another way to reach current customers is through the quarterly DiscounTech print catalog, which works as both an ordering channel and a reminder to current customers. This publication will be redesigned to reflect the new name and positioning, and it will have a higher level of design and production quality. (See Appendix F: Marketing Materials.)

4.5 Market Plan Target Audience, Assumptions, and Definitions

Target Audience

The total market for DiscounTech is the 1.6 million U.S. nonprofits. All nonprofits share characteristics of needing technology products to improve operations or impact programming, and having limited budgets for technology products. General product needs – such as printers or operating systems – can be broadly applied to this group. From the total market, the three market segments previously identified -- budget size, sub-sector, and geography -- will be used to design new product offerings and more targeted promotions.

Assumptions and Definitions

Customer Source Type

A customer is defined here as a nonprofit that will place an order in a given time period. Therefore, at any given time DiscounTech will have more registrants than customers.

	New/ Paid	New/ Referral	Repeat	Total
FY 2002	30%	30%	40%	4,573
FY 2003	40%	27%	33%	12,209
FY 2004	34%	30%	36%	16,770
FY 2005	27%	33%	40%	20,784

New customers are acquired in two ways. “New/Paid” are acquired through paid outreach channels. “New/Referral” are acquired through referral programs at no or low-cost. Repeat customers are in addition to new customers. They have placed an order in a previous time period.

In FY 2003, the percentage of total new customers (New/Paid and New/Referral) increases from 60% to 67%, as a heavy investment in paid advertising is made. In FY 2004 and FY 2005, this larger base of new customers drives increases in Repeat customers and New/Referral customers.

Cost of Acquisition

Cost of acquisition is the total cost to acquire someone who places an order. The cost includes all marketing resources (e.g., staff time, media buys, creative fees). When all customer source types are combined, the cost of acquisition per customer is within a reasonable range: \$10 to \$16. Costs increase in FY 2003 as heavy investment in paid advertising to acquire more new customers is made. In the following two years, costs decreased for three key reasons: paid advertising becomes more effective with brand recognition and more efficient buys; less expensive, but harder-to-develop channels for new

	Total Active Customers	Cost
FY 2002	4,573	\$11
FY 2003	12,209	\$16
FY 2004	16,770	\$13
FY 2005	20,784	\$10

customers are accessed; and repeat and referral customers increase.

Looking at the cost of acquisition by customer source type reveals important insights. "New/Paid" costs are highest due to a number of factors: a highly fragmented audience, few targeted channels, a reliance on relatively expensive 'offline' channels, an infrequent purchase cycle, and a concept that's challenging for the audience to understand. "New/Referral" costs reflect a cost for running referral reward programs. "Repeat" costs reflect staff time to develop and maintain email loyalty programs, occasional promotions, and similar low-cost outreach.

	New/Paid	New/Referral	Repeat
FY 2002	\$28	\$3	\$4
FY 2003	\$35	\$3	\$4
FY 2004	\$27	\$4	\$5
FY 2005	\$23	\$4	\$5

Conversion

Conversion refers to the process of converting visitors to the site into paying customers. It begins before a visit and ends with placing an order. Experience to date has yielded a good understanding of how many online impressions are needed to generate a visit: DiscounTech's average click-through rate, across all vehicles and all targets, is 0.6% (compared to an industry average of 0.3%). Tracking what happens once someone visits the website, however, is not currently possible. A conversion rate is therefore calculated as the percentage of visitors that place an order during the projected time period.

	Conversion Rate
FY 2002	1.6%
FY 2003	3.3%
FY 2004	5%
FY 2005	7%

The tracking tools needed to identify a visitor by their source type are not available. Therefore, the conversion rate is an average of the rates for the three customer source types. Over time, as new customer marketing becomes more effective and the customer base grows, the conversion rates are expected to increase overall.

4.6 Performance Milestones

The impact of the marketing plan will be measured against certain performance milestones:

Performance Milestones – Donation Acquisition	
Units distributed	Approximately 390,000 units of technology products and license by FY 2005
Sales growth	From \$1.2M in FY 2002 to \$8.3M in FY 2005
Avg. Yearly Spend per Customer	Increase from \$271 to just under \$400 by FY 2005
Customer Conversion Rate	Increase from 1.6% in FY 2002 to 7% in FY 2005
New Corporate Donating Partners	Add 9-12 new vendors per year for a total of 37-43 by FY 2005
New Donations from existing partners	Increase donation volume including new donated items and increased numbers of existing donated items by 7% by FY 2005.
Increase in each donation sectors with growth in product and vendor categories:	
• Hardware:	Add 3-5 hardware vendors per year with avg. of 7 new products per vendor
• Software:	Add 4-5 new software vendors per year with avg. of 11 new products per vendor
• Connectivity:	Add 1 new broadband vendor per year with avg. of 5 new offerings per vendor
• Training:	Add 1 training vendor per year with avg. of 9 new offerings per vendor.
Social impact	<ul style="list-style-type: none"> \$538M total retail value of product distributed to the nonprofit sector \$225M in estimated cost savings to nonprofits

Table 4. Source: DiscounTech marketing planning

5. Management Plan

DiscounTech management supplements CompuMentor's nonprofit know-how with vital expertise from the business world. Key positions are staffed with consummate business professionals equipped with the experience and skills necessary to successfully run an eCommerce business, its warehousing, inventory management, and customer service operations, and who are capable of

establishing and managing the strategic relationships with leading technology corporations that will be crucial to the venture's success.

5.1 Relevant Business Expertise

Director and General Manager

Rebecca Masisak, Director and General Manager of DiscounTech, is a Columbia M.B.A. with over 20 years of business experience including 1.5 years as Senior Vice President of Strategy and Operations with the largest privately held Internet Service Provider and Competitive Local Exchange Carrier (ISP/CLEC) in the U.S. with operations in 8 states and more than 250,000 customers. She also has 5 years as a small business CEO, 9 years in management consulting and training, and has served for 5 years as a nonprofit board treasurer. Her proven track record of results includes:

- SVP Strategy and Operations reporting to CEO for \$75M rollup of 49 Internet Service Providers and 5 CLECs. Responsible for MIS, call centers, billing, online product launch and human resources.
- Acting General Manager of merger of 3 ISPs during integration.
- Ran and grew small business, a custom neon sign shop, by 40% over 5 years.
- Managed start-up, \$10M consulting services business unit.
- Managed \$15M strategic, high-potential client account and led over 2 dozen project teams of professionals to deliver complex strategic business and technology solutions.
- Launched \$13M capital project for CLEC/ISP Operational Support Systems.

Business Development Director

Gayle Carpentier, Business Development Director, brings more than 20 years of experience in corporate sales and a deep understanding of the nonprofit market and the technology product landscape. Gayle has led strategic efforts to develop Web-based services and publication businesses. During that time she was instrumental in crafting multiple national partnerships between for-profit and nonprofit entities. In addition to her full-time position as Business Development Director, Gayle is also co-owner and president of VYC, Inc., a private company specializing in developing advertising, sales and business development programs for regional and national businesses. (See Appendix E: Key Staff Resumes and Bios.)

5.2 Commitment and Coordination with Parent Nonprofit

DiscounTech is an integral part of CompuMentor, not only as a source of earned-income, but also as a key member of CompuMentor's family of programs. The Board of Directors of CompuMentor is strongly committed to DiscounTech. DiscounTech is woven throughout CompuMentor's service strategy as the best way to put technology tools into the hands of clients. CompuMentor's other services all relate to one or more facets of understanding which tools are right for an organization, customizing the tools to meet unique needs, implementing them successfully, training in their use. In this way, DiscounTech contributes to rather than competes with CompuMentor's other programs. The sharing of critical resources also minimizes duplication of costs between the program and the parent organization.

The Director and General Manager reports directly to CompuMentor's Executive Director and oversees all aspects of DiscounTech with primary responsibility for product implementation, marketing strategy, finances, and operations. The Director and General Manager oversees 5 managers: a Customer Service Supervisor responsible for all customer service and fulfillment staff (currently 5), 2 Project Managers overseeing the product implementation process, and an Inventory and Reporting Manager who works on the product catalog, inventory management, receiving, reporting and facilities, and a Systems Analysis and Administration Manager who

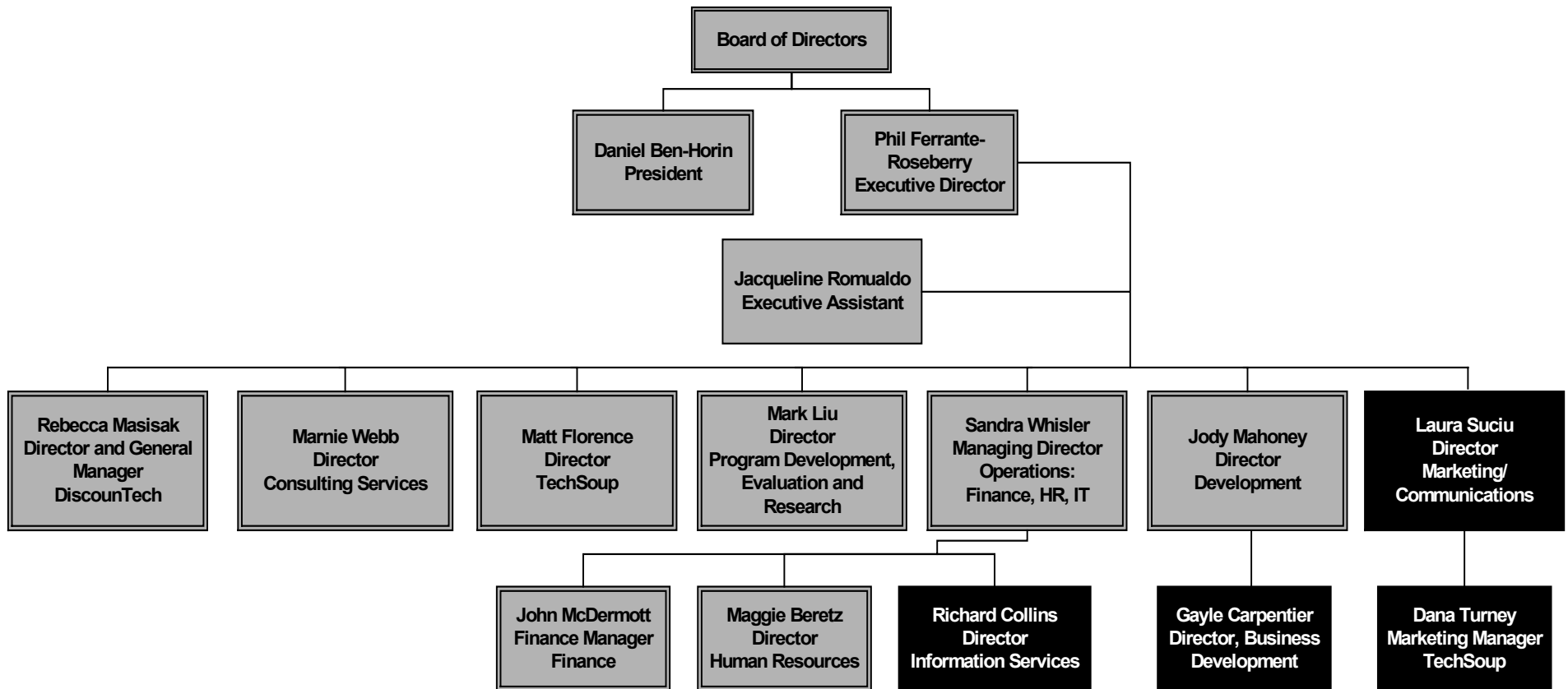
coordinates process and technology support needs with CompuMentor's information technology staff. (See organizational charts below.)

CompuMentor shares support services to DiscounTech for Marketing, MIS, Accounting, Administration and Human Resources. Their time is charged to DiscounTech via a common time reporting system where these costs are tracked and reported quarterly. As the business grows new staff will be added as needed. Contract staffers are added on an as-needed basis for tasks such as product implementation. In order to attract and retain competent staff, CompuMentor provides a flexible and enjoyable workplace and has raised its pay scale to narrow the gap with respect to corporate job opportunities requiring similar skills. (See Appendix D: CompuMentor Board of Directors and Appendix E: Key Staff Resumes and Bios.)

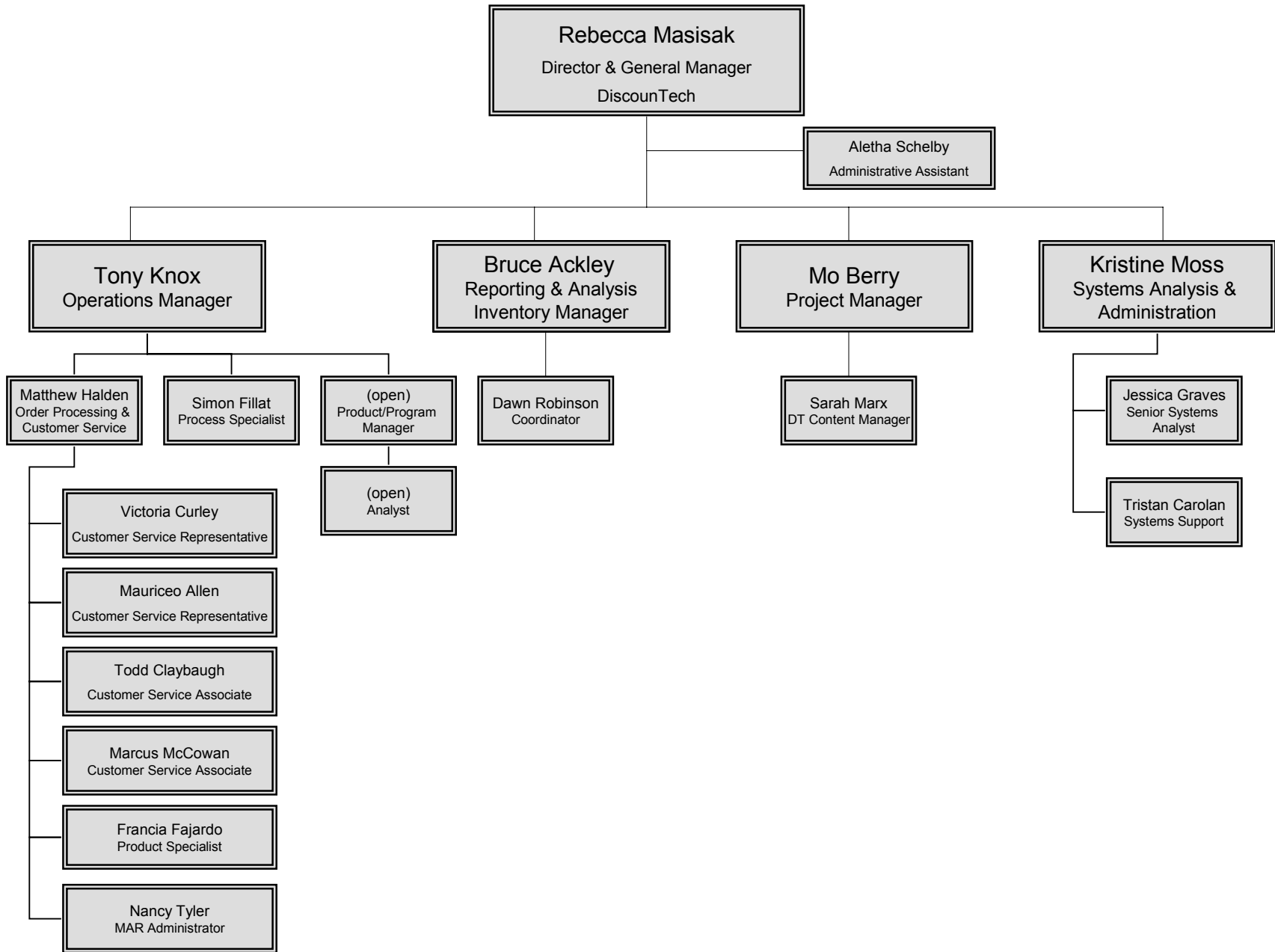
5.3 Business Management Structure

DiscounTech Within CompuMentor

Note: Black boxes represent resources heavily shared with DiscounTech):



DiscounTech Organizational Chart



6. Operations Plan

DiscounTech operations take place in cyberspace and in a 4800 square foot warehouse facility in San Francisco located around the corner from the offices of its parent organization, CompuMentor. The cyberspace half of DiscounTech 's operations take place on a Microsoft eCommerce Server platform with a dynamically driven Website supported by a SQL database. The DiscounTech Website is part of TechSoup, a national nonprofit technology information portal. Both Websites are hosted in a carrier class facility located in San Jose and operated by Verio. CompuMentor's technology team manages the servers remotely over a Virtual Private Network (VPN).

6.1 Supplier Acquisition and New Product Implementation

The process of initiating a new donor or discounter relationship and implementing a new product donation program on DiscounTech involves an analysis of market information, in-house expert feedback, financial projections, and a solid exploration of how the donation meets program goals. Prior to accepting a product or service factors such as the importance to the nonprofit sector; specific guidelines involved in the donation under consideration; number and description of items being donated; term of donation; and the ability of DiscounTech to provide support and implementation guidance for this product/service are reviewed in depth.

Once a decision has been made to move forward with a new vendor/donation relationship, a Memorandum of Understanding with the product donor typically is created to define the offering and the relationship. The agreements normally include the guidelines for each donation or discount featured offering on DiscounTech for one year. The donations are subject to the guidelines of the donor and amounts may be reduced or even withdrawn depending upon the donating company's financial status and performance. Even negotiated nonprofit discounts may be withdrawn if the company in question feels it can no longer offer a product for a smaller profit margin. Although most donors have established regular product donation cycles, delays in order fulfillment do sometimes occur.

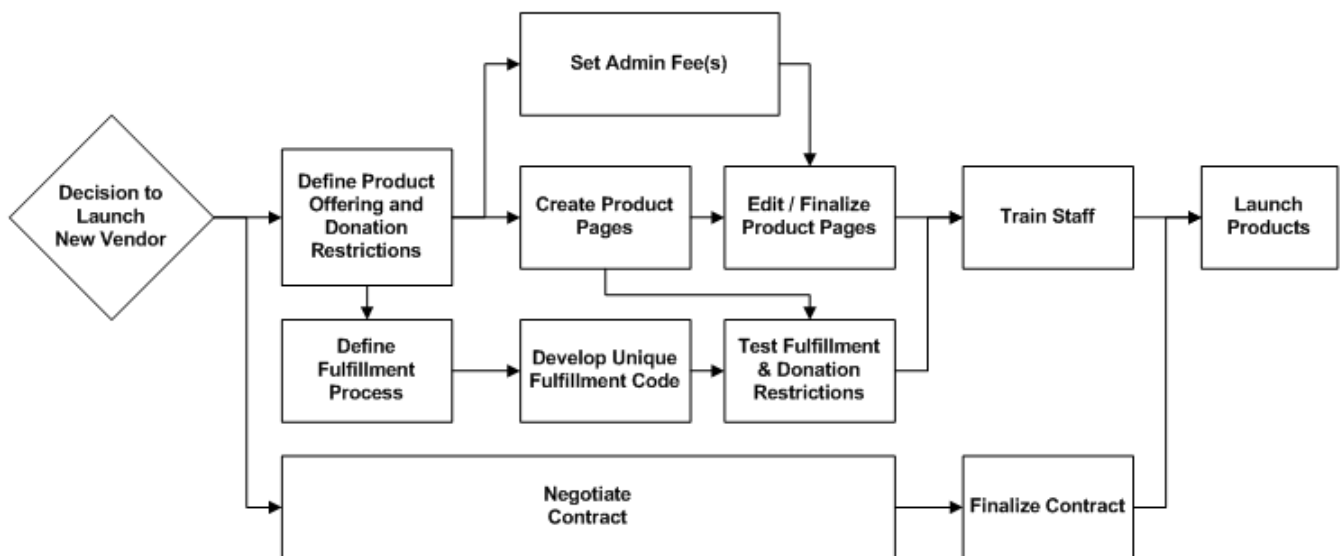


Figure 2. New Product Implementation process

The process of implementing a new product involves creating product description and image content for the DiscounTech website and programming eligibility restrictions. This may involve enhancements to underlying systems. Order qualifying and fulfillment processes need to be established and staff trained in the new process and the new product itself. Marketing

Communications consider when and how to announce the new product – via the “By the Cup” email newsletter or a special product announcement email or with a targeted email to customers who have expressed interest in the past. Sales volumes have to be forecasted for the product(s) and an initial inventory established for those products that are warehoused. Lastly, administrative fees must be set that reflect recovery of implementation costs and operating costs at the projected volume. The chart above illustrates this process, which typically takes from 2 weeks to 3 months, depending upon complexities.

6.2 Ordering, Customer Service and Fulfillment

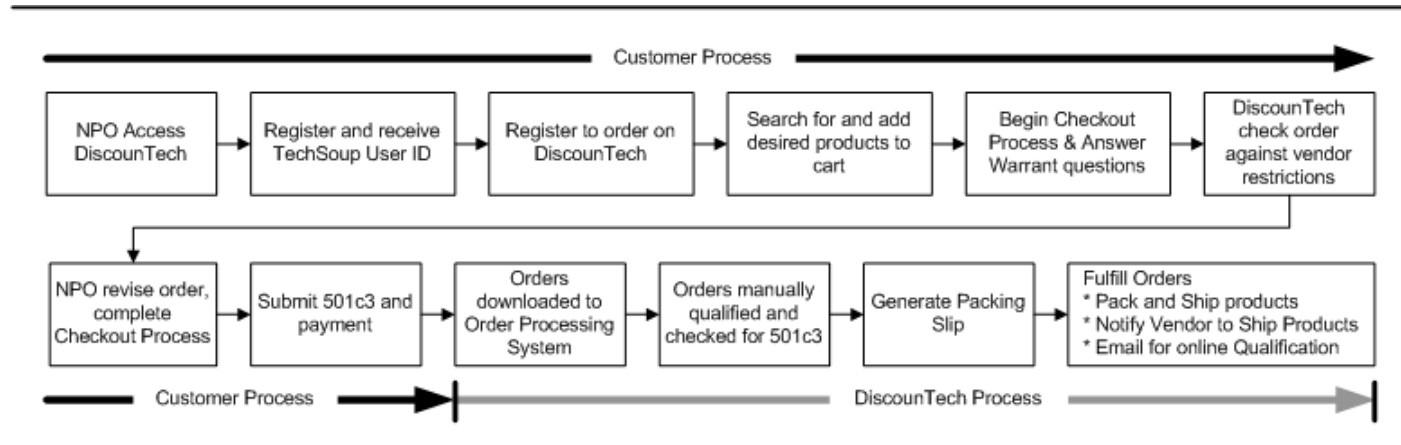


Figure 3. Product Ordering Process

The above process illustrates the steps customers follow to order donated products on DiscounTech and the steps that go on at DiscounTech to complete the customer’s request.

Nonprofits come to TechSoup and to the DiscounTech portion of the Website to research technical needs, understand technology products, converse with colleagues on technology issues, read product reviews, find out about affordable sources for technology products and services and review case studies. On DiscounTech, nonprofits are invited to create a personal user ID, a myTechSoup ID and password, and then to register their organization. A myTechSoup ID entitles an organization to participate in message board discussions and to be authorized to request product donations on behalf of their organization. To register an organization, information is entered such as Employer Identification Number, Organization Name and Address, Organization Type, Annual Budget, etc. This information is later used in order processing and is used to determine the eligibility of the organization for available product donations.

Nonprofits visiting the site then explore the product catalog and after making a selection, begin a 6-step, easy-tabbed checkout process.

Technology Support Organizations, consultants and volunteers who may work with many nonprofits can register and order for multiple organizations. Although the DiscounTech Website is built on a secure server that is fully integrated with VeriSign for credit card payments, customers are offered maximum flexibility in payment methods and can order online and mail a check. No order will ship without payment in full.

During the checkout process, vendor and product restrictions are applied to the order. Each vendor who has donated or discounted product available on DiscounTech can establish unique product distribution rules. They can specify the type of nonprofits that can qualify for the products as well as the number of products that can be obtained over a given period of time. For example, for Microsoft products, the new program allows any nonprofit who is a registered 501(c)(3) and is not a religious organization, for example, to order one each of up to six different Microsoft products and up to 50 licenses per product during a two-year period. The Website has these business rules

programmed so that an organization's order history and record are instantly reviewed online to determine if they have been qualified in the past and are now eligible to order.

After ordering, users can also complete several other functions online, including checking their order history and status, canceling orders, modifying their organization's profile, and signing up for the program's weekly email newsletter, "By The Cup."

The shopping-cart process, which lasts approximately 15-20 minutes, is where DiscounTech's cyberspace operations end and its traditional processes start. Email and phone help is available to users during this process, but the vast majority of organizations complete the registering, browsing, and ordering processes online without assistance. For the nonprofits served by this program, the online process is clear, simple, and quick - especially when compared with approaching individual technology companies for donations. Also, corporations supplying donated and discounted products on DiscounTech can still set giving guidelines in accordance with their organization's policies and satisfy their management and business units that only qualified nonprofits are receiving the products. Product orders paid online are generally processed and shipped within 1-2 business days.

Once an online order has been placed, DiscounTech's warehousing and customer service operations begin. DiscounTech customer service associates cover phone calls that range from program or product inquiries to questions about how to place an order to follow-up order status or return requests. DiscounTech staff use a legacy FileMaker database to process customer orders. Each day begins with a Customer Service Associate downloading Web orders and matching and linking them to organization records in the legacy database since the front end and back end are not fully integrated and real time. Customer Service Associates receive faxed and mailed IRS 501(c)(3) documentation and payment information. Once orders are fully processed, including payment, a packing slip will be printed.

Midday, order processing stops and customer service associates begin fulfilling orders for those shipped products. If an order contains items that are not boxed and shipped, the customer service associates complete other fulfillment steps including communications with our partners and/or an email to the customer.

Other supporting processes include inventory management, check deposit preparation, returns processing, and partner reporting. Other departments within DiscounTech's parent nonprofit provide shared support services to DiscounTech. These include Marketing, Management Information Systems, Accounting, Administration and Human Resources. Their time is charged to DiscounTech via a common time reporting and account system. These costs are tracked and reported quarterly.

The warehouse facility includes 1000 square feet of shelf space to house products, 1800 square feet of office space for staff and 2000 square feet of meeting space and common space. The meeting space is a common area shared with other programs of DiscounTech's parent nonprofit and its clients.

6.3 Management Information Systems

Most performance tracking is currently manual. There are a few standardized reports that staff can run from the legacy database, but most often ad-hoc queries are required for understanding of performance. No call reporting software is in place, so each customer service staff member prepares a tick sheet every day that quantifies and classifies in one of 8 categories, each in-bound call. Emails arrive in a central set of mailbox aliases that are forwarded by one staff member to the appropriate team member for handling. Tracking calls and emails by cause and identifying and

addressing trends is very difficult and as the volume of emails approaches 50-60 per day and can be expected to grow as the service grows, this method will quickly become unmanageable.

A spreadsheet of daily sales, net of sales tax, is updated from the daily sales and income reconciliation. The reconciliation package together with checks that have been prepared for deposit is delivered to the accounting department of CompuMentor for depositing and entering into QuickBooks, which is CompuMentor's accounting package. One sales number for the day's activities, which may consist of anywhere from 60 to 120 orders, is entered into QuickBooks.

Quarterly, and in some cases, monthly reports are run by vendor name which include basic information on who received their products and which products were received.

An annual revenue budget is prepared at the beginning of the fiscal year. In the middle of each month, an updated forecast of revenue, net of cost of goods sold, is prepared. Actuals are compared to budget and forecast. The DiscounTech General Manager analyzes the results and reports on the actuals for the prior month and forecast for the upcoming month at a CompuMentor cash flow meeting. Adjustments to marketing plans, product launch plans and promotions can then be made as needed. The current lack of marketing information systems limit the ability to realize the full potential of referrals and promotions, which are key to the marketing plan to grow the service.

Starting in October 2002, the marketing team has begun to produce a monthly analysis of the impact of online media for DiscounTech including click through rates and conversion rates. Site traffic is tracked using a donated service, WebTrends Live, which includes certain eCommerce statistics.

To date, two customer surveys have been conducted with a high response rate of 18% and highly statistically significant results. This information has been invaluable in gauging the success of the program to date and the requirements for success in the future.

Order Fulfillment Improvements.

Currently, DiscounTech systems can only support combination orders and back orders through a time consuming manual process because the online ordering system and the legacy order-processing database do not have the ability to handle partial orders. An order must be processed for payment in total, whether some items are ready to ship today and some will take two weeks to process. When an order is partially fulfilled, the online status that the customer reviews will not reflect the partial shipment status and this creates customer confusion.

Because the backend legacy system and front-end online ordering system are not integrated in real time, problems can arise when periodic status updates pass back and forth in batch mode. At times, matching orders cannot be located due to customers having cancelled an order in the period between script runs. Incorrect linking of an order from the online system with an existing organization record in the legacy database can cause a previously verified 501(c) 3 to show as required customer records to be faxed, when, in fact, they are on file. These types of errors result in customer dissatisfaction and non-value added work for customer service staff.

There is currently no system for managing inventory and receivables. Manual counts and excel spreadsheets are used to maintain a record of stock. Two separate product catalogs exist in the online application and in the back end order-processing database. Keeping these catalogs in sync and staying up to date on inventory levels is very difficult.

In general, the present systems have many handoffs and present numerous opportunities for error to be introduced into the process. These errors may cause a customer to be shipped the wrong product or cause us to be in violation of donor/discounter's eligibility rules and restrictions. Also, the systems are inflexible today and since each donor partner's products will be part of a unique

program that is developed to fit their giving objectives and guidelines as well as special fulfillment needs, the ability to rollout products quickly is seriously impeded. As customer research has shown, customers believe the ability to have more and varied products on the site is key to the venture's success. (See Appendix A: DiscounTech Registered User Survey Highlights.)

6.4 Operational Improvement Plans

Plans are underway to replace the current legacy backend order processing system during the first quarter of 2003 with a new system that will provide:

- Real time status integrated with front end online ordering application
- Inventory Management capability
- Partner integration functionality
- Customer trouble ticketing for phone and email interactions
- Workflow capability for order processing and trouble tickets
- Tracking for returns
- Enhanced reporting capabilities
- Integration with Email marketing, promotions and marketing campaign management, and accounting

A team of CompuMentor members and outside experts has recently been formed to conduct a requirements analysis of operational, marketing, business development, partner and financial management needs. This team has identified a short list of application and integration vendors whose products fit the desired functional needs, technical architecture and support environment. Funds must then be raised to implement this system by early FY 2004 and integrate with the existing applications, as needed. This will likely be the single biggest improvement that will enable service to an increased scale of nonprofits with an expanded product line.

Further plans include an enhanced phone system. Currently, an NEC PBX phone system is in use. Approximately 2-5 FTEs are staffed at any time during 8 AM and 5 PM to handle phone inquiries. Calls are routed through an automated attendant and a queue for use during higher volumes is in place. Due to the lack of a call management system, the ability to understand the level of service provided by phone, such as number of calls, average wait time, average abandonment time and productivity of reps, to ensure appropriate staffing is impeded. Call Management Software for the phone system will be installed in the second quarter of FY 2004.

In the first quarter of 2003, workstations and desktop applications in the operations group were upgraded and standardized. An additional workstation that is dedicated to the order processing functions and data base batch uploads and downloads has been installed. A staff position has been budgeted starting in May of 2003 that will focus on reporting to improve reporting on the program and correlate and interpret data from the databases, site traffic tracking tools, and manually collected operational data.

7. Financial Plan

Building on the successes and lessons learned since launch in January 2002, DiscounTech is projected to become sustainable and to begin generating significant positive cash flows for its parent nonprofit by FY 2004.¹ The 3-year Pro Forma Statement of Activities (Income Statement) for DiscounTech indicates that revenues are projected to grow by 51% from FY 2003 to FY 2004 and by 27% in FY 2005. Projected growth is attributable to the greatly expanded Microsoft program, which includes more products, higher limits per customer, and new markets previously

¹ DiscounTech's fiscal year runs from July 1 to June 30.

not served. Aggressive growth in new customers, vendors, and products other than Microsoft's also contribute significantly. DiscounTech has the benefit of 14 months of operations and is making several course corrections to address lessons learned, including re-branding in response to supplier feedback and expanding product sets more quickly. More importantly, FY 2004 will start with contracts already in place for vendors that will provide over 95% of the products to be distributed. This includes a greatly expanded agreement with Microsoft Corporation. Microsoft's Community Affairs group has worked with CompuMentor for several years, growing their product donations substantially each year. For the next 2-year period, Microsoft projects that the annual retail value of products distributed through DiscounTech will increase from \$35M to approximately \$233M. Along with expanded allotments per organization served, the Microsoft product set has been greatly expanded and several new market segments, such as the state of Washington and Microsoft's own field offices are now served exclusively through DiscounTech.

7.1 Pro Forma Statements of Activities

DiscounTech Pro Forma Statement of Activities FY 2002-2005

	FY 2002 ¹		FY 2003		FY 2004		FY 2005	
	Actual		Actual/Forecast		Forecast		Forecast	
Income								
Contribution Revenue								
Foundation Contributions	-		60,000		70,000		80,000	
Corp/Ind Contributions	-		-		-		-	
Sponsorships	-		-		-		-	
Total Contribution Revenue	-		60,000	1%	70,000	1%	80,000	1%
Earned Revenue								
Client Supported Services	-		-		-		-	
Product Distribution	1,251,315		4,006,575		6,053,531		8,252,882	
Foundation Supported Services	-		-		-		-	
Total Earned Revenue	1,251,315		4,006,575	99%	6,053,531	99%	8,252,882	99%
Other Income	-		-		-		-	
Total Income	1,251,315	100%	4,066,575	100%	6,123,531	100%	8,332,882	100%
Revenue Sharing								
Partners	-		51,663	1%	67,123	1%	85,000	1%
CompuMentor Programs								
Consulting Services	355,818		764,801		1,118,078		1,278,039	
Emerging Programs	250,526		127,962		163,854		187,262	
TechSoup	610,946		801,108		1,116,152		1,267,031	
Total CompuMentor Programs	1,217,289	97%	1,693,871	42%	2,398,084	39%	2,732,332	33%
Total Revenue Sharing	1,217,289	97%	1,745,534	43%	2,465,207	40%	2,817,332	34%
Gross Income	34,025	3%	2,321,041	57%	3,658,324	60%	5,515,550	66%
Expenses								
Advertising	482	0.0%	196,931	5%	258,794	4%	237,686	3%
Bank Fees	3,536	0.3%	81,541	2%	111,192	2%	164,758	2%
Dues, Fees, & Subscriptions	1,677	0.1%	13,001	0.3%	15,601	0.3%	19,264	0.2%
Education & Training	1,425	0.1%	3,047	0.1%	3,657	0.1%	4,515	0.1%
Equipment & Repairs	7,856	0.6%	40,166	1%	48,199	1%	59,516	1%
Insurance	1,223	0.1%	20,511	1%	24,613	0.4%	30,391	0.4%
Office Supplies	2,474	0.2%	13,346	0.3%	16,015	0.3%	19,775	0.2%
Payroll Tax	15,059	1.2%	106,442	3%	127,730	2%	157,719	2%
Postage & Shipping	6,187	0.5%	154,527	4%	50,000	1%	60,000	1%
Printing & Production	3,219	0.3%	37,729	1%	45,275	1%	55,905	1%
Professional Services	53,177	4%	268,750	7%	375,569	6%	287,886	3%
Rent	16,047	1%	111,525	3%	133,830	2%	165,250	2%
Salaries & Benefits	224,666	18%	1,460,365	36%	1,819,710	30%	2,246,941	27%
Telecommunications	4,552	0.4%	17,543	0.4%	21,052	0.3%	25,995	0.3%
Travel & Entertainment	2,474	0.2%	15,564	0.4%	18,677	0.3%	23,062	0.3%
Utilities	2,281	0.2%	13,873	0.3%	16,648	0.3%	20,556	0.2%
Total Expenses	346,335	28%	2,554,862	62.8%	3,086,562	50%	3,579,219	43%
Net Income	(312,310)	-25%	(233,822)	-5.7%	571,762	9%	1,936,332	23%

¹ Partial Fiscal Year from January - June

Key Assumptions - Statements of Activities

Contribution Revenue: DiscounTech has revenues that are generated from grants, which would typically range from \$25,000 to \$250,000 per grant. For example, during the first year of DiscounTech's operation CompuMentor was awarded a grant to support a project manager to lead the rollout of Cisco products on DiscounTech as well as some of the back-end systems enhancements required.

Earned Revenue: DiscounTech earned revenue is generated by the administrative fees charged for product donations. Because of rapid expansion in the number and range of vendors, an expansion of titles and product limits per organization for the Microsoft program, and an ambitious marketing and outreach program, revenues from administrative fees are expected to grow rapidly. Two major donors, Microsoft and Cisco, have validated these revenue projections for their products. FY 2002 revenues (for the partial year) were 82% from Microsoft products and 18% from other products. By FY 2005, this split is projected to be 78% Microsoft and 22% other products.

Revenue Sharing with Partners (& Cost of Goods Sold): The DiscounTech service has the unique characteristic of distributing products without booking an inventory cost for the products. Inventory is not booked as an asset and, therefore, is not reflected in a Cost of Goods Sold. Although the DiscounTech warehouse does house some inventory, which is donated at no cost, most of the products currently offered are fulfilled over the Internet or direct from the vendor. For discounted products, revenues are shared with the vendor and are shown as a negative adjustment to income.

Revenue Sharing with CompuMentor Programs: DiscounTech's value proposition depends on the rich knowledge environment of the nonprofit technology world that is supplied by TechSoup content and CompuMentor's on-the-ground consulting services expertise. Both vendors and recipients benefit from the integrated content and nonprofit technical context provided for products donated/distributed through DiscounTech. Reflecting this dependency, DiscounTech shares revenue, at the discretion of the donating partner, to partially cover TechSoup expenses, Consulting Services expenses, and to support the exploration of emerging technologies.

Advertising: Marketing outreach expenses are significant and are necessary to obtain the new customers that will make DiscounTech a success and maximize its impact on the nonprofit sector. The advertising line item reflects the customer acquisition detailed in the marketing plan in this document. As detailed in the marketing plan, average acquisition costs per purchasing customer are expected to decline between FY 2003 and FY 2004. In FY 2004 and FY 2005, advertising costs include a 20% increase over actual planned costs to create a margin of safety in the event that acquisition costs prove difficult to reduce.

Bank Fees: 83% of DiscounTech administrative fees are currently paid by credit card. These payments are processed online on the DiscounTech website through VeriSign and deposited into a merchant account with Wells Fargo. These services are fee-based, vary with volume and are included in this line item.

Insurance: Both market factors and changing needs have driven up insurance costs in recent years. Worker's compensation insurance has become a major expense in California. Professional liability insurance provides \$2 million coverage. Limited cyberliability insurance was purchased when DiscounTech was launched.

Professional Services: DiscounTech is building a new more scalable backend that will address functionality to support inventory control, customer relationship management, and supplier management in FY 2003 and FY 2004. Designing and deploying this backend will involve purchasing software and engaging outside vendors to significantly customize that software. These skilled resources and software costs are not capitalized at CompuMentor and therefore are

budgeted as expenses. FY 2003 has \$250,000 for this line item, FY 2004 has \$350,000 and FY 2004 has \$250,000. Other professional services related to marketing are also included.

Salaries and Benefits: Salaries represent 36% of DiscounTech expenses in FY 2003, with a staff headcount of 15 for most of 2003, 18 in FY 2004, 20 in FY 2005. Expenses shown also include allocated costs based on DiscounTech headcount as a percentage of total CompuMentor headcount. In addition, DiscounTech is charged for staff hours in CompuMentor's other departments (financial management, communications, partnerships, etc.) spent directly on DiscounTech projects. Employee benefits represent 23% of salaries. Like many nonprofits, CompuMentor has depended on having benefits sufficient to attract and keep qualified and motivated employees despite lower-than-market salaries. In addition to supporting a culture of fun through planned activities and flexible policies, benefit costs include covering 100% of employee health insurance premiums, 75% of dependent health insurance premiums and a contribution to the employee 403B retirement savings plan.

7.2 Statement of Financial Position

DiscounTech Pro Forma Statement of Financial Position FY 2002-2005

	FY 2002 Actual	FY 2003 Actual/Forecast	FY 2004 Forecast	FY 2005 Forecast
Assets				
Current Assets				
Cash and Equivalents	27,573	574,232	1,042,386	2,550,216
Receivables				
Service Contracts	-	-	-	-
Grants	-	-	-	-
Prepaid Expenses	1,430	10,549	14,176	16,258
Total Current Assets	29,003	584,781	1,056,563	2,566,474
Property and Equipment	4,936	46,056	78,649	140,150
Total Assets	33,940	630,837	1,135,211	2,706,624
Liabilities and Net Assets				
Current Liabilities				
Accounts Payable	7,632	47,868	64,327	73,772
Accrued Vacation	8,102	54,108	75,726	88,584
Funds Held on Behalf of Other Organizations	-	-	-	-
Line of Credit	4,657	34,833	46,444	54,185
Rental Deposits	49	358	481	552
Total Current Liabilities	20,438	137,167	186,979	217,093
Net Assets				
Unrestricted	13,501	493,670	948,233	2,489,531
Temporarily Restricted	-	-	-	-
Total Net Assets	13,501	493,670	948,233	2,489,531
Total Liabilities and Net Assets	33,940	630,837	1,135,211	2,706,624

Key Assumptions

CompuMentor does not generate balance sheets for its individual program areas. DiscounTech has no substantial independent assets since products are not purchased for distribution and inventory is not booked as an asset. DiscounTech cash is treated as unrestricted income for

CompuMentor's other programs and is booked in a common cash account. A Pro Forma DiscounTech Statement of Financial Position has been generated using the standard program allocations from CompuMentor's financial management system to facilitate a complete understanding of the DiscounTech business model.

Administrative fees are booked as revenue when collected, so accounts receivable is negligible. Property and Equipment is an allocation of desktop computer costs based on headcount. Accounts Payable is minimal and includes typically about 30-60 days outstanding credit card fees and shipping costs. The line of credit is used to fund CompuMentor's cash flow and its inclusion in the DiscounTech Statement is an allocation.

7.3 Statement of Cash Flows

DiscounTech Pro Forma Statement of Cash Flows FY 2002-2005

	FY 2002	FY 2003	FY 2004	FY 2005
	Actual	Actual/Forecast	Forecast	Forecast
Cash Flows From Operating Activities				
Restricted Grants	-	-	-	-
Unrestricted Grants	-	60,000	70,000	80,000
Product Distribution	1,251,315	4,006,575	6,053,531	8,252,882
Total Cash Received	<u>1,251,315</u>	<u>4,066,575</u>	<u>6,123,531</u>	<u>8,332,882</u>
Revenue Sharing				
Partners	-	51,663	67,123	85,000
Consulting Services	355,818	764,801	1,118,078	1,278,039
Emerging Programs	250,526	127,962	163,854	187,262
Techsoup	610,946	801,108	1,116,152	1,267,031
Total Revenue Sharing	<u>1,217,289</u>	<u>1,745,534</u>	<u>2,465,207</u>	<u>2,817,332</u>
Gross Increase (Decrease) To Cash Reserves	<u>34,025</u>	<u>2,321,041</u>	<u>3,658,324</u>	<u>5,515,550</u>
Cash Paid:				
Salaries	224,666	1,460,365	1,819,710	2,246,941
Contractors	53,177	268,750	375,569	287,886
Non-Personnel Expenses	68,493	825,747	891,283	1,044,392
Net Cash Paid for Operating Activities	<u>346,335</u>	<u>2,554,862</u>	<u>3,086,562</u>	<u>3,579,219</u>
Capital Investments	-	15,000	22,587	30,737
Total Cash Paid	<u>346,335</u>	<u>2,569,862</u>	<u>3,109,149</u>	<u>3,609,955</u>
Net Increase to CompuMentor Cash Reserves	<u>(312,310)</u>	<u>(248,822)</u>	<u>549,174</u>	<u>1,905,595</u>
	FY 2002	FY 2003	FY 2004	FY 2005

Key Assumptions

DiscounTech will produce a net positive increase in its parent cash reserves by FY 2004. Like many small to medium nonprofits, CompuMentor has historically had limited cash reserves. CompuMentor has managed to launch investment-intensive initiatives like TechSoup and DiscounTech but realizes that operating and growing these initiatives will require greater cash reserves. The 2003-2005 CompuMentor Strategic Plan targets building a cash reserve equivalent to 6 months expenses by FY 2007. DiscounTech net income will contribute significantly to building these cash reserves.

7.4 Initial Investment and Breakeven Analysis

Initial investment for launching DiscounTech came from administrative fees CompuMentor earned from an earlier, much smaller Microsoft software distribution program. These administrative fees were also supplemented by substantial investments of time by CompuMentor staff from Information Technology and Marketing Communications. The Microsoft eCommerce server and SQL server were donated by Microsoft. Substantial outside professional services were paid to a development firm to customize this software and build the DiscounTech online ordering platform. Integration with other CompuMentor systems as well as VeriSign for credit card processing was undertaken by CompuMentor staff. Costs for the build out of the DiscounTech web interface were approximately \$252,000. Other significant expenses were for marketing expenditures, approximately \$54,000 to design the site interface and create content and to announce and launch the program. The implementation of a real-time back-end database to support order processing and fulfillment from the online ordering system was not undertaken prior to launch and is currently planned for completion in the first half of FY 2004.

Startup costs, including the projected cost of the back-end implementation, and ongoing operational costs for DiscounTech are modeled in a breakeven analysis below. The analysis has two revenue lines - one for total revenues and one which shows DiscounTech revenue net of revenue sharing with other Compumentor programs. Because DiscounTech sets its administrative fees in accordance with its value proposition to cover a portion of other supporting program costs, the revenue line net of shared revenues indicates no breakeven. Including all revenues collected through DiscounTech indicates that DiscounTech broke even after distributing approximately 60,000 units in Q2 of FY 2003.

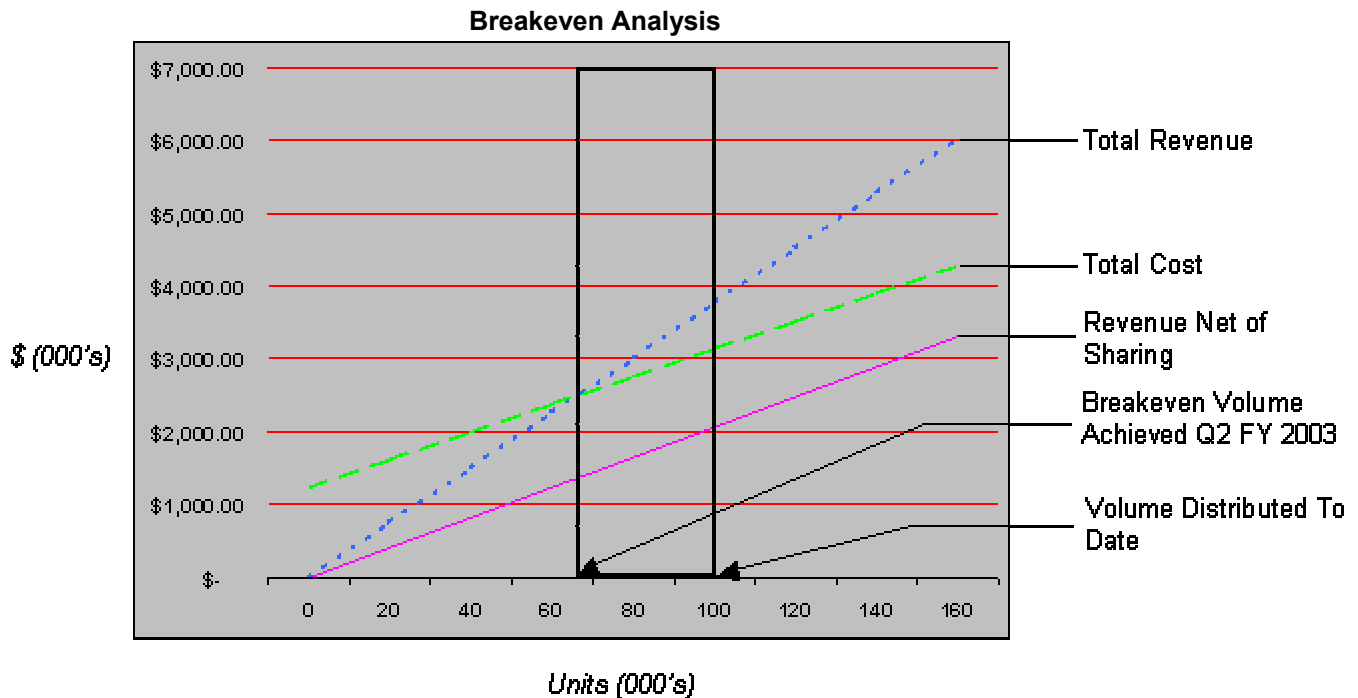


Chart 6. Source: CompuMentor

Downward pressures on administrative fees are expected and could affect the relationship between revenue and costs in the future. In part, due to the fact that the Microsoft program launched on 3/1/03 dramatically reduced DiscounTech administrative fees per unit distributed. The program also dramatically increased the number of items each organization is eligible for, so the overall impact on average revenue per unit is still to be determined. As other vendor partners understand that Microsoft's administrative fees have been lowered, expectations may follow that all

administrative fees charged should be lowered. Existing donor partners tend to 'buy-in' to the administrative fee strategy, but have expressed the need for the fees to remain as low as possible.

7.5 3-Year Monthly Cash Flow Projections

Monthly cash flows have been projected for FY 2003, FY 2004 and FY 2005 for DiscounTech. This venture is expected to experience great variation in cash flow generated each month, with a cumulative positive cash flow of approximately \$2.2M being generated by the end of FY 2005. DiscounTech will rely on its parent to cover cash flow during its early phases through current cash reserves or by reducing revenue shares and seeking other funding sources. In turn, DiscounTech will contribute the equivalent of approximately 2.5 months worth of cash reserves to its parent by FY 2005.

DiscounTech -- Pro Forma Statement of Monthly Cash Flows -- FY 2003 -- Base Case

	Jul 2002	Aug 2002	Sep 2002	Oct 2002	Nov 2002	Dec 2002	Jan 2003	Feb 2003	Mar 2003	Apr 2003	May 2003	Jun 2003	Totals
Cash Flows From Operating Activities													
Restricted Grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrestricted Grants	-	-	-	-	-	-	-	-	-	-	-	60,000	60,000
Product Distribution	346,126	290,021	244,930	289,278	187,428	189,284	364,246	328,643	351,171	403,862	436,171	575,415	4,006,575
Total Cash Received	<u>346,126</u>	<u>290,021</u>	<u>244,930</u>	<u>289,278</u>	<u>187,428</u>	<u>189,284</u>	<u>364,246</u>	<u>328,643</u>	<u>351,171</u>	<u>403,862</u>	<u>436,171</u>	<u>635,415</u>	<u>4,066,575</u>
Revenue Sharing													
Partners	4,463	3,740	3,158	3,730	2,417	2,441	4,697	4,238	4,528	5,208	5,624	7,420	51,663
Consulting Services	66,071	55,361	46,754	55,219	35,777	36,132	69,530	62,734	67,034	77,092	83,259	109,839	764,801
Emerging Programs	11,055	9,263	7,823	9,239	5,986	6,045	11,633	10,496	11,216	12,899	13,930	18,378	127,962
Techsoup	69,207	57,989	48,973	57,841	37,476	37,847	72,830	65,712	70,216	80,752	87,212	115,053	801,108
Total Revenue Sharing	<u>150,796</u>	<u>126,353</u>	<u>106,708</u>	<u>126,029</u>	<u>81,656</u>	<u>82,465</u>	<u>158,690</u>	<u>143,179</u>	<u>152,994</u>	<u>175,950</u>	<u>190,026</u>	<u>250,690</u>	<u>1,745,534</u>
Gross Increase (Decrease) To Cash Reserves	<u>195,330</u>	<u>163,668</u>	<u>138,222</u>	<u>163,249</u>	<u>105,772</u>	<u>106,819</u>	<u>205,556</u>	<u>185,464</u>	<u>198,177</u>	<u>227,912</u>	<u>246,145</u>	<u>384,725</u>	<u>2,321,041</u>
Cash Paid:													
Salaries & Benefits	112,448	113,908	115,369	116,829	118,290	119,750	121,210	122,671	124,131	125,591	127,052	143,116	1,460,365
Contractors	23,217	19,454	16,429	19,404	12,572	12,697	24,433	22,045	23,556	27,090	29,257	38,597	268,750
Non-Personnel Expenses	63,582	64,408	65,234	66,060	66,885	67,711	68,537	69,363	70,188	71,014	71,840	80,923	825,747
Net Cash Paid for Operating Activities	<u>199,248</u>	<u>197,771</u>	<u>197,032</u>	<u>202,293</u>	<u>197,747</u>	<u>200,158</u>	<u>214,180</u>	<u>214,078</u>	<u>217,875</u>	<u>223,696</u>	<u>228,149</u>	<u>262,636</u>	<u>2,554,862</u>
Capital Investments	-	-	2,250	-	-	3,000	-	-	4,500	-	-	5,250	15,000
Total Cash Paid	<u>199,248</u>	<u>197,771</u>	<u>199,282</u>	<u>202,293</u>	<u>197,747</u>	<u>203,158</u>	<u>214,180</u>	<u>214,078</u>	<u>222,375</u>	<u>223,696</u>	<u>228,149</u>	<u>267,886</u>	<u>2,569,862</u>
Net Increase to CompuMentor Cash Reserves	<u>(3,918)</u>	<u>(34,102)</u>	<u>(61,060)</u>	<u>(39,044)</u>	<u>(91,976)</u>	<u>(96,339)</u>	<u>(8,624)</u>	<u>(28,614)</u>	<u>(24,198)</u>	<u>4,217</u>	<u>17,997</u>	<u>116,839</u>	<u>(248,822)</u>

DiscounTech -- Pro Forma Statement of Monthly Cash Flows -- FY 2004 -- Base Case

	Jul 2003	Aug 2003	Sep 2003	Oct 2003	Nov 2003	Dec 2003	Jan 2004	Feb 2004	Mar 2004	Apr 2004	May 2004	Jun 2004	Totals
Cash Flows From Operating Activities													
Restricted Grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrestricted Grants	-	-	-	-	-	-	-	-	-	-	-	70,000	70,000
Product Distribution	667,801	495,249	380,261	600,204	415,845	346,839	600,010	541,724	461,884	371,422	418,847	753,443	6,053,531
Total Cash Received	<u>667,801</u>	<u>495,249</u>	<u>380,261</u>	<u>600,204</u>	<u>415,845</u>	<u>346,839</u>	<u>600,010</u>	<u>541,724</u>	<u>461,884</u>	<u>371,422</u>	<u>418,847</u>	<u>823,443</u>	<u>6,123,531</u>
Revenue Sharing													
Partners	7,405	5,491	4,216	6,655	4,611	3,846	6,653	6,007	5,121	4,118	4,644	8,354	67,123
Consulting Services	123,342	91,472	70,234	110,857	76,806	64,061	110,821	100,056	85,309	68,601	77,360	139,160	1,118,078
Emerging Programs	18,076	13,405	10,293	16,246	11,256	9,388	16,241	14,663	12,502	10,053	11,337	20,394	163,854
Techsoup	123,129	91,314	70,113	110,666	76,674	63,950	110,630	99,883	85,162	68,483	77,227	138,920	1,116,152
Total Revenue Sharing	<u>271,952</u>	<u>201,682</u>	<u>154,855</u>	<u>244,424</u>	<u>169,347</u>	<u>141,245</u>	<u>244,345</u>	<u>220,609</u>	<u>188,095</u>	<u>151,256</u>	<u>170,569</u>	<u>306,828</u>	<u>2,465,207</u>
Gross Increase (Decrease) To Cash Reserves	<u>395,849</u>	<u>293,566</u>	<u>225,406</u>	<u>355,780</u>	<u>246,499</u>	<u>205,594</u>	<u>355,665</u>	<u>321,115</u>	<u>273,789</u>	<u>220,166</u>	<u>248,278</u>	<u>516,615</u>	<u>3,658,324</u>
Cash Paid:													
Salaries & Benefits	140,118	141,937	143,757	145,577	147,397	149,216	151,036	152,856	154,675	156,495	158,315	178,332	1,819,710
Contractors	41,431	30,726	23,592	37,237	25,800	21,518	37,225	33,609	28,656	23,044	25,986	46,745	375,569
Non-Personnel Expenses	68,629	69,520	70,411	71,303	72,194	73,085	73,977	74,868	75,759	76,650	77,542	87,346	891,283
Net Cash Paid for Operating Activities	<u>250,178</u>	<u>242,183</u>	<u>237,760</u>	<u>254,117</u>	<u>245,390</u>	<u>243,820</u>	<u>262,238</u>	<u>261,333</u>	<u>259,090</u>	<u>256,189</u>	<u>261,842</u>	<u>312,422</u>	<u>3,086,562</u>
Capital Investments	-	-	3,388	-	-	4,517	-	-	6,776	-	-	7,906	22,587
Total Cash Paid	<u>250,178</u>	<u>242,183</u>	<u>241,148</u>	<u>254,117</u>	<u>245,390</u>	<u>248,337</u>	<u>262,238</u>	<u>261,333</u>	<u>265,867</u>	<u>256,189</u>	<u>261,842</u>	<u>320,327</u>	<u>3,109,149</u>
Net Increase to CompuMentor Cash Reserves	<u>145,672</u>	<u>51,383</u>	<u>(15,743)</u>	<u>101,663</u>	<u>1,109</u>	<u>(42,743)</u>	<u>93,428</u>	<u>59,783</u>	<u>7,923</u>	<u>(36,023)</u>	<u>(13,564)</u>	<u>196,288</u>	<u>549,174</u>

DiscounTech -- Pro Forma Statement of Monthly Cash Flows -- FY 2005 -- Base Case

	Jul 2004	Aug 2004	Sep 2004	Oct 2004	Nov 2004	Dec 2004	Jan 2005	Feb 2005	Mar 2005	Apr 2005	May 2005	Jun 2005	Totals
Cash Flows From Operating Activities													
Restricted Grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrestricted Grants	-	-	-	-	-	-	-	-	-	-	-	80,000	80,000
Product Distribution	910,425	675,181	518,417	818,268	566,929	472,852	818,004	738,542	629,695	506,366	571,021	1,027,182	8,252,882
Total Cash Received	910,425	675,181	518,417	818,268	566,929	472,852	818,004	738,542	629,695	506,366	571,021	1,107,182	8,332,882
Revenue Sharing													
Partners	9,377	6,954	5,339	8,428	5,839	4,870	8,425	7,607	6,486	5,215	5,881	10,579	85,000
Consulting Services	140,988	104,558	80,282	126,717	87,794	73,226	126,676	114,370	97,514	78,416	88,428	159,069	1,278,039
Emerging Programs	20,658	15,320	11,763	18,567	12,864	10,729	18,561	16,758	14,288	11,490	12,957	23,307	187,262
Techsoup	139,774	103,658	79,590	125,625	87,038	72,595	125,585	113,385	96,674	77,740	87,667	157,699	1,267,031
Total Revenue Sharing	310,797	230,490	176,975	279,337	193,536	161,420	279,247	252,120	214,962	172,861	194,933	350,655	2,817,332
Gross Increase (Decrease) To Cash Reserves	599,628	444,691	341,442	538,931	373,393	311,432	538,758	486,422	414,733	333,505	376,089	756,527	5,515,550
Cash Paid:													
Salaries & Benefits	173,014	175,261	177,508	179,755	182,002	184,249	186,496	188,743	190,990	193,237	195,484	220,200	2,246,941
Contractors	31,758	23,552	18,084	28,544	19,776	16,495	28,535	25,763	21,966	17,664	19,919	35,831	287,886
Non-Personnel Expenses	80,418	81,463	82,507	83,551	84,596	85,640	86,684	87,729	88,773	89,818	90,862	102,350	1,044,392
Net Cash Paid for Operating Activities	285,191	280,276	278,099	291,850	286,374	286,384	301,715	302,235	301,729	300,718	306,265	358,382	3,579,219
Capital Investments	-	-	4,611	-	-	6,147	-	-	9,221	-	-	10,758	30,737
Total Cash Paid	285,191	280,276	282,710	291,850	286,374	292,531	301,715	302,235	310,950	300,718	306,265	369,140	3,609,955
Net Increase to CompuMentor Cash Reserves	314,437	164,415	58,732	247,081	87,019	18,901	237,043	184,187	103,783	32,787	69,824	387,387	1,905,595

8. Risk Assessment and Contingency Plans

While DiscounTech represents a new product acquisition source for nonprofit organizations, it also represents a new business model for the technology market, for the nonprofit sector, and for CompuMentor itself. Two areas of major risk associated with the newness of the program have been explored in this plan:

Economic Impact Risks

In these recessionary, state budget crisis times, US nonprofits are told to anticipate lower donations, fewer cash contributions, and in general expect to “tighten their collective belts” until the economy improves. Add to this a general market slowdown in a time of war. These economic factors have yet to significantly affect DiscounTech results, but it must be anticipated that these effects could have a negative impact on DiscounTech's base case cash flow projections. Nonprofits may spend less on technology advances due to their dwindling organizational revenues. Even though DiscounTech offers unparalleled bargains to meet nonprofit technology needs, it only succeeds if those nonprofits have monies to acquire those bargains.

To offset that risk, new corporate and foundation financial support options are being explored. New sources of support would allow DiscounTech to continue to offer the lowest possible fees for all carried products. The intent is to make sure that organizations can improve their technology infrastructure at a minimal cost and thereby ensure lower operating costs for their organizations and a positive impact on their mission.

Supplier-Related Risks

Due to the growth of the Microsoft software donation, just over 80% of product donation revenues come from one vendor. This is down from the launch of DiscounTech at which time Microsoft represented over 90% of program revenues. Should Microsoft reduce or end its donation program, a material negative impact on DiscounTech sales and revenues would be realized. To offset this risk, new vendor relationships for both donated and discounted technology products have been and will continue to be actively pursued. In the last 14 months, Cisco, Handspring, Symantec, Intuit, e-Tapestry, GrantStation, Ontero, and 12 other vendors have been added as product offerings. These additions have not only mitigated supplier-related risk, they also more fully respond to customer needs.

To strengthen the benefit to participating corporations and for maximum benefit to nonprofits, bundling and packaging opportunities are being actively promoted. By being the technology “matchmaker”, DiscounTech provides a way for philanthropically minded corporations to meet and work together via DiscounTech's distribution platform. This value add of bringing donations and companies together to improve the donation offering and its visibility, is just one step DiscounTech takes to avoid the substantial risk of donors leaving the service.

Unlike traditional business plans, over 95% of DiscounTech products are donated, not purchased, for resale. While this allows for a nearly zero cost for product acquisition, it brings with it substantial risks for the overall operation. Maintaining a steady supply of donated products for on-going distribution represents a risk for DiscounTech. While retail supply chains guarantee some regular inventory control, the mercurial nature of donations creates “stops and starts” to product flow to the warehouse. Often these products are supplied by unusual, non-typical channels within the corporation, such as a refurbished group or the corporate philanthropy group. Since these product orders fall outside of normal business operations, often the orders are delayed or at least set lower on the fulfillment priorities, being superceded by orders that directly improve the corporate financial sales picture.

8.1 Risk Scenarios and Mitigation Strategies

In order to plan for key risks, two scenarios have been generated to test financial model assumptions. Cash flow impacts for the 3-year period are graphed below against the base case cash flow presented earlier. Assumptions for each risk scenario are outlined following the graph. (See Appendix G: Risk Scenarios – Pro Forma Monthly Cash Flows.) The scenarios demonstrate that adjustments could be made to the DiscounTech business plan in the event of major events negatively impacting planned outcomes and that the DiscounTech venture has adequately outlined risk mitigation strategies.

Summary of Risk Scenarios and Base Case -- FY 2003 - 2005

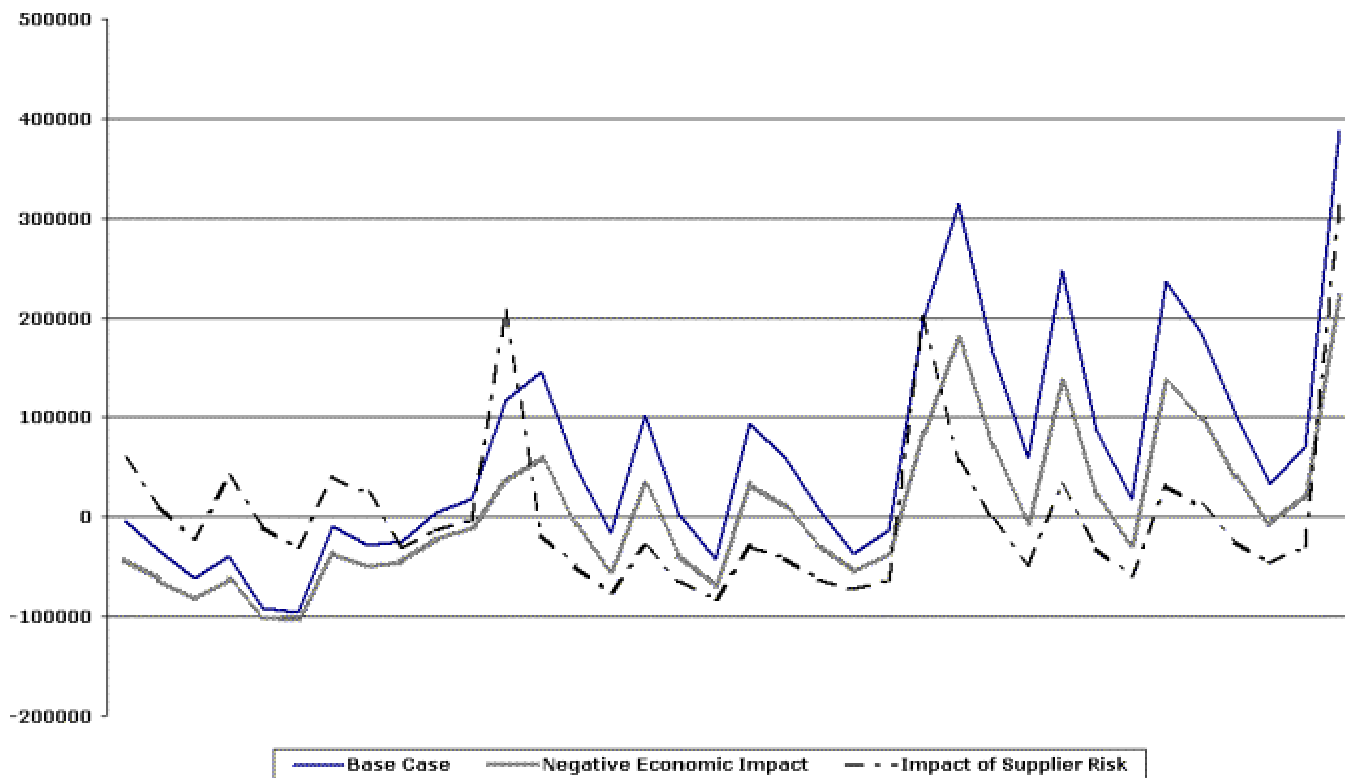


Chart 7. Source: CompuMentor

Scenario 1

“Negative Economic Impact” sensitivity analysis, assumes that product distribution revenues shrink by 25% and grants are reduced by 100%. Because DiscounTech products are extremely low cost, nonprofits with lower budgets would still have certain technology needs that would remain a priority. DiscounTech would be a logical choice to meet these needs, especially as the product set expands. This model slightly reduces expenses by 5% since lower volume would enable reduced costs especially as upgrade and investment in the back-end systems continues. The analysis indicates that a negative adjustment of about 25% in the amount of revenue sharing provided by DiscounTech to other CompuMentor program would be required or, alternatively, supplemental coverage from other grant sources would be required. By FY 2005, positive cumulative cash flow of approximately \$234,000 would be generated, which would leave this venture sustainable but would necessitate prolonging plans for DiscounTech to help its parent reduce its risks by significantly increasing cash reserves.

Scenario 2

“Negative Impact of Supplier Risk” sensitivity analysis assumes that Microsoft revenues shrink by 60%, other product revenue shrinks by 10% and grants are doubled. The flow of grants produces

income spikes. The case could be made for increased grants based on DiscounTech's track record during the past 14 months, especially if 1-2 years of grants would establish sustainability. In this model, distribution costs are decreased by 40% to reflect the lower volume and backend investment is slowed down by 35% to reflect a lesser ramp up in scale. This scenario also reduces revenue sharing with other CompuMentor programs by 35%. Because the largest expenses are staff-related, substantial downturns in vendor-provided product, ability of nonprofits to purchase, etc., can to some degree be addressed by growing staff less quickly or by reducing staff. This model assumes that initially costs could be reduced more quickly than revenues would drop, since some orders would still be in process and existing inventory could continue to be sold.

Under this scenario, DiscounTech generates minimal positive cash flow over the period and would only contribute about \$86,000 to its parent's cash reserves. CompuMentor would have to double its fundraising efforts for DiscounTech to raise about \$420,000 in grants for the program to keep DiscounTech operational. CompuMentor recently engaged a group of about 30 funders in a briefing on its programs, including DiscounTech, and initial interest on the part of these funders is high with respect to investing in DiscounTech. Over the past quarter, a trend has emerged where some of DiscounTech's donor partners are demonstrating interest in supplementing their product donations with grants for the program. In addition to outside fundraising for DiscounTech, mitigating these supplier risks will involve establishing strong partner relationship practices, ensuring a flexible and responsive program and increasing the rate at which new donating and discounting partners are added to the service.

Further sensitivity analysis and modeling to understand the risk of internal infrastructure scalability is planned for FY 2004 in connection with the work on the DiscounTech back-end. In addition, a variety of other potential risks apply to this venture, including technical risks (service disruptions, hardware failures, virus or hacking attacks), dramatic losses of organizational functionality (earthquake, fire, epidemic, etc.), and other supply chain problems (losses due to theft, transit strikes, etc.).

Sound Information Technology Planning Sound information technology practices and disaster recovery planning mitigate technical risks. The TechSoup and DiscounTech websites and telecommunications network are housed within a carrier class co-location facility in San Jose, California. This location is connected to CompuMentor's main facility and network in San Francisco via dedicated T1 access, and backed up with a dark ISDN line for redundant emergency access. Redundant backups are created and stored nightly by the co-location facility. Both the co-location vendor and CompuMentor have firewall protection and other security measures. In addition, DiscounTech transmissions involving sensitive customer information are encrypted. CompuMentor relies on the services of its co-location facility vendor, Verio, to provide an enterprise level data center and system protection. CompuMentor's systems equipment and applications are maintained by CompuMentor's internal Information Systems team.

These same sound Information Technology practices will also provide protection from some of the risks associated with catastrophic losses such as earthquakes. CompuMentor carries professional liability and cyberliability insurance, but not interruption of business insurance. Another necessary component to mitigating such risks is to build up a six-month cash reserve for CompuMentor, so that staff could be retained while the organization would work to recover from losses associated with a catastrophic event. CompuMentor is pursuing several options for increasing cash reserves in addition to the DiscounTech venture.

Lastly, with the majority of products fulfilled by vendors directly or online, losses due to theft, transit strikes, etc. are minimized.

8.2 Projected Financial Need

The following factors are critical to the success of DiscounTech as a social venture and have direct implications for financial need:

- Adding and promoting more products/vendors – better meeting needs
- Scaling our backend for operations
- Keeping administrative fees as low as possible
- Adequately supporting the rich technology context provided by TechSoup and CompuMentor's Consulting Services
- Ensuring sufficient cash reserves for our parent to provide stability

This business plan, as outlined, can accomplish these goals over the next three years through a phased re-investment of cash generated through this venture. The risks outlined threaten this timetable. Securing an initial investment now of approximately \$1.5M broken down below, could allow for the operational investments necessary to quickly secure critical vendor relationships and build out a full product suite that will achieve an increased level of social impact in a shorter timeframe.

An investment of approximately \$600,000 could support over the next 6 months the business development, partnership and product launch resources to dramatically increase the rate of vendor/product acquisition for the DiscounTech service producing results above and beyond the current plan. Using operational cash flows, DiscounTech has had to delay for over 14 months, the implementation of critical infrastructure on its backend deemed necessary prior to launch of the service. The impact of this has been to greatly delay the introduction of new products onto the service, elevate operating costs, reduce customer service levels and necessitate a level of administrative fees. An investment of approximately \$440,000 over the next 4 months would bring the backend systems of DiscounTech to the level envisioned at the time of launch as necessary to success. In addition, investment of \$437,000 over the next 6 months would enable enhanced content management functionality on DiscounTech to be integrated with TechSoup so that specific content could be created and made available on the e-commerce pages of DiscounTech. Like Amazon's "people who bought this product also bought this product..." functionality, DiscounTech would be able to offer nonprofits who visit its site a unique catalog of solutions specific to their sub-sector and served up with related articles, resources, and an invitation to join a related online community of like minded organizations. This is not to be accomplished in the current plan until late FY 2004 -FY 2005, however, building this functionality sooner would further the objectives of reaching specific sub-sectors through more complex bundled offerings, greatly enhancing the potential for community building, and strengthening the mutual value proposition between DiscounTech and TechSoup.

CompuMentor would like to be able to eventually reduce its administrative fees for this service and believes this will be necessary for the long-term satisfaction of its donors and its customers as well as to ensure maximum impact on the sector. The upfront investment outlined here, if received within the next 2-3 months, could ensure the realization of lower administrative fees for DiscounTech as early as FY 2004